

**CHILD CARE RESOURCE AND
REFERRAL, INC. & AFFILIATE
DBA FAMILIES FIRST OF
MINNESOTA & FAMILY CIRCLE
LEARNING CENTER**

**CONSOLIDATED FINANCIAL
STATEMENTS WITH INDEPENDENT
AUDITORS' REPORT**

DECEMBER 31, 2021 AND 2020

**CHILD CARE RESOURCE AND REFERRAL, INC. & AFFILIATE
DBA FAMILIES FIRST OF MINNESOTA & FAMILY CIRCLE LEARNING CENTER**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Child Care Resource and Referral, Inc. &
Early Care Education and Innovations LLC
DBA Families First of Minnesota & Family Circle Learning Center
Rochester, Minnesota

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Child Care Resource and Referral, Inc. & Early Care Education and Innovations LLC, DBA Families First of Minnesota & Family Circle Learning Center (nonprofit organizations) which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of Child Care Resource and Referral, Inc. & Early Care Education and Innovations LLC (the "Affiliate") as of December 31, 2021 and 2020, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Child Care Resource and Referral, Inc. & the Affiliate and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Child Care

Resource and Referral, Inc. and the Affiliate's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditors' Responsibility for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards* we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Child Care Resource and Referral, Inc. & Affiliate's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 4, 2022 on our consideration of Child Care Resource and Referral, Inc. & Affiliate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Child Care Resource and Referral, Inc. & Affiliate's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Child Care Resource and Referral, Inc. & Affiliate's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Hawkins Ash CPAs, LLP". The signature is written in a cursive, flowing style.

Rochester, Minnesota
August 4, 2022

**CHILD CARE RESOURCE AND REFERRAL, INC.
& AFFILIATE
DBA FAMILIES FIRST OF MINNESOTA
& FAMILY CIRCLE LEARNING CENTER
CONSOLIDATED FINANCIAL STATEMENTS**

**CHILD CARE RESOURCE AND REFERRAL, INC. & AFFILIATE
DBA FAMILIES FIRST OF MINNESOTA & FAMILY CIRCLE LEARNING CENTER
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	DECEMBER 31,	
	2021	2020
<u>ASSETS</u>		
Cash and cash equivalents	\$ 2,050,804	\$ 2,003,716
Grants and accounts receivable	1,092,483	868,437
Unconditional promises to give, net	-	1,995
Prepaid expenses	466,766	466,688
Investments	4,536,194	4,622,110
Property, plant, and equipment, net	784,782	763,213
TOTAL ASSETS	\$ 8,931,029	\$ 8,726,159
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 116,594	\$ 76,516
Accrued expenses	627,202	562,787
Refundable advances	99,535	99,580
Capital lease obligation	16,400	50,038
TOTAL LIABILITIES	859,731	788,921
NET ASSETS		
Without donor restrictions		
Undesignated	2,802,121	2,639,608
Net investment in property, plant, and equipment	732,983	673,525
Net investment in The Place	4,536,194	4,622,110
With donor restrictions	-	1,995
TOTAL NET ASSETS	8,071,298	7,937,238
TOTAL LIABILITIES AND NET ASSETS	\$ 8,931,029	\$ 8,726,159

The accompanying notes are an integral part of these statements.

**CHILD CARE RESOURCE AND REFERRAL, INC. & AFFILIATE
DBA FAMILIES FIRST OF MINNESOTA & FAMILY CIRCLE LEARNING CENTER
CONSOLIDATED STATEMENTS OF ACTIVITIES**

	YEAR ENDED	
	DECEMBER 31,	
	2021	2020
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUE, GRANTS, AND OTHER SUPPORT		
Federal grants	\$ 9,069,249	\$ 9,047,060
State grants	8,011,209	5,987,641
County grants	332,800	292,407
Private grants	344,932	533,614
Community education grants	180,038	183,693
United Way grants	90,000	90,000
Training and tuition fees	294,175	180,334
Donations	32,736	48,863
In-kind revenue	170,976	106,532
Other income	93,029	259,207
Gain (loss) on sale of asset	(3,640)	20,580
Interest income	232	447
Gain (loss) on investment	<u>(85,916)</u>	<u>(59,410)</u>
TOTAL REVENUE, GRANTS, AND OTHER SUPPORT		
WITHOUT DONOR RESTRICTIONS	18,529,820	16,690,968
Net assets released from restrictions	<u>1,995</u>	<u>47,464</u>
NET REVENUE, GRANTS, AND OTHER SUPPORT		
WITHOUT DONOR RESTRICTIONS	<u>18,531,815</u>	<u>16,738,432</u>
EXPENSES		
Program activities	17,388,135	15,654,276
Management and general	1,000,598	969,036
Fundraising	<u>7,027</u>	<u>10,746</u>
TOTAL EXPENSES	<u>18,395,760</u>	<u>16,634,058</u>
INCREASE (DECREASE) IN NET ASSETS WITHOUT		
DONOR RESTRICTIONS	136,055	104,374
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS		
Net assets released from restrictions	<u>(1,995)</u>	<u>(47,464)</u>
INCREASE (DECREASE) IN NET ASSETS		
WITH DONOR RESTRICTIONS	<u>(1,995)</u>	<u>(47,464)</u>
CHANGE IN NET ASSETS	134,060	56,910
NET ASSETS AT BEGINNING OF YEAR	<u>7,937,238</u>	<u>7,880,328</u>
NET ASSETS AT END OF YEAR	<u>\$ 8,071,298</u>	<u>\$ 7,937,238</u>

The accompanying notes are an integral part of these statements.

CHILD CARE RESOURCE AND REFERRAL, INC. & AFFILIATE
DBA FAMILIES FIRST OF MINNESOTA & FAMILY CIRCLE LEARNING CENTER
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2021

	PROGRAM ACTIVITIES						SUPPORTING ACTIVITIES			TOTAL
	CRISIS NURSERY	SCHOOL READINESS	HEAD START	CHILD CARE AWARE	EARLY LEARNING SCHOLARSHIPS	FCLC	PROGRAM SUBTOTAL	MANAGEMENT AND GENERAL	FUNDRAISING	
Salaries/consultants	\$ 147,332	\$ 82,382	\$ 4,788,105	\$ 796,924	\$ 268,521	\$ 387,717	\$ 6,470,981	\$ 784,736	\$ 977	\$ 7,256,694
Fringe benefits	26,115	16,418	917,490	143,725	56,238	64,438	1,224,424	128,995	201	1,353,620
Total salaries and related expenses	173,447	98,800	5,705,595	940,649	324,759	452,155	7,695,405	913,731	1,178	8,610,314
Professional services	436	278	23,537	2,374	1,316	3,503	31,444	2,984	-	34,428
Supplies	603	8,344	313,974	89,248	13,801	38,623	464,593	9,545	514	474,652
Communications	2,173	2,193	63,757	19,667	8,839	5,285	101,914	6,425	52	108,391
Occupancy	5,679	4,540	626,195	40,888	13,742	56,382	747,426	35,610	-	783,036
Equipment acquisition/repair	4,377	3,456	133,738	32,283	7,715	25,459	207,028	18,699	2,388	228,115
Printing and publications	7,895	1,040	29,513	20,222	3,039	4,594	66,303	2,031	-	68,334
Staff development	75	511	19,366	39,118	1,665	1,567	62,302	3,233	-	65,535
Direct	109,119	117,136	896,185	735,566	5,888,121	8,569	7,754,696	4,003	-	7,758,699
Travel	16	3	65,147	9,590	561	21	75,338	783	-	76,121
Other	141	50	176,041	440	331	4,683	181,686	3,554	2,895	188,135
Total expenses before administrative allocation	303,961	236,351	8,053,048	1,930,045	6,263,889	600,841	17,388,135	1,000,598	7,027	18,395,760
Administrative allocation	19,632	12,914	751,837	101,075	54,759	67,408	1,007,625	(1,000,598)	(7,027)	-
TOTAL EXPENSES	\$ 323,593	\$ 249,265	\$ 8,804,885	\$ 2,031,120	\$ 6,318,648	\$ 668,249	\$ 18,395,760	\$ -	\$ -	\$ 18,395,760

The accompanying notes are an integral part of these statements.

CHILD CARE RESOURCE AND REFERRAL, INC. & AFFILIATE
DBA FAMILIES FIRST OF MINNESOTA & FAMILY CIRCLE LEARNING CENTER
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2020

	PROGRAM ACTIVITIES						SUPPORTING ACTIVITIES			TOTAL
	CRISIS NURSERY	SCHOOL READINESS	HEAD START	CHILD CARE AWARE	EARLY LEARNING SCHOLARSHIPS	FCLC	PROGRAM SUBTOTAL	MANAGEMENT AND GENERAL	FUNDRAISING	
Salaries/consultants	\$ 149,123	\$ 74,896	\$ 4,689,002	\$ 794,992	\$ 248,714	\$ 271,055	\$ 6,227,782	\$ 768,446	\$ 779	\$ 6,997,007
Fringe benefits	29,048	16,709	951,228	136,537	51,779	51,728	1,237,029	113,444	124	1,350,597
Total salaries and related expenses	178,171	91,605	5,640,230	931,529	300,493	322,783	7,464,811	881,890	903	8,347,604
Professional services	435	280	18,153	2,595	1,466	4,171	27,100	2,007	-	29,107
Supplies	5,489	10,701	387,229	45,849	2,382	10,083	461,733	9,014	-	470,747
Communications	2,715	2,773	57,192	22,552	11,267	6,342	102,841	10,618	21	113,480
Occupancy	4,038	4,080	569,825	39,677	16,052	46,134	679,806	55,290	-	735,096
Equipment acquisition/repair	4,939	4,782	116,094	51,740	12,320	16,384	206,259	-	2,393	208,652
Printing and publications	149	670	28,021	9,154	3,578	4,883	46,455	3,689	-	50,144
Staff development	1,029	533	37,227	8,856	172	1,446	49,263	1,659	4	50,926
Direct	71,946	133,083	918,572	816,363	4,458,905	22,126	6,420,995	2,717	-	6,423,712
Travel	382	25	56,334	17,200	951	130	75,022	1,306	-	76,328
Other	233	49	117,355	877	253	1,224	119,991	846	7,425	128,262
Total expenses before administrative allocation	269,526	248,581	7,946,232	1,946,392	4,807,839	435,706	15,654,276	969,036	10,746	16,634,058
Administrative allocation	17,797	9,998	737,415	111,427	61,419	41,726	979,782	(969,036)	(10,746)	-
TOTAL EXPENSES	\$ 287,323	\$ 258,579	\$ 8,683,647	\$ 2,057,819	\$ 4,869,258	\$ 477,432	\$ 16,634,058	\$ -	\$ -	\$ 16,634,058

The accompanying notes are an integral part of these statements.

**CHILD CARE RESOURCE AND REFERRAL, INC. & AFFILIATE
DBA FAMILIES FIRST OF MINNESOTA & FAMILY CIRCLE LEARNING CENTER
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	YEAR ENDED DECEMBER 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from:		
Federal grants	\$ 8,803,923	\$ 9,220,731
State grants	8,079,751	6,612,741
Community grants and support	894,221	1,097,534
Fees	281,032	179,727
Donations	34,731	55,987
Interest and dividend income	232	447
Other income	113,728	217,822
Cash paid to vendors	(9,425,743)	(8,511,207)
Cash paid to employees	(8,543,735)	(8,194,083)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	238,140	679,699
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant, and equipment	(191,142)	(81,280)
Proceeds from sale of property, plant, and equipment	15,044	20,580
NET CASH (USED IN) INVESTING ACTIVITIES	(176,098)	(60,700)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital leases	(14,954)	(17,667)
NET CASH (USED IN) FINANCING ACTIVITIES	(14,954)	(17,667)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	47,088	601,332
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,003,716	1,402,384
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 2,050,804	\$ 2,003,716

(Continued on page 10)

The accompanying notes are an integral part of these statements.

CHILD CARE RESOURCE AND REFERRAL, INC. & AFFILIATE
DBA FAMILIES FIRST OF MINNESOTA & FAMILY CIRCLE LEARNING CENTER
CONSOLIDATED STATEMENTS OF CASH FLOWS - Continued

	YEAR ENDED DECEMBER 31,	
	2021	2020
<u>RECONCILIATION OF CHANGES IN NET ASSETS TO CASH FLOWS FROM</u>		
<u>OPERATING ACTIVITIES</u>		
Change in net assets	\$ 134,060	\$ 56,910
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities		
Depreciation	150,890	154,313
Gain on sale of asset	3,640	(20,580)
Change in allowance for doubtful pledges	(105)	(375)
Forgiveness on lease liability for returned asset	(18,684)	-
Change in equity investments	85,916	59,410
Change in assets (increase) decrease		
Grants and accounts receivable	(224,046)	991,272
Unconditional promises to give	2,100	7,499
Prepaid expenses	(78)	(20,645)
Change in liabilities increase (decrease)		
Accounts payable	40,077	(461,689)
Accrued expenses	64,415	150,259
Refundable advance	(45)	(236,675)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	\$ 238,140	\$ 679,699
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Cash paid during the year for interest	\$ 301	\$ 842

The accompanying notes are an integral part of these statements.

CHILD CARE RESOURCE AND REFERRAL, INC. & AFFILIATE
DBA FAMILIES FIRST OF MINNESOTA & FAMILY CIRCLE LEARNING CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1 - Nature of Organization and Significant Accounting Policies

Nature of Organization - Child Care Resource and Referral, Inc., DBA Families First of Minnesota (the "Organization") is a nonprofit corporation organized under the laws of the State of Minnesota for the purpose of administering child development programs, day care projects and referral programs in the State of Minnesota. The Organization's primary sources of revenue include federal grants, state grants, county contributions, local grants, program fees, and individual contributions.

Early Care Education and Innovations LLC, DBA Family Circle Learning Center (the "Affiliate") is a nonprofit corporation organized under the laws of the State of Minnesota for the purpose of providing day care services in the State of Minnesota. The Organization's primary sources of revenue include program fees, state grants, and county contributions.

Principles of Consolidation - The accompanying consolidated financial statements include the balances of Child Care Resource and Referral, Inc. and its Affiliate which it has both economic interest in and control of. Child Care Resource and Referral, Inc. and Early Care Education and Innovations LLC share board members and personnel, and in the event of the Affiliate's dissolution, financial assets revert to the Organization. Intercompany transactions have been eliminated during consolidating entries.

Basis of Accounting - The consolidated financial statements of the Organization & Affiliate have been prepared on the accrual basis of accounting and, accordingly, reflect all receivables, payables and other liabilities.

Basis of Presentation - The accompanying consolidated financial statements are prepared in accordance with the accounting principles generally accepted in the United States of America (U.S. GAAP) as codified by the Financial Accounting Standards Board.

The Organization & Affiliate are required to report information regarding their net assets and their activities based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

CHILD CARE RESOURCE AND REFERRAL, INC. & AFFILIATE
DBA FAMILIES FIRST OF MINNESOTA & FAMILY CIRCLE LEARNING CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2021 AND 2020

NOTE 1 - Nature of Organization and Significant Accounting Policies - Continued

Recent Accounting Pronouncements - In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases* (Topic 842) effective for annual reporting periods beginning after December 15, 2019. ASU 2020-05 subsequently deferred the effective date for ASU 2016-02 until annual reporting periods beginning after December 15, 2021. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the statement of financial position, the new ASU will require both types of leases to be recognized on the statement of financial position. The ASU will also require disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements providing additional information about the amounts recorded in the consolidated financial statements. The Organization & Affiliate are currently evaluating the impact this guidance will have on the consolidated financial statements.

In September 2020, the FASB issued Accounting Standards Update 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958) effective for annual reporting periods beginning after June 15, 2021. Under the new guidance, gifts-in-kind will be required to be presented as a separate line item on the statements of activities and additional disclosures will be required. The Organization & Affiliate are currently evaluating the impact this guidance will have on the consolidated financial statements.

Cash and Cash Equivalents - The Organization & Affiliate's cash and cash equivalents consist of cash on deposit with banks. For purposes of the statements of cash flows, the Organization & Affiliate consider all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable - Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge of the valuation allowance and a credit to accounts receivable. Management believes all receivables are collectible; accordingly, no allowance has been recorded.

Investments - The Organization carries an investment in a not-for-profit organization 1026 East Center Street, known as "The Place," at its net book value in the statements of financial position.

CHILD CARE RESOURCE AND REFERRAL, INC. & AFFILIATE
DBA FAMILIES FIRST OF MINNESOTA & FAMILY CIRCLE LEARNING CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2021 AND 2020

NOTE 1 - Nature of Organization and Significant Accounting Policies - Continued

Property, Plant, and Equipment - All acquisitions of property, plant, and equipment in excess of \$5,000 with useful lives greater than one year are capitalized. Purchased property, plant, and equipment are carried at cost. Donated property, plant, and equipment are carried at the approximate fair value at the date of donation. Depreciation is computed on the straight-line method based on estimated useful lives ranging from five to thirty-five years.

<u>Asset</u>	<u>Life</u>
Furniture, fixtures and equipment	5 - 10 years
Vehicles	3 - 5 years
Buildings and improvements	20 - 35 years

Valuation of Long-lived Assets - U.S. GAAP requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management reviews all material assets annually for possible impairment. If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. No assets are considered to be impaired at December 31, 2021 and 2020.

Refundable Advances - Payments received during the year for future services are deferred and recognized as income when the performance obligations are met.

Revenue Recognition - The Organization & Affiliate record the following exchange transaction revenue in their consolidated statements of activities and changes in net assets:

Training and Tuition Fees - Revenue is recognized over the period in which the related services are provided to children and participants. The performance obligation of delivering training and tuition services is simultaneously received and consumed by the children and participants; therefore, the revenue is recognized ratably over the course of the applicable period. Payment for tuition and training is required before the start of the applicable period. All amounts received prior to the commencement of the applicable period are deferred.

Contribution Recognition - Contributions are recognized when received or unconditionally pledged. Conditional contributions and promises to give, are recognized as revenue when the barriers to entitlement are overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets is removed. Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any donor restrictions.

Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

CHILD CARE RESOURCE AND REFERRAL, INC. & AFFILIATE
DBA FAMILIES FIRST OF MINNESOTA & FAMILY CIRCLE LEARNING CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2021 AND 2020

NOTE 1 - Nature of Organization and Significant Accounting Policies - Continued

Grant Recognition - Grants are either recorded as contributions or exchange transactions based on criteria contained in the grant award:

Grant awards that are contributions - Grants awards that are contributions are evaluated for conditions and recognized as revenue when conditions in the award are satisfied. Unconditional awards are recognized as revenue when the award is received. Amounts received in which conditions have not been met are reported as a refundable advance liability.

Grant awards that are exchange transactions - Exchange transactions are those in which the resource provider or grantor receives a commensurate value in exchange for goods or services transferred. Revenue is recognized when control of the promised goods or services is transferred to the customer (grantor) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Amounts received in excess of recognized revenue are reflected as a contract liability.

In-Kind Contributions - The Organization & Affiliate record the value of in-kind rent expense and supplies. The difference between the estimated fair market value and actual payments is the value recorded for in-kind rent expense. Donated materials and supplies are valued at their fair value upon the date of receipt.

Donated services are recognized as contributions if the services a) create or enhance nonfinancial assets or b) require specialized skills that are performed by people with those skills and would otherwise be purchased by the Organization.

A substantial number of volunteers have made significant contributions of their time to the Organization & Affiliate's programs and supporting services. The value of this contributed time is not reflected in these consolidated financial statements because the criteria for recognition have not been satisfied.

No significant contributions of such services were received during the years ended December 31, 2021 and 2020.

Functional Allocation of Expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited. Those expenses include occupancy and depreciation, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services and certain office expenses, which are allocated based on estimates of time and usage as determined by a time and cost study.

Advertising Costs - Advertising costs are expensed as incurred and totaled \$13,266 and \$4,618 for the years ended December 31, 2021 and 2020, respectively.

Use of Estimates - Management uses estimates and assumptions in preparing consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could differ from those estimates.

CHILD CARE RESOURCE AND REFERRAL, INC. & AFFILIATE
DBA FAMILIES FIRST OF MINNESOTA & FAMILY CIRCLE LEARNING CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2021 AND 2020

NOTE 1 - Nature of Organization and Significant Accounting Policies - Continued

Tax Status - The Organization & Affiliate are exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). The Organization is also exempt from State taxation.

Accounting for Uncertainty in Income Taxes - U.S. GAAP requires management to evaluate tax positions taken by the Organization & Affiliate and recognize a tax liability (or asset) if the Organization or Affiliate has taken an uncertain position that more likely than not would not be sustained upon examination by a taxing authority. Management has analyzed the tax positions taken by the Organization & Affiliate and has concluded that as of December 31, 2021 and 2020, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. The Organization & Affiliate are subject to routine audits by taxing jurisdictions, however, there are currently no audits in progress for any tax period. The Organization & Affiliate will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

Subsequent Events - The Organization & Affiliate evaluated subsequent events through August 4, 2022, the date which the consolidated financial statements were available to be issued.

NOTE 2 - Concentration of Cash and Credit Risk

The Organization & Affiliate may have deposits with a financial institution at times during the year that exceed the Federal Deposit Insurance Corporation (FDIC) insurance threshold of \$250,000. The Organization & Affiliate's deposits at December 31, 2021 and 2020 did not exceed the FDIC insurance threshold. The Organization & Affiliate do not require collateral or other security to support deposits subject to this credit risk.

NOTE 3 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	DECEMBER 31,	
	2021	2020
Cash and cash equivalents	\$ 2,050,804	\$ 2,003,716
Grants and accounts receivable	1,092,384	868,437
Promises to give	-	1,995
TOTAL FINANCIAL ASSETS AVAILABLE TO MANAGEMENT FOR GENERAL EXPENDITURE WITHIN ONE YEAR	\$ 3,143,188	\$ 2,874,148

Liquidity Management

The Organization & Affiliate maintain a policy of structuring its financial assets to be available as their general expenditures, liabilities, and other obligations come due.

CHILD CARE RESOURCE AND REFERRAL, INC. & AFFILIATE
DBA FAMILIES FIRST OF MINNESOTA & FAMILY CIRCLE LEARNING CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2021 AND 2020

NOTE 4 - Investments

The Organization owns 50 percent of the not-for-profit partnership interest in 1026 East Center Street LLC (the Partnership). The investment is accounted for by the equity method and carried on the books at its net book value, since estimated fair market values are not readily available.

Summarized activity is as follows:

	DECEMBER 31,	
	2021	2020
Assets	\$ 10,651,529	\$ 10,877,854
Liabilities	1,411,461	1,466,054
Net assets	9,240,068	9,411,800
Income	537,228	523,625
Expenses	708,960	642,446
NET (LOSS)	\$ (171,732)	\$ (118,821)

NOTE 5 - Property, Plant, and Equipment

A summary of property, plant, and equipment is as follows:

	DECEMBER 31,	
	2021	2020
Land	\$ 97,500	\$ 97,500
Buildings and improvements	1,358,325	1,296,435
Equipment	306,232	257,457
Vehicles	877,907	891,430
	2,639,964	2,542,822
Less: Accumulated depreciation	1,855,182	1,779,609
NET PROPERTY, PLANT, AND EQUIPMENT	\$ 784,782	\$ 763,213

Depreciation expense amounted to \$150,890 and \$154,313 for years ended December 31, 2021 and 2020, respectively.

A portion of the land, building, and equipment was acquired through federal funds provided by federal, state, and local sources and cannot be disposed of without prior approval from the grantor or until certain time restrictions have lapsed.

CHILD CARE RESOURCE AND REFERRAL, INC. & AFFILIATE
DBA FAMILIES FIRST OF MINNESOTA & FAMILY CIRCLE LEARNING CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2021 AND 2020

NOTE 6 - Capital Lease Obligation

The Organization leases four vehicles under agreements accounted for as capital leases, two of which were terminated in 2021. The economic substance of the leases are that the Organization is financing the acquisition of the assets through the leases, and accordingly, they are recorded in the Organization's assets and liabilities.

The following is an analysis of the leased vehicles included in property, plant, and equipment:

	DECEMBER 31,	
	2021	2020
Vehicles	\$ 45,136	\$ 88,942
Less: Accumulated depreciation	26,405	35,310
TOTAL	<u>\$ 18,731</u>	<u>\$ 53,632</u>

Lease depreciation is included in depreciation expense.

Future minimum payments, by year and in the aggregate, for the capital leases consisted of the following at December 31, 2021:

Year ending December 31:	
2022	\$ 8,185
2023	5,619
2024	<u>3,951</u>
Total minimum lease payments	17,755
Less amount representing interest	<u>(1,355)</u>
PRESENT VALUE OF MINIMUM LEASE	<u>\$ 16,400</u>

NOTE 7 - Net Assets

Net assets with donor restrictions are restricted for the following periods:

	DECEMBER 31,	
	2021	2020
Subject to the passage of time:		
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	\$ -	\$ 1,995
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ -</u>	<u>\$ 1,995</u>

CHILD CARE RESOURCE AND REFERRAL, INC. & AFFILIATE
DBA FAMILIES FIRST OF MINNESOTA & FAMILY CIRCLE LEARNING CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2021 AND 2020

NOTE 7 - Net Assets - Continued

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time specified by the donors as follows:

	YEARS ENDED DECEMBER 31,	
	2021	2020
Expiration of time restrictions	\$ 1,995	\$ 7,125
Satisfaction of purpose restrictions:		
Equipment and supplies	-	12,998
Salaries	-	27,341
Expiration of time restrictions	\$ 1,995	\$ 47,464

NOTE 8 - Support from Governmental Units

The Organization & Affiliate received approximately 95 and 92 percent of its support and revenue from federal, state, and local governments for the years ended December 31, 2021 and 2020, respectively. Receivables from governmental units at December 31, 2021 and 2020 were approximately \$993,327 and \$757,706, respectively. A material change in this level of support would likely result in a corresponding change in the level of program activity of the Organization & Affiliate.

NOTE 9 - Paycheck Protection Program (PPP) Loan

The Organization was granted a \$150,000 loan under the PPP administered by a Small Business Administration (SBA) approved partner. The loan was uncollateralized and was fully guaranteed by the Federal government. The Organization initially recorded the loan as a refundable advance and subsequently recognized grant revenue in accordance with guidance for conditional contributions, that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. The Organization recognized \$150,000 as grant revenue for the year ended December 31, 2020.

NOTE 10 - In-Kind Contributions

The value of in-kind donations included in the statements of activities and the corresponding expenses are as follows:

	YEARS ENDED DECEMBER 31,	
	2021	2020
Facility rent	\$ 170,976	\$ 106,532

CHILD CARE RESOURCE AND REFERRAL, INC. & AFFILIATE
DBA FAMILIES FIRST OF MINNESOTA & FAMILY CIRCLE LEARNING CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2021 AND 2020

NOTE 11 - Defined Contribution Pension Plan

The Organization sponsors a defined contribution pension plan covering substantially all employees that have been employed with the Organization for at least one year, are at least 20.5 years of age, and complete 1,000 hours of service annually. The plan allows employees to defer a portion of their salary. The Organization may make a matching contribution up to 1 percent of employee deferrals. During 2021 and 2020, employer contributions were \$290,721 and \$254,019, respectively.

NOTE 12 - Operating Leases

The Organization & Affiliate collectively lease facilities at six locations under operating leases with terms ranging from two to fifteen years. Rental expense under these leases for the years ended December 31, 2021 and 2020 were \$491,113 and \$460,194, respectively.

Future minimum payments for the five years following December 31, 2021, by year and in the aggregate under operating leases with initial or remaining terms of one year or more are as follows:

2022	\$	205,584
2023		167,189
2024		125,198
2025		33,300
2026		33,300

NOTE 13 - Commitments

In 2020, the Organization entered into a computer maintenance agreement for services through December 2022. Future minimum payments under this agreement are \$144,900.

NOTE 14 - Related Party Transactions

During the years ended December 31, 2021 and 2020, the Organization made rental payments of \$241,920 each year to 1026 East Center Street LLC. Beginning in 2020, the Organization charged 1026 East Center Street LLC for certain facilities management and accounting services. The Organization received \$65,700 and \$36,400 for these services during the years ended December 31, 2021 and 2020, respectively. The Organization has a significant influence over 1026 East Center Street LLC as a 50 percent owner and accounts for the investment under the equity method.

NOTE 15 - Subsequent Event

In March 2022, the board of directors of the Affiliate agreed to the closure of the Affiliate effective April 22, 2022. The assets and liabilities of the Affiliate will be distributed and settled in accordance with the Affiliate's Articles of Incorporation and Limited Liability Company Operating Agreement.

**CHILD CARE RESOURCE AND REFERRAL, INC. &
AFFILIATE
DBA FAMILIES FIRST OF MINNESOTA &
FAMILY CIRCLE LEARNING CENTER**

SUPPLEMENTARY INFORMATION

**CHILD CARE RESOURCE AND REFERRAL, INC. & AFFILIATE
DBA FAMILIES FIRST OF MINNESOTA & FAMILY CIRCLE LEARNING CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2021**

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR PROGRAM OR CLUSTER TITLE	ASSISTANCE LISTING NUMBER	PASS-THROUGH GRANT IDENTIFICATION NUMBER	FEDERAL EXPENDITURES
<u>U.S. Department of Agriculture</u>			
Passed through Minnesota Department of Human Services Child care food program	10.558		\$ <u>243,374</u>
<u>U.S. Department of Health and Human Services</u>			
Direct			
Head Start	93.600	05CH0112502/03	3,512,708
Head Start T&TA	93.600	05CH0112502/03	40,584
Early Head Start	93.600	05CH0112502/03	1,761,598
Early Head Start T&TA	93.600	05CH0112502/03	38,761
Early Head Start CC Partnership	93.600	05HP00041602/03	1,250,774
Early Head Start CC Partnership T&TA	93.600	05HP00041602/03	25,990
COVID		05HE00072101C6	279,323
Total Head Start			<u>6,909,738</u>
CCDF Cluster Passed through Minnesota Department of Human Services			
Child Care and Development	93.575		1,187,836
Child Care and Development	93.575		470,763
Child Care and Development	93.575		257,538
Total CCDF Cluster			<u>1,916,137</u>
Total U.S. Department of Health and Human Services			<u>8,825,875</u>
TOTAL FEDERAL AWARDS EXPENDED			<u>\$ 9,069,249</u>

The accompanying notes are an integral part of this schedule.

CHILD CARE RESOURCE AND REFERRAL, INC. & AFFILIATE
DBA FAMILIES FIRST OF MINNESOTA & FAMILY CIRCLE LEARNING CENTER
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2021

NOTE 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Child Care Resource and Referral, Inc. & Affiliate under the programs of the federal government for the year ended December 31, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Child Care Resource and Referral, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Child Care Resource and Referral, Inc.

NOTE 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - Indirect Cost Rate

Child Care Resource and Referral, Inc. has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 4 - Subrecipient

Child Care Resource and Referral, Inc. provided no federal awards to subrecipients during the year ending December 31, 2021.

NOTE 5 - Disclosure of Other Forms of Assistance

Child Care Resource and Referral, Inc. received no federal or state awards of non-monetary assistance that are required to be disclosed for the year ended December 31, 2021. Child Care Resource and Referral, Inc. & Affiliate had no federal or state loans or loan guarantors required to be disclosed for the year ended December 31, 2021.

NOTE 6 - Property, Plant, and Equipment

Property, plant, and equipment acquired with grant funds are recorded as expenditures in the period of purchase on this schedule instead of being capitalized and depreciated over their estimated useful lives as required by generally accepted accounting principles.

**CHILD CARE RESOURCE AND REFERRAL, INC. &
AFFILIATE
DBA FAMILIES FIRST OF MINNESOTA &
FAMILY CIRCLE LEARNING CENTER**

OTHER REPORTS



**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF CONSOLIDATED FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
Child Care Resource and Referral, Inc. &
Early Care Education and Innovations LLC
DBA Families First of Minnesota & Family Circle Learning Center
Rochester, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Child Care Resource and Referral, Inc. & Early Care Education and Innovations LLC (the "Organization") (nonprofit organizations) which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated August 4, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Hawkins Ash CPAs, LLP". The signature is written in a cursive, flowing style.

Rochester, Minnesota
August 4, 2022



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

To the Board of Directors of
Child Care Resource and Referral, Inc. &
Early Care Education and Innovations LLC
DBA Families First of Minnesota & Family Circle Learning Center
Rochester, Minnesota

Report on Compliance for Each Major Federal Program

Opinion for Each Major Federal Program

We have audited Child Care Resource and Referral, Inc. & Early Care Education and Innovations LLC (the "Affiliate")'s compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Child Care Resource and Referral, Inc. & Affiliate's major federal programs for the year ended December 31, 2021. Child Care Resource and Referral, Inc. & Affiliate's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Child Care Resource and Referral, Inc. & Affiliate complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Child Care Resource and Referral, Inc. & Affiliate and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Child Care Resource and Referral, Inc. & Affiliate's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of

laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Child Care Resource and Referral, Inc. & Affiliate's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Child Care Resource and Referral, Inc. & Affiliate's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Child Care Resource and Referral, Inc. & Affiliate's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Child Care Resource and Referral, Inc. & Affiliate's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Child Care Resource and Referral, Inc. & Affiliate's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Child Care Resource and Referral, Inc. & Affiliate's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant

deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Stephen Ash CPA, LLP". The signature is written in a cursive, flowing style.

Rochester, Minnesota
August 4, 2022

**CHILD CARE RESOURCE AND REFERRAL, INC. & AFFILIATE
DBA FAMILIES FIRST OF MINNESOTA & FAMILY CIRCLE LEARNING CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2021**

Section I - Summary of Auditors' Results

Consolidated financial statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to consolidated financial statements noted? Yes No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? Yes No

Identification of federal major program:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.575	CCDBG Cluster

Dollar threshold used to distinguish between Type A and Type B federal programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

Section II - Financial Statement Findings - None

Section III - Federal Award Findings and Questioned Costs - None

Section IV - Prior Year Findings - None

**CHILD CARE RESOURCE AND REFERRAL, INC. & AFFILIATE
DBA FAMILIES FIRST OF MINNESOTA & FAMILY CIRCLE LEARNING CENTER**
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
YEAR ENDED DECEMBER 31, 2021

Section V - Other Issues

1. Does the auditor's report or the notes to the consolidated financial statements include disclosure with regard to substantial doubt as to the auditee's ability to continue as a going concern? No

2. Was a Management Letter or other document conveying audit comments issued as a result of this audit? No

3. Name and signature of partner 

Brittany Leonard, CPA
Partner

4. Date of report August 4, 2022