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, 2022 AND 2021

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

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DECEMBER 31, 2022 AND 2021

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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., DBA Families First of Minnesota (the "Organization") & Early Care Education and Innovations, Inc. DBA Family Circle Learning Center (the "Affiliate") (nonprofit organizations) which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, 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. & Affiliate as of December 31, 2022 and 2021, 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. & 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2022, the organization adopted new accounting guidance in accordance with Accounting Standards Codification Topic 842, *Leases*, as of the beginning of the period of adoption. The prior period presented is in accordance with Topic 840. Our opinion is not modified with respect to this matter.

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. & 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 28, 2023 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.

Hawkins Ash CPAs, LLP

Rochester, Minnesota
August 28, 2023

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, 2022	DECEMBER 31, 2021
ASSETS		
Cash and cash equivalents	$ 1,661,624	$ 2,050,804
Grants and accounts receivable	1,491,610	1,092,483
Prepaid expenses	427,917	466,766
Investments	4,454,059	4,536,194
Operating lease right-of-use asset	222,645	-
Finance lease right-of-use asset	9,704	-
Property, plant, and equipment, net	633,713	784,782
TOTAL ASSETS	**$ 8,901,272**	**$ 8,931,029**
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 240,359	$ 116,594
Accrued expenses	560,100	627,202
Involuntary conversion liability	46,541	-
Refundable advances	99,501	99,535
Capital lease obligation	-	16,400
Finance lease obligation	8,375	-
Operating lease liability	222,645	-
TOTAL LIABILITIES	1,177,521	859,731
NET ASSETS		
Without donor restrictions		
Undesignated	2,634,650	2,802,121
Net investment in property, plant, and equipment	635,042	732,983
Net investment in The Place	4,454,059	4,536,194
With donor restrictions	-	-
TOTAL NET ASSETS	7,723,751	8,071,298
TOTAL LIABILITIES AND NET ASSETS	**$ 8,901,272**	**$ 8,931,029**

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, 2022	2021
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUE, GRANTS, AND OTHER SUPPORT		
Federal grants	$ 9,680,600	$ 9,069,249
State grants	8,736,781	8,011,209
County grants	344,172	332,800
Private grants	197,536	344,932
Community education grants	175,035	180,038
United Way grants	97,500	90,000
Training and tuition fees	121,873	294,175
Donations	32,233	32,736
In-kind revenue	170,586	170,976
Other income	22,468	93,029
Gain (loss) on sale of asset	(31,159)	(3,640)
Interest income	1,969	232
Gain (loss) on investment	(82,135)	(85,916)
TOTAL REVENUE, GRANTS, AND OTHER SUPPORT WITHOUT DONOR RESTRICTIONS	19,467,459	18,529,820
Net assets released from restrictions	-	1,995
NET REVENUE, GRANTS, AND OTHER SUPPORT WITHOUT DONOR RESTRICTIONS	19,467,459	18,531,815
EXPENSES		
Program activities	18,604,649	17,388,135
Management and general	1,206,510	1,000,598
Fundraising	3,847	7,027
TOTAL EXPENSES	19,815,006	18,395,760
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(347,547)	136,055
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS		
Net assets released from restrictions	-	(1,995)
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	-	(1,995)
CHANGE IN NET ASSETS	(347,547)	134,060
NET ASSETS AT BEGINNING OF YEAR	8,071,298	7,937,238
NET ASSETS AT END OF YEAR	**$ 7,723,751**	**$ 8,071,298**

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, 2022

	PROGRAM ACTIVITIES							SUPPORTING ACTIVITIES		
	CRISIS NURSERY	SCHOOL READINESS	HEAD START	CHILD CARE AWARE	EARLY LEARNING SCHOLARSHIPS	FCLC	PROGRAM SUBTOTAL	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries/consultants	$ 138,866	$ 79,458	$ 5,524,552	$ 1,027,214	$ 293,307	$ 117,057	$ 7,180,455	$ 868,930	$ 1,111	$ 8,050,495
Fringe benefits	31,349	17,985	1,096,127	183,112	66,972	14,501	1,410,046	252,484	301	1,662,830
Total salaries and related expenses	170,215	97,443	6,620,679	1,210,325	360,279	131,558	8,590,500	1,121,413	1,412	9,713,325
Professional services	497	312	26,451	2,845	939	191	31,235	1,702	-	32,937
Supplies	6,369	4,124	230,123	83,310	3,428	14,851	342,204	53,022	-	395,226
Communications	2,240	2,170	57,807	17,851	8,011	1,361	89,439	5,239	-	94,678
Occupancy	5,493	4,982	636,651	52,027	15,809	17,565	732,526	1,612	47	734,184
Equipment acquisition/repair	8,173	2,757	164,622	74,831	12,630	8,955	271,969	11,054	2,388	285,410
Printing and publications	425	580	27,207	4,529	3,035	754	36,530	2,642	-	39,173
Staff development	440	377	18,629	11,727	4,758	782	36,713	5,029	-	41,742
Direct	131,351	104,427	868,778	613,600	6,460,064	2,196	8,180,415	591	-	8,181,006
Travel	272	4	75,581	16,819	936	23	93,635	800	-	94,435
Other	118	71	193,451	674	475	4,696	199,484	3,405	-	202,889
Total expenses before administrative allocation	325,590	217,248	8,919,977	2,088,537	6,870,364	182,932	18,604,649	1,206,510	3,847	19,815,006
Administrative allocation	26,975	18,769	922,683	140,083	68,239	33,608	1,210,357	(1,206,510)	(3,847)	-
TOTAL EXPENSES	**$ 352,566**	**$ 236,017**	**$ 9,842,661**	**$ 2,228,620**	**$ 6,938,603**	**$ 216,540**	**$ 19,815,006**	**$ -**	**$ -**	**$ 19,815,006**

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		
	CRISIS NURSERY	SCHOOL READINESS	HEAD START	CHILD CARE AWARE	EARLY LEARNING SCHOLARSHIPS	FCLC	PROGRAM SUBTOTAL	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
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 STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31, 2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from:		
Federal grants	$ 9,259,552	$ 8,803,923
State grants	8,725,130	8,079,751
Community grants and support	832,750	894,221
Fees	136,795	281,032
Donations	74,893	34,731
Interest and dividend income	1,969	232
Other income	22,567	113,728
Cash paid to vendors	(9,639,310)	(9,425,743)
Cash paid to employees	(9,776,787)	(8,543,735)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(362,442)	238,140
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant, and equipment	(21,713)	(191,142)
Proceeds from sale of property, plant, and equipment	3,000	15,044
NET CASH (USED IN) INVESTING ACTIVITIES	(18,713)	(176,098)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on finance leases	(8,025)	(14,954)
NET CASH (USED IN) FINANCING ACTIVITIES	(8,025)	(14,954)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(389,180)	47,088
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,050,804	2,003,716
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 1,661,624**	**$ 2,050,804**

(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, 2022	YEAR ENDED DECEMBER 31, 2021
RECONCILIATION OF CHANGES IN NET ASSETS TO CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (347,547)	$ 134,060
Adjustments to reconcile changes in net assets to net cash (used in) provided byoperating activities		
Depreciation	128,919	150,890
Gain on sale of asset	31,159	3,640
Change in allowance for doubtful pledges	-	(105)
Forgiveness on lease liability for returned asset	-	(18,684)
Change in equity investments	82,135	85,916
Change in assets (increase) decrease		
Grants and accounts receivable	(399,127)	(224,046)
Unconditional promises to give	-	2,100
Prepaid expenses	38,849	(78)
Operating lease right-of-use asset	(222,645)	-
Change in liabilities increase (decrease)		
Accounts payable	123,765	40,077
Involuntary conversion liability	46,541	-
Accrued expenses	(67,102)	64,415
Refundable advance	(34)	(45)
Operating lease liability	222,645	-
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	**$ (362,442)**	**$ 238,140**

The accompanying notes are an integral part of these statements.

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") was 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 included program fees, state grants, and county contributions. The Organization formally dissolved in December 2022 and all remaining assets and liabilities were distributed and settled in accordance with the Affiliate's Articles of Incorporation and Limited Liability Company Operating Agreement.

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.

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

Accounting Pronouncements Adopted – In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases* (Topic 842). The standard requires the recognition of right-of-use assets and lease liabilities for lease contracts with terms greater than 12 months. Operating lease costs are recognized in the consolidated statement of activities as a single lease cost and finance lease costs are recognized in two components, interest expense and amortization expense. The Organization & Affiliate adopted the standard effective January 1, 2022 and recognized and measured leases existing at, or entered into after, January 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended December 31, 2021 are made under prior lease guidance in FASB ASC 840. The Organization & Affiliate have elected the package of practical expedients permitted in ASC Topic 842. Accordingly, the Organization & Affiliate accounted for its existing leases as either finance or operating leases under the new guidance, without reassessing (a) whether the contract contains a lease under ASC Topic 842, (b) whether classification of the operating lease would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in ASC Topic 842 at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Organization & Affiliate recognized on January 1, 2022, the beginning of the adoption period, no cumulative effect adjustment to net assets, an operating lease liability of $363,554, and an operating right-of-use asset of $363,554. The finance lease right of use asset and liabilities were recorded as of January 1, 2022 at the carrying value under prior guidance. The adoption of the new standard did not materially impact the Organization & Affiliate’s consolidated statements of activities or consolidated statements of cash flows.

As of January 1, 2022 the Organization & Affiliate adopted the provision of FASB issued Accounting Standards Update 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958). Under the new guidance, gifts-in-kind are required to be presented as a separate line item on the statements of activities and additional disclosures will be required. The presentation and disclosures for contributed nonfinancial assets have been enhanced in accordance with the standard.

Cash and Cash Equivalents - The Organization & Affiliate’s cash and cash equivalents consist of cash on deposit with banks. For purposes of the consolidated 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 & Affiliate carry an investment in a not-for-profit organization 1026 East Center Street, known as "The Place," at its net book value in the consolidated statements of financial position.

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.

Asset	Life
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, 2022 and 2021.

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 consolidated statements of activities as net assets released from restrictions.

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 & Affiliate.

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, 2022 and 2021.

Functional Allocation of Expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated 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/consultants, fringe benefits, 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 $1,739 and $13,266 for the years ended December 31, 2022 and 2021, 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.

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 & Affiliate's tax-exempt purposes are subject to taxation as unrelated business income. In addition, the Organization & Affiliate qualify for the charitable contribution deduction under Section 170(b)(1)(A) and have been classified as organizations other than private foundations under Section 509(a)(2). The Organization & Affiliate are 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 have 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, 2022 and 2021, 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 28, 2023, 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, 2022 and 2021 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,	
	2022	2021
Cash and cash equivalents	$ 1,661,624	$ 2,050,804
Grants and accounts receivable	1,491,610	1,092,483
TOTAL FINACIAL ASSETS AVAILABLE TO MANAGEMENT FOR GENERAL EXPENDITURE WITHIN ONE YEAR	**$ 3,153,234**	**$ 3,143,287**

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.

NOTE 4 - Investments

The Organization & Affiliate own 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,	
	2022	2021
Assets	$ 10,421,608	$ 10,651,529
Liabilities	1,345,908	1,411,461
Net assets	9,075,700	9,240,068
Income	504,937	537,228
Expenses	669,305	708,960
NET (LOSS)	**$ (164,368)**	**$ (171,732)**

NOTE 5 - Property, Plant, and Equipment

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

	DECEMBER 31,	
	2022	2021
Land	$ 97,500	$ 97,500
Buildings and improvements	850,993	1,358,325
Equipment	165,281	306,232
Vehicles	806,907	877,907
	1,920,681	2,639,964
Less: Accumulated depreciation	1,277,264	1,855,182
NET PROPERTY, PLANT, AND EQUIPMENT	**$ 643,417**	**$ 784,782**

Depreciation expense amounted to $128,919 and $150,890 for years ended December 31, 2022 and 2021, 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.

NOTE 6 - Leases

The Organization & Affiliate lease certain facilities and vehicles for various terms under long-term, non-cancelable operating lease and finance lease agreements. The leases expire at various dates through 2024 and provide for renewal options ranging from five years to ten years. The Organization & Affiliate included in the determination of the right-of-use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised. The leases provide for increases in future minimum annual rental payments based on a defined schedule or index. Also, the agreements generally require the Organization & Affiliate to pay insurance and repairs.

NOTE 6 – Leases - Continued

The weighted-average discount rate is based on the discount rate implicit in the lease, or if the implicit rate is not readily determinable from the lease, then the Organization & Affiliate elected the option to use the risk-free rate determined using a period comparable to the lease terms as the discount rate.

The Organization & Affiliate have elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for CCthese leases. Lease payments for short-term leases are recognized on straight-line basis.

Total lease expense is as follows for the years ended December 31:

	2022
Finance lease expense	
Amortization of right-of-use asset	$ 9,027
Interest on lease liabilities	159
Operating lease expense	143,580
Short-term lease expense	316,485
TOTAL	**$ 469,251**

Other lease information is as follows for the years ended December 31:

	2022
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from finance leases	$ 159
Finance cash flows from finance leases	8,025
Operating cash flows from operating leases	143,580
Weighted-average remaining lease term in years	
Finance leases	0.96
Operating leases	1.72
Weighted-average discount rate	
Finance leases	2.00%
Operating leases	0.94%

The future minimum lease payments under finance and operating leases are as follows as of December 31, 2022:

	Finance	Operating
2023	$ 5,615	$ 132,480
2024	2,819	91,900
Total minimum lease payments	8,434	224,380
Less amounts representing interest	(59)	(1,735)
TOTAL LEASE LIABILITIES	$ 8,375	$ 222,645

NOTE 6 – Leases - Continued

For the year ended December 31, 2021, the Organization & Affiliate accounted for leases under ASC Topic 840. Operating lease expense for the year ended December 31, 2021 was $491,113. The Organization & Affiliate also leased vehicles under agreements accounted for as capital leases. The economic substance of the leases are that the Organization & Affiliate is financing the acquisition of the assets through the leases, and accordingly, they are recorded in the Organization & Affiliate's assets and liabilities.

The following is an analysis of the leased assets included in property, plant, and equipment at December 31, 2021:

Vehicles	$ 45,136
Less accumulated depreciation	26,405
Total	**$ 18,731**

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	3,951
Total minimum lease payments	17,755
Less amount representing interest	(1,355)
PRESENT VALUE OF MINIMUM LEASE	**$ 16,400**

NOTE 7 - Support from Governmental Units

The Organization & Affiliate received approximately 96 and 95 percent of its support and revenue from federal, state, and local governments for the years ended December 31, 2022 and 2021, respectively. Receivables from governmental units at December 31, 2022 and 2021 were approximately $1,388,948 and $993,327 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 8 - Defined Contribution Pension Plan

The Organization & Affiliate sponsors a defined contribution pension plan covering substantially all employees that have been employed with the Organization & Affiliate 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 & Affiliate may make a matching contribution up to 1 percent of employee deferrals. During 2022 and 2021, employer contributions were $303,667 and $290,721, respectively.

NOTE 9 - Related Party Transactions

During the years ended December 31, 2022 and 2021, the Organization & Affiliate made operating lease payments of $233,148 and $241,920, respectively, to 1026 East Center Street LLC. The Organization charged 1026 East Center Street LLC for certain facilities management and accounting services. The Organization & Affiliate received $12,996 and $65,700 for these services during the years ended December 31, 2022 and 2021, respectively. The Organization & Affiliate 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 10 - In-Kind Contributions

The value of donated goods and services included as in-kind contributions in the consolidated financial statements and the corresponding expenses or assets are as follows for the years ended December 31:

	2022	2021
Facility rent	$ 170,586	$ 170,976

The Organization & Affiliate entered into a lease agreement for program and office space for which the rental payments stated in the agreement are less than the amount that would be charged for similar space that is rented under similar terms. Using publicly available commercial real estate rental listings, the Organization & Affiliate estimates the rental payments to be half of market price. The contributed rent received by the Organization & Affiliate is recorded as in-kind contribution revenue with a corresponding increase to rent expense in the accompanying consolidated statements of activities.

The contributed rent was utilized by the Organization & Affiliate’s programs and supporting services. There were no donor-imposed restrictions associated with the donated services and assets.

NOTE 11 - Subsequent Events

In July 2023 the Organization entered into a facility lease agreement for a term of six years with two six-year renewal options. Monthly payments under the lease, beginning August 2023, will be $7,700 with annual 3% increases.

In August 2023 the Organization entered into another facility lease agreement for a term of ten years. Monthly payments under the lease, beginning September 2023, will be $3,200 with revisions every following September based upon the Consumer Price Index.

CHILD CARE RESOURCE AND REFERRAL, INC. & AFFILIATE
DBA FAMILIES FIRST OF MINNESOTA &
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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, 2022

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR PROGRAM OR CLUSTER TITLE	ASSISTANCE LISTING NUMBER	PASS-THROUGH GRANT IDENDIFICATION NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture			
Passed through			
Minnesota Department of Human Services			
Child care food program	10.558		$ 238,581
U.S. Department of Health and Human Services			
Direct			
Head Start	93.600	05CH0112502/03	3,815,574
Head Start T&TA	93.600	05CH0112502/03	34,036
Early Head Start	93.600	05CH0112502/03	1,887,964
Early Head Start T&TA	93.600	05CH0112502/03	31,166
Early Head Start CC Partnership	93.600	05HP00041602/03	1,149,971
Early Head Start CC Partnership T&TA	93.600	05HP00041602/03	27,334
COVID		05HE00072101C6	301,120
Total Head Start			7,247,165
CCDF Cluster Passed through			
Minnesota Department of Human Services			
Child Care and Development	93.575		2,194,854
Total U.S. Department of Health and Human Services			9,442,019
TOTAL FEDERAL AWARDS EXPENDED			**$ 9,680,600**

The accompanying notes are an integral part of this schedule.

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, 2022. 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. & Affiliate, 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 & Affiliate.

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. & Affiliate 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. & Affiliate provided no federal awards to subrecipients during the year ending December 31, 2022.

NOTE 5 - Disclosure of Other Forms of Assistance

Child Care Resource and Referral, Inc. & Affiliate received no federal or state awards of non-monetary assistance that are required to be disclosed for the year ended December 31, 2022. 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, 2022.

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

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**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. (the "Organization") & Early Care Education and Innovations LLC (the "Affiliate") (nonprofit organizations) which comprise the consolidated statement of financial position as of December 31, 2022, and the related consolidated 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 28, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization & Affiliate's internal control over financial reporting (internal control) as a basis for designing 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 & Affiliate's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization & Affiliate'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 & Affiliate'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 & Affiliate'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 & Affiliate'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 & Affiliate's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hawkins Ash CPAs, LLP

Rochester, Minnesota
August 28, 2023

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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. (the "Organization") & 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, 2022. 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, 2022.

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.

Hawkins Ash CPAs, LLP

Rochester, Minnesota
August 28, 2023

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, 2022

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

Noncompliance material to consolidated financial statements noted? ______ Yes __X__ No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ______ Yes __X__ No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ______ Yes __X__ 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 __X__ No

Identification of federal major program:

CFDA Number	Name of Federal Program
93.600	Head Start

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

Auditee qualified as low-risk auditee? __X__ Yes ______ No

Section II - Financial Statement Findings - None

Section III - Federal Award Findings and Questioned Costs - None

Section IV - Prior Year Findings - None

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 Brittany Leonard, CPA Partner
4. Date of report	August 28, 2023