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

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2019 AND 2018

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

TABLE OF CONTENTS

DECEMBER 31, 2019 AND 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Child Care Resource and Referral, Inc.
DBA Families First of Minnesota
Rochester, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Child Care Resource and Referral, Inc., DBA Families First of Minnesota (a nonprofit organization) which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Child Care Resource and Referral, Inc. as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles*, and *Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the 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 October 6, 2020 on our consideration of Child Care Resource and Referral, Inc.'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 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.'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.'s internal control over financial reporting and compliance.

Hawkins Ash CPAs, LLP

Rochester, Minnesota
October 6, 2020

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

FINANCIAL STATEMENTS

CHILD CARE RESOURCE AND REFERRAL, INC.
DBA FAMILIES FIRST OF MINNESOTA
STATEMENTS OF FINANCIAL POSITION

	DECEMBER 31, 2019	DECEMBER 31, 2018
ASSETS		
Cash and cash equivalents	$ 1,351,842	$ 1,253,071
Grants and accounts receivable	1,902,648	1,228,921
Unconditional promises to give, net	9,120	12,215
Prepaid expenses	446,044	502,136
Investments	4,681,520	1,404,056
Property, plant, and equipment, net	792,343	748,364
TOTAL ASSETS	**$ 9,183,517**	**$ 5,148,763**
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 533,491	$ 334,408
Accrued expenses	412,528	316,153
Refundable advances	336,255	103,163
Capital lease obligation	67,705	44,054
Long-term debt	-	170,097
TOTAL LIABILITIES	1,349,979	967,875
NET ASSETS		
Without donor restrictions		
Undesignated	2,377,921	2,230,404
Net investment in property, plant, and equipment	724,638	534,213
Net investment in The Place	4,681,520	1,404,056
With donor restrictions	49,459	12,215
TOTAL NET ASSETS	7,833,538	4,180,888
TOTAL LIABILITIES AND NET ASSETS	**$ 9,183,517**	**$ 5,148,763**

The accompanying notes are an integral part of these statements.

CHILD CARE RESOURCE AND REFERRAL, INC.
DBA FAMILIES FIRST OF MINNESOTA
STATEMENTS OF ACTIVITIES

	YEAR ENDED DECEMBER 31, 2019	2018
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUE, GRANTS, AND OTHER SUPPORT		
Federal grants	$ 8,191,411	$ 7,488,767
State of Minnesota	8,132,838	6,954,632
Olmsted County	344,615	394,568
Private grants	497,613	435,288
Community education	174,923	168,653
United Way	111,465	185,762
Training fees	52,995	64,253
Donations	44,780	60,112
In-kind revenue	78,897	84,326
Other income	355,285	180,892
Gain on insurance proceeds	1,817	-
Interest income	649	721
Gain (loss) on investment	3,325,191	(64,629)
TOTAL REVENUE, GRANTS, AND OTHER SUPPORT WITHOUT DONOR RESTRICTIONS	21,312,479	15,953,345
Net assets released from restrictions	8,145	11,774
NET REVENUE, GRANTS, AND OTHER SUPPORT WITHOUT DONOR RESTRICTIONS	21,320,624	15,965,119
EXPENSES		
Program activities	16,718,653	15,230,867
Management and general	982,377	947,506
Fundraising	4,188	5,163
TOTAL EXPENSES	17,705,218	16,183,536
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	3,615,406	(218,417)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS		
Private grants	27,341	-
United Way	12,998	-
Unconditional promises to give	5,050	-
Net assets released from restrictions	(8,145)	(11,774)
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	37,244	(11,774)
CHANGE IN NET ASSETS	3,652,650	(230,191)
NET ASSETS AT BEGINNING OF YEAR	4,180,888	4,411,079
NET ASSETS AT END OF YEAR	**$ 7,833,538**	**$ 4,180,888**

The accompanying notes are an integral part of these statements.

CHILD CARE RESOURCE AND REFERRAL, INC.
DBA FAMILIES FIRST OF MINNESOTA
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019

	PROGRAM ACTIVITIES						SUPPORTING ACTIVITIES		
	CRISIS NURSERY	SCHOOL READINESS	HEAD START	CHILD CARE AWARE	EARLY LEARNING SCHOLARSHIPS	PROGRAM SUBTOTAL	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries/consultants	$ 144,332	$ 89,351	$ 4,003,241	$ 729,808	$ 264,254	$ 5,230,986	$ 667,549	$ 1,159	$ 5,899,694
Fringe benefits	32,569	19,336	935,992	155,168	46,004	1,189,069	114,713	166	1,303,947
Total salaries and related expenses	176,901	108,687	4,939,233	884,976	310,258	6,420,054	782,262	1,325	7,203,641
Professional services	407	352	18,987	3,048	1,524	24,318	34,432	8	58,758
Supplies	5,101	3,039	295,003	54,949	4,668	362,759	12,708	392	375,859
Communications	1,167	2,295	88,397	16,349	13,163	121,372	6,779	114	128,265
Occupancy	4,971	6,290	605,880	39,103	20,962	677,206	111,444	6	788,656
Equipment acquisition/repair	4,844	3,800	162,860	28,025	13,535	213,065	17,175	2,444	232,684
Printing and publications	208	710	24,453	15,895	2,652	43,918	2,744	177	46,839
Staff development	1,938	470	21,321	19,465	632	43,827	6,613	1	50,441
Direct	166,926	115,793	1,027,912	631,094	6,639,548	8,581,273	3,278	8	8,584,559
Travel	601	522	111,930	29,108	2,366	144,527	2,601	1	147,129
Other	129	65	83,722	2,100	318	86,335	2,342	(288)	88,389
Total expenses before administrative allocation	363,193	242,024	7,379,697	1,724,114	7,009,625	16,718,653	982,377	4,188	17,705,218
Administrative allocation	18,749	16,213	783,680	101,533	66,391	986,565	(982,377)	(4,188)	-
TOTAL EXPENSES	**$ 381,942**	**$ 258,237**	**$ 8,163,377**	**$ 1,825,647**	**$ 7,076,016**	**$ 17,705,218**	**$ -**	**$ -**	**$ 17,705,218**

The accompanying notes are an integral part of these statements.

CHILD CARE RESOURCE AND REFERRAL, INC.
DBA FAMILIES FIRST OF MINNESOTA
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	PROGRAM ACTIVITIES						SUPPORTING ACTIVITIES		
	CRISIS NURSERY	SCHOOL READINESS	HEAD START	CHILD CARE AWARE	EARLY LEARNING SCHOLARSHIPS	PROGRAM SUBTOTAL	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries/consultants	$ 140,097	$ 105,743	$ 3,677,462	$ 621,042	$ 275,551	$ 4,819,896	$ 669,638	$ 1,204	$ 5,490,738
Fringe benefits	32,044	25,001	888,144	113,022	47,854	1,106,066	118,857	167	1,225,089
Total salaries and related expenses	172,141	130,745	4,565,606	734,064	323,406	5,925,962	788,494	1,371	6,715,827
Professional services	438	362	15,970	3,531	1,482	21,784	32,052	8	53,844
Supplies	3,961	5,555	58,251	117,394	18,707	203,869	7,626	664	212,159
Communications	661	2,946	73,272	11,662	13,461	102,001	4,737	193	106,931
Occupancy	4,463	5,047	620,424	28,663	19,109	677,706	89,167	-	766,873
Equipment acquisition/repair	4,624	4,155	121,480	16,646	18,575	165,479	11,547	2,440	179,465
Printing and publications	181	696	14,911	4,065	4,682	24,536	1,886	835	27,256
Staff development	524	1,985	10,682	19,067	3,726	35,984	2,131	1	38,116
Direct	224,842	109,595	1,034,617	777,456	5,711,662	7,858,171	5,957	12	7,864,140
Travel	500	64	111,121	7,099	2,113	120,896	1,748	173	122,817
Other	162	71	90,941	2,980	324	94,479	2,161	(533)	96,106
Total expenses before administrative allocation	412,497	261,221	6,717,277	1,722,627	6,117,247	15,230,867	947,506	5,163	16,183,536
Administrative allocation	19,046	15,589	750,578	103,266	64,191	952,669	(947,506)	(5,163)	-
TOTAL EXPENSES	**$ 431,543**	**$ 276,810**	**$ 7,467,853**	**$ 1,825,892**	**$ 6,181,438**	**$ 16,183,536**	**$ -**	**$ -**	**$ 16,183,536**

The accompanying notes are an integral part of these statements.

CHILD CARE RESOURCE AND REFERRAL, INC.
DBA FAMILIES FIRST OF MINNESOTA
STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31, 2019	YEAR ENDED DECEMBER 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from:		
Federal grants	$ 7,750,776	$ 7,091,877
State of Minnesota	8,132,838	6,954,632
Community grants and support	1,168,955	1,184,271
Fees	52,995	64,253
Donations	52,924	71,856
Interest and dividend income	649	721
Insurance proceeds, net	1,817	-
Other income	190,926	180,892
Cash paid to vendors	(11,335,638)	(10,659,267)
Cash paid to employees	(5,803,319)	(5,496,823)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	212,923	(607,589)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant, and equipment	(132,262)	-
Contribution to investment in The Place Project	(9,734)	(12,368)
Distribution from investment in The Place Project	57,461	-
NET CASH (USED IN) INVESTING ACTIVITIES	(84,535)	(12,368)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(5,738)	(8,359)
Principal payments on capital leases	(23,879)	(15,056)
NET CASH (USED IN) FINANCING ACTIVITIES	(29,617)	(23,415)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	98,771	(643,372)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,253,071	1,896,443
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 1,351,842**	**$ 1,253,071**

(Continued on page 9)

The accompanying notes are an integral part of these statements.

CHILD CARE RESOURCE AND REFERRAL, INC.
DBA FAMILIES FIRST OF MINNESOTA
STATEMENTS OF CASH FLOWS - Continued

	YEAR ENDED DECEMBER 31, 2019	YEAR ENDED DECEMBER 31, 2018
RECONCILIATION OF CHANGES IN NET ASSETS TO CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 3,652,650	$ (230,191)
Adjustments to reconcile changes in net assets to net cash		
(used in) provided byoperating activities		
Depreciation	135,815	151,662
Change in discount	-	(571)
Change in allowance for doubtful pledges	(289)	(585)
Assumption of debt by The Place Project	(164,359)	-
Change in equity investments	(3,325,191)	64,629
Change in assets (increase) decrease		
Accounts receivable	(673,727)	(253,824)
Unconditional promises to give	3,383	12,900
Prepaid expenses	56,091	(34,560)
Change in liabilities increase (decrease)		
Accounts payable	199,083	(167,898)
Accrued expenses	96,375	(6,085)
Refundable advance	233,092	(143,066)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	**$ 212,923**	**$ (607,589)**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	**$ 7,945**	**$ 9,599**
Financed purchase of property and equipment	**$ 47,530**	**$ 41,502**

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.

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

Basis of Presentation - The accompanying 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 is required to report information regarding its net assets and its 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.

Accounting Pronouncements Adopted - As of January 1, 2019, the Organization adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Results for reporting year ended December 31, 2019 are presented under FASB ASC Topic 606. The ASU has been applied retrospectively to all periods presented, with no effect on net assets or previously issued financial statements.

During the year, the Organization also adopted FASB ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958), which clarifies how entities should characterize grants and similar contracts with government agencies and others. It will assist entities in evaluating whether transactions are reciprocal exchange transactions or contributions and if they are conditional or unconditional contributions. The Organization has adjusted the presentation of these statements accordingly. Results for reporting the year ending December 31, 2019 are presented under FASB ASU 2018-08. The comparative information has not been restated and continues to be reported under the accounting standards in effect in those reporting periods. There was no material impact to the financial statements as a result of adoption. Accordingly, no adjustment to opening net assets was recorded.

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 financial statements. The Organization is currently evaluating the impact this guidance will have on the financial statements.

Cash and Cash Equivalents - The Organization’s cash and cash equivalents consist of cash on deposit with banks. For purposes of the statements of cash flows, the Organization considers 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.

Promises to Give - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a nominal interest rate applicable to the year in which the promise is received.   Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. Management provides for probable uncollectible amounts through a provision for uncollectible pledge expense from outstanding balances and an adjustment to a valuation allowance based on its assessment of the current status of individual pledges. Balances that are still outstanding after management used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to pledges receivable. Changes in the valuation allowance have not been material to the financial statements.

Investments - The Organization carries investments in a partnership and a not-for-profit organization together known as "The Place," at their net book values in the 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
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, 2019 and 2018.

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

Revenue Recognition - The Organization recognizes revenue in accordance with ASC 606, *Revenue from Contracts with* Customers, as amended. ASC 606 applies to exchange transactions and requires the Organization to follow a five step process: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the Organization satisfies a performance. The Organization records the following exchange transaction revenue in its statements of activities and changes in net assets:

Grant Awards - Revenue is recognized dependent on whether they are contributions or exchange transactions. The grant awards that qualify as contributions are recorded as invoiced to the funding sources. Revenue is recognized in the accounting period when the related expenses are incurred. Amounts received or receivable in excess of expenses are reflected as refundable advances. Grant awards that qualify as exchange transactions are reimbursed based on a predetermined rate for services performed. Services recognized for exchange grants are meals provided to the children. Revenue is recognized as grant revenue in the period the service is performed.

Contribution Recognition - Contributions are recognized in accordance with ASC 958-605, *Not-for-Profit Entities – Revenue Recognition - Contributions*. Contributions are recognized when received or unconditionally pledged. 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.

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

Contribution Recognition – Continued - 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.

In-Kind Contributions - The Organization records 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's program and supporting services. The value of this contributed time is not reflected in these 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, 2019 and 2018.

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 $3,380 and $3,657 for the years ended December 31, 2019 and 2018, respectively.

Use of Estimates - Management uses estimates and assumptions in preparing 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.

Tax Status - The Organization is 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.

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

Accounting for Uncertainty in Income Taxes - U.S. GAAP requires management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) if the Organization 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 and has concluded that as of December 31, 2019 and 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions, however, there are currently no audits in progress for any tax period. The Organization will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

NOTE 2 - Concentration of Cash and Credit Risk

The Organization's deposits at December 31, 2019 and 2018 did not exceed the FDIC insurance threshold. The Organization does 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,	
	2019	2018
Cash and cash equivalents	$ 1,351,842	$ 1,253,071
Grants and accounts receivable	1,902,648	1,228,921
TOTAL FINACIAL ASSETS AVAILABLE TO MANAGEMENT FOR GENERAL EXPENDITURE WITHIN ONE YEAR	**$ 3,254,490**	**$ 2,481,992**

Liquidity Management

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

NOTE 4 - Investments

The following is a summary of investments:

	DECEMBER 31,	
	2019	2018
1026 East Center Street Leverage Lender	$ -	$ 2,213,631
1026 East Center Street LLC	4,681,520	(809,575)
TOTAL INVESTMENTS	**$ 4,681,520**	**$ 1,404,056**

NOTE 4 - Investments - Continued

The Organization owned 47.5 percent of the partnership interest in 1026 East Center Street Leverage Lender during 2018. In 2019, the minority partner sold its membership interest equally to the two remaining partners causing the Organization to own 50 percent of the partnership as of September 2019. 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. The partnership was dissolved in September 2019.

Summarized activity is as follows:

	DECEMBER 31,	
	2019	2018
Assets	$ -	$ 9,262,889
Liabilities	-	1,144,744
Equity	-	8,118,145
Income	185,727	274,023
Expenses	43,308	84,848
NET INCOME	**$ 142,419**	**$ 189,175**

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. In September of 2019, the partnerships note payable was forgiven upon the dissolution of 1026 East Center Street Leverage Lender. A distribution of $25,460 was also made to the partners.

Summarized activity is as follows:

	DECEMBER 31,	
	2019	2018
Assets	$ 11,033,519	$ 11,368,207
Liabilities	1,502,898	12,818,775
Net assets	9,530,521	(1,451,568)
Income	11,816,944	545,842
Expenses	808,395	854,813
NET (LOSS)	**$ 11,007,649**	**$ (308,971)**

NOTE 5 - Unconditional Promises to Give

In 2009, the Organization formed a joint venture with the Boys and Girls Club of Rochester to construct a Joint Facility and proceeded to begin fundraising. Pledges have been received and will be collected over a five year period.

NOTE 5 - Unconditional Promises to Give- Continued

The aggregate collections of unconditional promises to give are as follows:

	DECEMBER 31, 2019	DECEMBER 31, 2018
Receivable in less than one year	$ 7,500	$ 9,684
Receivables in one to five years	2,100	3,300
Total unconditional promises to give	9,600	12,984
Less: Discount to net present value	-	-
Less: Allowance for unconditional promises to give	480	769
NET UNCONDITIONAL PROMISES TO GIVE	**$ 9,120**	**$ 12,215**

No discount was calculated at December 31, 2019 as the amount would be immaterial.

Management has established an allowance of 5% relating to the unconditional promises to give for the years ended December 31, 2019 and 2018.

NOTE 6 - Property, Plant, and Equipment

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

	DECEMBER 31, 2019	DECEMBER 31, 2018
Land	$ 97,500	$ 97,500
Buildings and improvements	1,251,794	1,251,794
Equipment	420,270	592,487
Vehicles	683,416	635,455
	2,452,980	2,577,236
Less: Accumulated depreciation	1,660,637	1,828,872
NET PROPERTY, PLANT, AND EQUIPMENT	**$ 792,343**	**$ 748,364**

Depreciation expense amounted to $135,815 and $151,662 for years ended December 31, 2019 and 2018, 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 7 - Capital Lease Obligation

The Organization leases vehicles under agreements accounted for as capital leases. 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.

NOTE 7 - Capital Lease Obligation - Continued

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

	DECEMBER 31, 2019	DECEMBER 31, 2018
Vehicles	$ 88,942	$ 59,394
Less: Accumulated depreciation	17,504	10,794
TOTAL	**$ 71,438**	**$ 48,600**

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, 2019:

Year ending December 31:	
2020	$ 17,200
2021	17,200
2022	17,200
2023	10,746
2024	7,100
Total minimum lease payments	69,446
Less amount representing interest	(1,741)
PRESENT VALUE OF MINIMUM LEASE	**$ 67,705**

NOTE 8 - Long-Term Debt

The Organization's notes payable are as follows:

	DECEMBER 31, 2019	DECEMBER 31, 2018
Note payable with a financial institution, with interest at 4.875%, monthly installments of $1,412, including interest, with the remaining balance of approximately $134,344 due November 9, 2022, collateralized by real estate. Note was paid in full in September 2019.	**$ -**	**$ 170,097**

NOTE 9 - Net Assets

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

	DECEMBER 31, 2019	DECEMBER 31, 2018
Subject to expenditure for specified purpose:		
Equipment and supplies	$ 12,998	$ -
Salaries	27,341	-
TOTAL	**40,339**	**-**
Subject to the passage of time:		
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	9,120	12,215
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	**$ 49,459**	**$ 12,215**

NOTE 9 - Net Assets- Continued

Net assets were released from donor restrictions by occurrence of the passage of time specified by the donors as follows:

	YEARS ENDED DECEMBER 31,	
	2019	2018
Expiration of time restrictions	$ 8,145	$ 11,774

NOTE 10 - Support from Governmental Units

The Organization received approximately 95 and 93 percent of its support and revenue from federal, state, and local governments for the years ended December 31, 2019 and 2018, respectively. Receivables from governmental units at December 31, 2019 and 2018 were approximately $1,767,082 and $1,165,997, 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.

NOTE 11 - 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,	
	2019	2018
Facility rent	$ 78,897	$ 84,326

NOTE 12 - 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 2019 and 2018, employer contributions were $227,341 and $213,046, respectively.

NOTE 13 - Operating Leases

The Organization leases facilities at four locations under operating leases with terms ranging from two to five years. Rental expense under these leases for the years ended December 31, 2019 and 2018 were $510,014 and $395,493, respectively.

Future minimum payments for the five years following December 31, 2019, by year and in the aggregate under operating leases with initial or remaining terms of one year or more are as follows:

2020	$ 176,005
2021	152,724
2022	130,833
2023	131,668
2024	132,537

NOTE 14 - Commitments

The Organization entered into a computer maintenance and monitoring contract which expired and was renewed in February 2017. The renewed contract expires in February 2020. The renewed contract has a minimum monthly charge of $8,250, with additional charges possible. Minimum future payments for 2020 will be $16,500.

NOTE 15 - Related Party Transactions

During the years ended December 31, 2019 and 2018, the Organization made rental payments of $340,793 and $328,200, respectively, to 1026 East Center Street LLC. The Organization receives allowances on rental payments for the costs of personnel employed by the Organization to staff certain positions at 1026 East Center Street LLC. The Organization received allowances for these personnel costs of $105,063 for the years ended December 31, 2019 and 2018, as per the agreement. 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 16 – Subsequent Events

Subsequent Events - The Organization evaluated subsequent events through October 6, 2020, the date which the financial statements were available to be issued.

General Operations - Subsequent to year-end, the Organization has been negatively impacted by the effects of the world-wide coronavirus pandemic. The Organization is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the Organization’s financial position is not known.

Paycheck Protection Program (PPP) Loan - The Organization applied for and was granted a loan under the PPP administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The loan accrues interest, but payments are not required to begin for six months to one year after the funding of the loan. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Organization intends to take measures to maximize the loan forgiveness but cannot reasonably determine the portion of the loan that will ultimately be forgiven.

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

SUPPLEMENTARY INFORMATION

CHILD CARE RESOURCE AND REFERRAL, INC.
DBA FAMILIES FIRST OF MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2019

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR PROGRAM OR CLUSTER TITLE	FEDERAL CFDA 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		$ 212,616
U.S. Department of Health and Human Services			
Direct			
Head Start	93.600	05CH8394/06	3,509,391
Head Start T&TA	93.600	05CH8394/06	33,392
Early Head Start	93.600	05Ch8394/06	1,603,948
Early Head Start T&TA	93.600	05CH8394/06	35,725
Early Head Start CC Partnership	93.600	05HP0014/04	1,092,753
Early Head Start CC Partnership T&TA	93.600	05HP0014/04	33,305
Total Head Start			6,308,514
CCDF Cluster Passed through			
Minnesota Department of Human Services			
Child Care and Development	93.575		1,059,506
Child Care and Development	93.575		386,199
Child Care and Development	93.575		224,576
Total CCDF Cluster			1,670,281
Total U.S. Department of Health and Human Services			7,978,795
TOTAL FEDERAL AWARDS EXPENDED			**$ 8,191,411**

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. under the programs of the federal government for the year ended December 31, 2019. 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, 2019.

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, 2019. Child Care Resource and Referral, Inc. had no federal or state loans or loan guarantors required to be disclosed for the year ended December 31, 2019.

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.
DBA FAMILIES FIRST OF MINNESOTA

OTHER REPORTS

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

To the Board of Directors
Child Care Resource and Referral, Inc.
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 financial statements of Child Care Resource and Referral, Inc. (the "Organization") (a nonprofit organization) which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 6, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 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 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 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.

Hawkins Ash CPAs, LLP

Rochester, Minnesota
October 6, 2020

HAWKINS | ASH
Part of your business. Part of your life. | CPAs

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Child Care Resource and Referral, Inc.
Rochester, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Child Care Resource and Referral, Inc.'s (the "Organization') compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2019. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and terms and conditions applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of 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, 2019.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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
October 6, 2020

CHILD CARE RESOURCE AND REFERRAL, INC.
DBA FAMILIES FIRST OF MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2019

Section I - Summary of Auditors' Results

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 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

CHILD CARE RESOURCE AND REFERRAL, INC.
DBA FAMILIES FIRST OF MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
YEAR ENDED DECEMBER 31, 2019

Section V - Other Issues

1. Does the auditor's report or the notes to the 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

   Sandra K. Jensen, CPA
   Partner

4. Date of report October 6, 2020