

**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, 2020

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

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INDEPENDENT AUDITORS' REPORT

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

Report on the Consolidated Financial Statements

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

Management's Responsibility 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; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Child Care Resource and Referral, Inc. & Early Care Education and Innovations, Inc. (the "Affiliate") as of December 31, 2020, and the changes in its net assets and its cash flows for the year 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 consolidated 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 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 information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Prior Period Adjustment

As discussed in Note 15, the 2020 consolidated financial statements were restated during the current year to correct an error of the exclusion of the Affiliate, Early Care Education and Innovation, Inc., from the 2019 financial statements, in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2021 on our consideration of Child Care Resource and Referral, Inc. & Affiliate 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. & 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 internal control over financial reporting and compliance.

Hawkins Ash CPAs, LLP

Rochester, Minnesota
August 24, 2021

**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 STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2020**

ASSETS

Cash and cash equivalents	\$	2,003,716
Grants and accounts receivable		868,437
Unconditional promises to give, net		1,995
Prepaid expenses		466,688
Investments		4,622,110
Property, plant, and equipment, net		<u>763,213</u>

TOTAL ASSETS **\$ 8,726,159**

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$	76,516
Accrued expenses		562,787
Refundable advances		99,580
Capital lease obligation		<u>50,038</u>
TOTAL LIABILITIES		<u>788,921</u>

NET ASSETS

Without donor restrictions		
Undesignated		2,639,608
Net investment in property, plant, and equipment		673,525
Net investment in The Place		4,622,110
With donor restrictions		<u>1,995</u>
TOTAL NET ASSETS		<u>7,937,238</u>

TOTAL LIABILITIES AND NET ASSETS **\$ 8,726,159**

The accompanying notes are an integral part of these statements.

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

CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	
REVENUE, GRANTS, AND OTHER SUPPORT	
Federal grants	\$ 9,047,060
State grants	5,987,641
County grants	292,407
Private grants	533,614
Community education grants	183,693
United Way grants	90,000
Training and tuition fee income	180,334
Donations	48,863
In-kind revenue	106,532
Other income	259,207
Gain on sale of asset	20,580
Interest income	447
Gain (loss) on investment	<u>(59,410)</u>
TOTAL REVENUE, GRANTS, AND OTHER SUPPORT WITHOUT DONOR RESTRICTIONS	16,690,968
Net assets released from restrictions	<u>47,464</u>
NET REVENUE, GRANTS, AND OTHER SUPPORT WITHOUT DONOR RESTRICTIONS	<u>16,738,432</u>
EXPENSES	
Program activities	15,654,276
Management and general	969,036
Fundraising	<u>10,746</u>
TOTAL EXPENSES	<u>16,634,058</u>
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	104,374
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	
Net assets released from restrictions	<u>(47,464)</u>
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(47,464)</u>
CHANGE IN NET ASSETS	56,910
NET ASSETS AT BEGINNING OF YEAR, Restated	<u>7,880,328</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 7,937,238</u></u>

The accompanying notes are an integral part of these statements.

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

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

The accompanying notes are an integral part of these statements.

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

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from:

Federal grants	\$ 9,220,731
State of Minnesota	6,612,741
Community grants and support	1,086,421
Fees	545,222
Donations	55,987
Interest and dividend income	447
Other income	365,493

Cash paid to vendors	(9,013,260)
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Cash paid to employees	<u>(8,194,083)</u>
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NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>679,699</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property, plant, and equipment	(81,280)
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Proceeds from sale of property, plant, and equipment	<u>20,580</u>
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NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(60,700)</u>
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CASH FLOWS FROM FINANCING ACTIVITIES

Principal payments on capital leases	<u>(17,667)</u>
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NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(17,667)</u>
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NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	601,332
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CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR, Restated	<u>1,402,384</u>
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CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,003,716</u>
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(Continued on page 8)

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 CASH FLOWS - Continued
YEAR ENDED DECEMBER 31, 2020

RECONCILIATION OF CHANGES IN NET ASSETS TO CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$	56,910
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities		
Depreciation		154,313
Change in allowance for doubtful pledges		(375)
Change in equity investments		59,410
Change in assets (increase) decrease		
Accounts receivable		991,272
Unconditional promises to give		7,499
Prepaid expenses		(20,645)
Change in liabilities increase (decrease)		
Accounts payable		(461,689)
Accrued expenses		150,259
Refundable advance		(236,675)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$	<u>679,699</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the year for interest	\$	<u>842</u>
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The accompanying notes are an integral part of these statements.

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

NOTE 1 - Nature of Organization and Significant Accounting Policies

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

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

Principles of Consolidation - The accompanying consolidated financial statements include the balances of Child Care Resource and Referral, Inc. and its Affiliate which it has both economic interest in and control of. Child Care Resource and Referral, Inc. and Early Care Education and Innovations, Inc. 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 and 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 and Affiliate are required to report information regarding their net assets and their activities based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

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

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

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

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

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

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

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

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

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

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 the following estimated useful lives:

<u>Asset</u>	<u>Life</u>
Furniture, fixtures and equipment	5 - 10.5 years
Vehicles	3 - 5 years
Buildings and improvements	20 - 35 years

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

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

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, 2020.

Revenue Recognition - The Organization and Affiliate record the following exchange transaction revenue in their statement 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 statement of activities as net assets released from restrictions.

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.

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

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

In-Kind Contributions - The Organization and 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 and Affiliate.

A substantial number of volunteers have made significant contributions of their time to the Organization and Affiliate's program 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, 2020.

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

Advertising Costs - Advertising costs are expensed as incurred and totaled \$4,618 for the year ended December 31, 2020.

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.

Tax Status - The Organization and Affiliate are exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). The Organization and 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 and Affiliate and recognize a tax liability (or asset) if the Organization and 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 and Affiliate and has concluded that as of December 31, 2020, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. The Organization and Affiliate are subject to routine audits by taxing jurisdictions, however, there are currently no audits in progress for any tax period. The Organization and Affiliate will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

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

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

Subsequent Events - The Organization and Affilaite evaluated subsequent events through August 24, 2021, the date which the consolidated financial statements were available to be issued.

NOTE 2 - Concentration of Cash and Credit Risk

The Organization and 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 and Affiliate's deposits at December 31, 2020 did not exceed the FDIC insurance threshold. The Organization and 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 as of December 31, 2020:

Cash and cash equivalents	\$ 2,003,716
Grants and accounts receivable	868,437
Promises to give	<u>1,995</u>
TOTAL FINANCIAL ASSETS AVAILABLE TO MANAGEMENT FOR GENERAL EXPENDITURE WITHIN ONE YEAR	<u>\$ 2,874,148</u>

Liquidity Management

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

NOTE 4 - Investments

Investment in 1026 East Center Street LLC	<u>\$ 4,622,110</u>
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The Organization owns 50 percent of the not-for-profit partnership interest in 1026 East Center Street LLC (the Partnership). The investment is accounted for by the equity method and carried on the books at its net book value, since estimated fair market values are not readily available.

Summarized activity is as follows for the year ended December 31, 2020:

Assets	\$ 10,877,854
Liabilities	1,466,054
Net assets	9,411,800
Income	523,625
Expenses	<u>642,446</u>
NET (LOSS)	<u>\$ (118,821)</u>

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

NOTE 5 - Property, Plant, and Equipment

A summary of property, plant, and equipment is as follows as of December 31, 2020:

Land	\$ 97,500
Buildings and improvements	1,296,435
Equipment	257,457
Vehicles	<u>891,430</u>
	2,542,822
Less: Accumulated depreciation	<u>1,779,609</u>
NET PROPERTY, PLANT, AND EQUIPMENT	<u>\$ 763,213</u>

Depreciation expense amounted to \$154,313 for year ended December 31, 2020.

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 - 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.

The following is an analysis of the leased vehicles included in property, plant, and equipment as of December 31, 2020:

Vehicles	\$ 88,942
Less: Accumulated depreciation	<u>35,310</u>
TOTAL	<u>\$ 53,632</u>

Lease depreciation is included in depreciation expense.

Future minimum payments, by year and in the aggregate, for the capital leases consisted of the following at December 31, 2020:

Year ending December 31:	
2021	\$ 17,199
2022	17,199
2023	10,748
2024	<u>7,200</u>
Total minimum lease payments	52,346
Less amount representing interest	<u>(2,308)</u>
PRESENT VALUE OF MINIMUM LEASE	<u>\$ 50,038</u>

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

NOTE 7 - Net Assets

Net assets with donor restrictions are restricted for the following purpose as of December 31, 2020:

Subject to the passage of time:

Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	1,995
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TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 1,995</u>
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Net assets were released from donor restrictions by occurrence of the passage of time specified by the donors as follows for the year ended December 31, 2020:

Expiration of time restrictions	\$ 7,125
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Satisfaction of purpose restrictions:	
Equipment and supplies	12,998
Salaries	<u>27,341</u>

Expiration of time restrictions	<u>\$ 47,464</u>
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NOTE 8 - Support from Governmental Units

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

NOTE 9 - Paycheck Protection Program (PPP) Loan

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

NOTE 10 - In-Kind Contributions

The value of in-kind donations included in the statements of activities and the corresponding expenses are as follows for the year ended December 31, 2020:

Facility rent	<u>\$ 106,532</u>
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CHILD CARE RESOURCE AND REFERRAL, INC. & AFFILIATE
DBA FAMILIES FIRST OF MINNESOTA & FAMILY CIRCLE LEARNING CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
DECEMBER 31, 2020

NOTE 11 - Defined Contribution Pension Plan

The Organization sponsors a defined contribution pension plan covering substantially all employees that have been employed with the Organization for at least one year, are at least 20.5 years of age, and complete 1,000 hours of service annually. The plan allows employees to defer a portion of their salary. The Organization may make a matching contribution up to 1 percent of employee deferrals. During the year ended December 31, 2020 employer contributions were \$254,019.

NOTE 12 - Operating Leases

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

Future minimum payments for the five years following December 31, 2020, by year and in the aggregate under operating leases with initial or remaining terms of one year or more are as follows:

2021	\$	202,916
2022		164,132
2023		164,968
2024		147,457
2025		56,464

NOTE 13 - Related Party Transactions

During the year ended December 31, 2020, the Organization made rental payments of \$241,920 to 1026 East Center Street LLC. Beginning in 2020, the Organization charged 1026 East Center Street LLC for certain facilities management services. The Organization received \$36,400 for these services during the year ended December 31, 2020. 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 14 – Risks and Uncertainties

COVID-19 Pandemic - During 2020, the world-wide coronavirus pandemic impacted national and global economies. The Organization and Affiliate are 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 consolidated financial statements, the current and future full impact to the Organization and Affilaite is not known.

NOTE 15 – Prior Period Adjustment

In 2020, it was discovered that the operation activities during 2019 of the Affiliate, Early Care Education and Innovation, Inc., were improperly excluded from the consolidated financial statements causing 2020 beginning assets to be understated by \$96,474, beginning liabilities to be understated by 49,684, and beginning net assets without donor restrictions to be understated by 46,790. The Affiliate's liabilities of \$44,111 and receivables of \$858 and the corresponding receivable and liability on Child Care Resource and Referral, Inc. were subsequently eliminated during consolidation.

**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, 2020

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANT IDENTIFICATION NUMBER	FEDERAL EXPENDITURES
<u>U.S. Department of Agriculture</u>			
Passed through Minnesota Department of Human Services Child care food program	10.558		\$ <u>120,133</u>
<u>U.S. Department of Health and Human Services</u>			
Direct			
Head Start	93.600	05CH8394/06	3,666,827
Head Start T&TA	93.600	05CH8394/06	31,549
Early Head Start	93.600	05CH8394/06	1,773,978
Early Head Start T&TA	93.600	05CH8394/06	30,555
Early Head Start CC Partnership	93.600	05HP0014/04	1,173,988
Early Head Start CC Partnership T&TA	93.600	05HP0014/04	23,227
Covid			350,644
Covid CCP			<u>61,516</u>
Total Head Start			<u>7,112,284</u>
CCDF Cluster Passed through Minnesota Department of Human Services			
Child Care and Development	93.575		1,100,634
Child Care and Development	93.575		443,722
Child Care and Development	93.575		<u>223,537</u>
Total CCDF Cluster			<u>1,767,893</u>
Coronavirus Relief Fund through Minnesota Department of Human Services			
COVID-19 Public Health Support Funds for Child Care			<u>46,750</u>
Total U.S. Department of Health and Human Services			<u>8,926,927</u>
TOTAL FEDERAL AWARDS EXPENDED			<u>\$ 9,047,060</u>

The accompanying notes are an integral part of this schedule.

CHILD CARE RESOURCE AND REFERRAL, INC. & AFFILIATE
DBA FAMILIES FIRST OF MINNESOTA & FAMILY CIRCLE LEARNING CENTER
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2020

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, 2020. 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 have 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, 2020.

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, 2020. 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, 2020.

NOTE 6 - Property, Plant, and Equipment

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

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

OTHER REPORTS

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

To the Board of Directors and Management of
Child Care Resource and Referral, Inc. &
Early Care Education and Innovations, Inc.
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, Inc. (the "Affiliate") (nonprofit organizations) which comprise the consolidated statement of financial position as of December 31, 2020 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 24, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Hawkins Ash CPAs, LLP

Rochester, Minnesota
August 24, 2021

**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 and Management of
Child Care Resource and Referral, Inc. &
Early Care Education and Innovations, Inc.
DBA Families First of Minnesota & Family Circle Learning Center
Rochester, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Child Care Resource and Referral, Inc.'s (the "Organization") & Early Care Education and Innovations, Inc. (the "Affiliate") 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, 2020. 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, 2020.

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
August 24, 2021

**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, 2020**

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:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
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. & AFFILIATE
DBA FAMILIES FIRST OF MINNESOTA & FAMILY CIRCLE LEARNING CENTER**
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
YEAR ENDED DECEMBER 31, 2020

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 

Sandra K. Jensen, CPA
Partner

4. Date of report _____
August 24, 2021