# CHILD CARE NETWORK

## REPORT ON FINANCIAL STATEMENTS
## (with supplementary information)

## YEARS ENDED SEPTEMBER 30, 2023 AND 2022

Maner Costerisan

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# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Child Care Network

### *Opinion*

We have audited the accompanying financial statements of Child Care Network (a nonprofit organization), which comprise the statements of financial position as of September 30, 2023 and 2022, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Child Care Network as of September 30, 2023 and 2022, 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.

### Basis for Opinion

We conducted our audits in accordance with 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Child Care Network and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Emphasis of Matter – Change in Accounting Principle

As discussed in Note 10 to the financial statements, management has implemented FASB Accounting Standard Update 2016-02, *Leases*. Our opinion is not modified with respect to this matter.

### *Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Child Care Network's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

***Auditor's Responsibilities for the Audit of the Financial Statements***

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Child Care Network's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Child Care Network's ability to continue as a going concern for a reasonable period of time.

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

**Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information, as identified in the table of contents, and the 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*, are presented for purposes of additional analysis and are 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 audits 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 taken as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2024 on our consideration of Child Care Network's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Child Care Network'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 Network's internal control over financial reporting and compliance.

Maner Costerisan PC

March 18, 2024

**CHILD CARE NETWORK**
**STATEMENTS OF FINANCIAL POSITION**
**SEPTEMBER 30, 2023 AND 2022**

| | 2023 | 2022 |
|---|---|---|
| ASSETS | | |
| Cash | $ 850,922 | $ 248,177 |
| Accounts receivable | 313,887 | 479,407 |
| Prepaid expenses | 28,218 | 25,956 |
| Beneficial interest in assets held at community foundation | 19,513 | 17,391 |
| Operating lease right-of-use assets | 245,318 | - |
| TOTAL ASSETS | $ 1,457,858 | $ 770,931 |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable - trade | $ 22,746 | $ 36,415 |
| Accrued payroll | 97,049 | 81,441 |
| Line of credit | - | 35,000 |
| Current portion of operating lease liabilities | 109,398 | - |
| Refundable advances | 780,001 | 330,469 |
| Total current liabilities | 1,009,194 | 483,325 |
| Operating lease liabilities, less current portion | 135,920 | - |
| TOTAL LIABILITIES | 1,145,114 | 483,325 |
| NET ASSETS | | |
| Without donor restrictions | 298,866 | 273,728 |
| With donor restrictions | 13,878 | 13,878 |
| TOTAL NET ASSETS | 312,744 | 287,606 |
| TOTAL LIABILITIES AND NET ASSETS | $ 1,457,858 | $ 770,931 |

See notes to financial statements.

**CHILD CARE NETWORK**
**STATEMENTS OF ACTIVITIES**
**YEARS ENDED SEPTEMBER 30, 2023 AND 2022**

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total | Unrestricted | With Donor Restrictions | Total |
| REVENUES | | | | | | |
| Service fees - contracts | $ 190,047 | $ - | $ 190,047 | $ 94,932 | $ - | $ 94,932 |
| Grants - federal subrecipient | 852,325 | - | 852,325 | 333,370 | - | 333,370 |
| Grants - federal contractor | 1,088,578 | - | 1,088,578 | 971,313 | - | 971,313 |
| Grants - local | 1,290,831 | - | 1,290,831 | 1,548,408 | - | 1,548,408 |
| Contributions of cash and other financial assets | 25,027 | - | 25,027 | 38,090 | - | 38,090 |
| Contributions of nonfinancial assets | 6,000 | - | 6,000 | 6,000 | - | 6,000 |
| Interest and investment income (loss), net | 5,742 | - | 5,742 | (1,481) | - | (1,481) |
| Miscellaneous revenue | - | - | - | 829 | - | 829 |
| TOTAL REVENUES | 3,458,550 | - | 3,458,550 | 2,991,461 | - | 2,991,461 |
| EXPENSES | | | | | | |
| Program services | 3,402,068 | - | 3,402,068 | 2,982,989 | - | 2,982,989 |
| Management and general | 13,824 | - | 13,824 | 21,319 | - | 21,319 |
| Fundraising | 17,520 | - | 17,520 | 28,421 | - | 28,421 |
| TOTAL EXPENSES | 3,433,412 | - | 3,433,412 | 3,032,729 | - | 3,032,729 |
| Change in net assets | 25,138 | - | 25,138 | (41,268) | - | (41,268) |
| Net assets, beginning of year | 273,728 | 13,878 | 287,606 | 314,996 | 13,878 | 328,874 |
| Net assets, end of year | $ 298,866 | $ 13,878 | $ 312,744 | $ 273,728 | $ 13,878 | $ 287,606 |

See notes to financial statements.

**CHILD CARE NETWORK**
**STATEMENT OF FUNCTIONAL EXPENSES**
**YEAR ENDED SEPTEMBER 30, 2023**

| | Program Services | Management and General | Fundraising | Total Expenses |
|---|---|---|---|---|
| Salaries and wages | $ 1,421,292 | $ 4,978 | $ 12,379 | $ 1,438,649 |
| Payroll taxes | 121,161 | 529 | 1,027 | 122,717 |
| Employee benefits | 132,618 | 515 | 1,081 | 134,214 |
| Total salaries and benefits | 1,675,071 | 6,022 | 14,487 | 1,695,580 |
| Advertising | 2,589 | - | - | 2,589 |
| Audit and benefit administration | 23,583 | 12 | 154 | 23,749 |
| Child care scholarships | 1,024,708 | - | - | 1,024,708 |
| Child care payments - Tri-share | 260,001 | - | - | 260,001 |
| Computer | 50,318 | 58 | - | 50,376 |
| Equipment and moving | 150 | - | - | 150 |
| Insurance | 9,262 | 61 | - | 9,323 |
| Internet | 9,735 | 64 | - | 9,799 |
| Memberships and dues | 2,432 | - | 175 | 2,607 |
| Occupancy | 107,890 | 1,370 | 1,703 | 110,963 |
| Postage | 1,231 | 127 | 226 | 1,584 |
| Printing | 10,078 | - | - | 10,078 |
| Provider support | 52,338 | - | - | 52,338 |
| Staff development | 14,505 | 66 | - | 14,571 |
| Supplies - office | 33,596 | 613 | - | 34,209 |
| Supplies - program | 8,783 | - | - | 8,783 |
| Telephone | 26,044 | 450 | - | 26,494 |
| Training | 5,950 | - | - | 5,950 |
| Travel | 58,928 | 241 | 14 | 59,183 |
| Contractual services | 5,978 | - | - | 5,978 |
| Meetings | 8,788 | 923 | 159 | 9,870 |
| Miscellaneous | 10,110 | 3,817 | 602 | 14,529 |
| TOTAL EXPENSES | $ 3,402,068 | $ 13,824 | $ 17,520 | $ 3,433,412 |

See notes to financial statements.

**CHILD CARE NETWORK**
**STATEMENT OF FUNCTIONAL EXPENSES**
**YEAR ENDED SEPTEMBER 30, 2022**

| | Program Services | Management and General | Fundraising | Total Expenses |
|---|---|---|---|---|
| Salaries and wages | $ 1,341,352 | $ 8,172 | $ 18,051 | $ 1,367,575 |
| Payroll taxes | 103,805 | 718 | 1,281 | 105,804 |
| Employee benefits | 142,277 | 1,944 | 1,979 | 146,200 |
| Total salaries and benefits | 1,587,434 | 10,834 | 21,311 | 1,619,579 |
| Advertising | 118 | - | - | 118 |
| Audit and benefit administration | 20,770 | 6 | 2,112 | 22,888 |
| Child care scholarships | 975,914 | - | - | 975,914 |
| Child care payments - Tri-share | 23,180 | - | - | 23,180 |
| Computer | 67,017 | - | - | 67,017 |
| Insurance | 8,835 | 140 | - | 8,975 |
| Internet | 8,876 | 141 | - | 9,017 |
| Memberships and dues | 697 | 70 | 786 | 1,553 |
| Occupancy | 114,680 | 789 | 3,558 | 119,027 |
| Postage | 1,554 | 136 | - | 1,690 |
| Printing | 11,972 | 211 | - | 12,183 |
| Provider support | 20,229 | - | - | 20,229 |
| Staff development | 16,246 | 138 | - | 16,384 |
| Supplies - office | 44,682 | 221 | - | 44,903 |
| Telephone | 27,905 | 189 | - | 28,094 |
| Training | 250 | - | - | 250 |
| Travel | 33,239 | 396 | 308 | 33,943 |
| Contractual services | 10,350 | - | - | 10,350 |
| Meetings | 1,732 | 2,931 | 47 | 4,710 |
| Miscellaneous | 7,309 | 5,117 | 299 | 12,725 |
| TOTAL EXPENSES | $ 2,982,989 | $ 21,319 | $ 28,421 | $ 3,032,729 |

See notes to financial statements.

**CHILD CARE NETWORK**
**STATEMENTS OF CASH FLOWS**
**YEARS ENDED SEPTEMBER 30, 2023 AND 2022**

| | 2023 | 2022 |
|---|---|---|
| INCREASE (DECREASE) IN CASH | | |
| Cash flows from operating activities | | |
| Change in net assets | $ 25,138 | $ (41,268) |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities | | |
| Equity interest in endowment fund | (2,122) | 2,486 |
| Changes in assets and liabilities | | |
| Accounts receivable | 165,520 | (291,530) |
| Prepaid expenses | (2,262) | (3,201) |
| Operating lease right-of-use assets | (72,183) | - |
| Accounts payable - trade | (13,669) | 15,741 |
| Accrued payroll | 15,608 | 18,762 |
| Operating lease liabilities | 72,183 | - |
| Refundable advances | 449,532 | 154,241 |
| Total adjustments | 612,607 | (103,501) |
| Net cash provided (used) by operating activities | 637,745 | (144,769) |
| Cash flows from financing activities | | |
| Proceeds from (payments on) line of credit | (35,000) | 35,000 |
| Net cash provided (used) by financing activities | (35,000) | 35,000 |
| NET INCREASE (DECREASE) IN CASH | 602,745 | (109,769) |
| CASH | | |
| Beginning of year | 248,177 | 357,946 |
| End of year | $ 850,922 | $ 248,177 |

See notes to financial statements.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. Under this method, income and expenses are recognized in the period when they are earned or incurred.

Cash

For purposes of the statement of cash flows, cash consists of balances of checking accounts, savings accounts, money market accounts and cash on-hand.

Accounts Receivable

Accounts receivable represent consideration from third-parties, of which the Organization has an unconditional right to receive. Accounts receivable 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. Currently, no allowance for doubtful accounts is considered necessary. Changes to the valuation allowance have not been material to the financial statements. Beginning and ending balances for accounts receivable is reported as follows for the years ended September 30:

| | 2023 | 2022 |
|---|---|---|
| Receivables, beginning of year | $ 479,407 | $ 187,877 |
| Receivables, end of year | $ 313,887 | $ 479,407 |

Net Assets

Net assets, revenues, gains, and losses are classified 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 or grantor restrictions.

*Net Assets with Donor Restrictions* - Net assets subject to donor (or grantor) imposed restrictions. Some donor 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 restrictions are perpetual in nature, where the donor stipulates that resources are maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, or when the stipulated purpose has been accomplished. See Note 7 for further information.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

The Organization determines whether an arrangement is or contains a lease at inception. On the commencement date, operating leases are recorded as operating lease right-of-use (ROU) assets in the financial position while finance leases are recorded as finance lease ROU assets. Lease liabilities represent the Organization's contractual obligation to make lease payments over the term of the lease.

For operating leases, the lease liability is measured as the present value of the lease payment over the lease term using either the rate implicit in the lease, if it is determinable, or a risk-free rate if the implicit rate is not determinable. Operating ROU assets are calculated as the present value of the remaining lease payment plus unamortized initial direct costs and prepayments or rent, less any unamortized lease incentives. Lease terms may include renewal or extension options to the extent they are reasonably certain to be exercised. Lease expense is recognized on a straight-line basis over the lease term. The Organization has elected to not recognize a ROU asset and lease liability for leases with an initial term of 12 months or less but includes the expenses associated with short term leases in the statement of activities and changes in net assets.

For finance leases, the lease liability is measured as the present value of the lease payment over the lease term using the rate implicit in the lease, if it is determinable, or a risk-free rate if the implicit rate is not determinable. The lease liability is then increased to reflect interest on the liability and decreased to reflect the lease payment. Interest on the lease liability is determined each period during the lease term as the amount that results in a constant period discount rate on the remaining balance of the liability. The ROU asset is determined consistent with the methodology of operating leases and is substantially offset with any accumulated amortization and any accumulated impairment losses. Amortization on the ROU asset is recognized over the period from the commencement date to the earlier of the end of the ROU asset or the end of the lease term except for leases with a purchase option in which the Organization believes purchases of the asset is expected to be exercised. For assets to be acquired under such purchase option the ROU asset is amortized over the expected life consistent with the Organization's policy for similar property and equipment. The Organization does not maintain any finance leases for the year ended September 30, 2023.

The Organization has elected to utilize a risk-free rate as the discount rate when determining the present value of remaining lease payments for both operating and financing leases. Additionally, the Organization has elected to not separate non-lease components from lease components and, instead, to account for each separate lease component and the related non-lease component as a single lease component.

Refundable Advances

The Organization records grant receipts as unearned revenue until they are expended for the purpose of the grant, at which time they are recognized as revenue. Beginning and ending balances for refundable advances is reported as follows for the years ended September 30:

| | 2023 | 2022 |
|---|---|---|
| Refundable advances, beginning of year | $ 330,469 | $ 176,228 |
| Refundable advances, end of year | $ 780,001 | $ 330,469 |

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Revenue Recognition

*Service Fees Revenue*

Service fees are recognized as services are rendered and earned, which is when the performance obligation is satisfied, therefore these fees are recognized at a point in time. No significant variable consideration is associated with the service fees.

*Grant Revenue*

Grant revenue recognized by the Organization is comprised of contracts committed from various funding agencies for use in the Organization's activities. All funding sources are providing revenue streams to the Organization for the benefit of the public. Contract revenue is recognized as revenue upon receipt and meeting all conditional requirements of the funding arrangement. Any funds received in advance for which conditions of the agreement have not been met are recognized as refundable advances and then subsequently recognized as revenue upon meeting the conditions of the agreement.

*Contribution Revenue*

Contributions of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor-stipulated time restriction ends, or purpose restriction is accomplished, 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.

Unconditional contributions expected to be collected within one year are reported at their net realizable value. Unconditional contributions expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional contributions depend on the occurrence of a specified future and uncertain event to bind the donor and are recognized as assets and revenue when the conditions are substantially met, and the gift becomes unconditional.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Revenue Recognition (continued)

The following schedule shows the Organization's revenues disaggregated according to the timing of transfer of goods or services for the years ended September 30:

| | 2023 | 2022 |
|---|---|---|
| Contract revenue recognized at a point in time | | |
| Service fees | $ 190,047 | $ 94,932 |
| Grants - federal and local | 3,231,734 | 2,853,091 |
| Contributions of cash and other financial assets | 25,027 | 38,090 |
| Contributions of nonfinancial assets | 6,000 | 6,000 |
| Interest and investment income (loss), net | 5,742 | (1,481) |
| Miscellaneous revenue | - | 829 |
| TOTAL REVENUE AND SUPPORT | $ 3,458,550 | $ 2,991,461 |

Functional Allocation of Expenses

The cost of providing various programs and other activities has been reported in the statement of activities. The statement of functional expenses present the natural classification of expenses that are allocated to program or supporting functions of the Organization. Allocated expenses primarily consist of payroll and related, child care scholarships, provider incentives, occupancy, supplies, training, travel, and various other expense classifications necessary to support the day-to-day operations of the Organization. Employee driven expenses are allocated based on salary and wage analysis. All other allocated expenses utilize management's estimated use of resources.

Advertising

Advertising costs are expensed as incurred.

Reclassification

Certain prior year numbers have been reclassified to be in conformity with the current year presentation.

## NOTE 2 - NATURE OF ORGANIZATION, RISKS, AND UNCERTAINTIES

Child Care Network (the "Organization") is a non-profit corporation with operating offices located in Ann Arbor, Michigan. The purpose of the Organization is to coordinate resources for improving the quality of safe, accessible, and affordable childcare in Branch, Genesee, Hillsdale, Jackson, Lenawee, Livingston, Monroe, and Washtenaw counties. The Organization provides training, consultation, and resources for early childhood professionals. The Organization also helps parents with selecting quality childcare and assists low-income families with the cost of licensed child care through child care scholarships. The Organization derives its revenues primarily from governmental and corporate services fee and grant contracts, fundraising, and contributions.

The Organization is a non-profit corporation under the provisions of Section 501(c)(3) of the Internal Revenue Code, and as such is not subject to income taxes except on net income from unrelated business activities as defined by the Internal Revenue Code.

In preparation of tax returns, tax positions are taken based on interpretation of federal, state, and local tax laws. Management periodically reviews and evaluates the status of uncertain tax positions and makes estimates of amounts, including interest and penalties, ultimately due or owed. No amounts have been identified, or recorded, as uncertain tax positions. Federal, state, and local tax returns generally remain open for examination by the various taxing authorities for a period of three to four years.

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

The Organization participates in several federal funded grant programs. Federal programs are subject to financial and compliance audits by the grantor or its representatives to ensure recipient compliance with terms of the grant program. Management maintains that any liability for reimbursement of grant funds to a grantor resulting from an audit would not be material to the financial statements.

The Organization is required to disclose significant concentrations of credit risk regardless of the degree of such risk. Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash and accounts receivable. The Organization follows a policy of placing its cash with various FDIC insured financial institutions. Although such cash balances may exceed the federally insured limits at certain times during the year and at year-end, they are, in the opinion of management, subject to minimal risk. Concentration of credit risk with respect to receivables is limited by the Organization which has established policies for extending credit based upon factors surrounding the credit risk of specific customers, historical trends and other information. The breakdown of revenue and receivables by significant sources is as follows:

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | Revenue | Receivable | Revenue | Receivable |
| Entity A | 25% | 18% | 30% | 27% |
| Entity B | 30% | 37% | 33% | 50% |

The Organization evaluates events and transactions that occur after the year end for potential recognition or disclosure in the financial statements. These subsequent events have been considered through March 18, 2024, which is the date the financial statements were available to be issued.

## NOTE 3 - LIQUIDITY AND AVAILABILITY

The Organization regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing program service activities as well as the conduct of services undertaken to support those activities to be general expenditures.

The following reflects the Organization's financial assets as of September 30, 2023 and 2022, which are deemed available for general expenditures within one year of the date of the statement of financial position.

| | 2023 | 2022 |
|---|---|---|
| Cash | $ 850,922 | $ 248,177 |
| Accounts receivable | 313,887 | 479,407 |
| Beneficial interest in assets held at community foundation | 19,513 | 17,391 |
| Total financial assets | 1,184,322 | 744,975 |
| Less donor imposed restrictions | (13,878) | (13,878) |
| Financial assets available to meet cash needs for general expenditures within one year | $ 1,170,444 | $ 731,097 |

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization anticipates collecting sufficient revenue to cover general expenditures. The Organization also maintains a line of credit available to meet short-term needs.

## NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at September 30 is summarized as follows:

| | 2023 | 2022 |
|---|---|---|
| Early Childhood Investment Corporation (ECIC) | $ 2,252 | $ 6,756 |
| United Way Southeastern Michigan (UWSEM) | 57,637 | 130,462 |
| HUD CoC Rapid Re-Housing | 8,402 | 21,548 |
| Washtenaw County - OCED | 19,504 | 31,650 |
| Fee for Service | 15,135 | 11,146 |
| Choice Neighborhood | 13,449 | 8,312 |
| Washtenaw County - Part B II | 8,725 | 81,394 |
| Washtenaw County ARPA - Part B | 60,129 | 157,372 |
| Wastenaw County REO | 27,109 | - |
| Trishare Child Care | 72,691 | 15,502 |
| Avalon | 1,860 | 12,107 |
| Regional Planning | 18,693 | - |
| Miscellaneous | 8,301 | 3,158 |
| Total | $ 313,887 | $ 479,407 |

## NOTE 5 - BENEFICIAL INTEREST IN ASSETS HELD AT COMMUNITY FOUNDATION

The Organization partnered with the Ann Arbor Area Community Foundation (Foundation) to act under an arrangement as a depository for gifts, conveyances, and other transfers intended to assist the Organization in achieving its goals and purposes. The Organization's beneficial interest in amounts held at the Foundation at September 30, 2023 and 2022, is based on the Organization's allocable share in the market-value of the underlying investments and amounted to $19,513 and $17,391, respectively. The original transfer of $10,425 to create the endowment fund is recorded as net assets with donor restrictions. The beneficial interest is considered a Level 2 investment under fair value standards.

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

## NOTE 5 - BENEFICIAL INTEREST IN ASSETS HELD AT COMMUNITY FOUNDATION (continued)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Investments presented on the statement of financial position as of December 31:

| | 2023 | 2022 |
|---|---|---|
| Level 2 Investments: | | |
| Beneficial interest in assets held at community foundation | $ 19,513 | $ 17,391 |

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

## NOTE 6 - LINE OF CREDIT

At September 30, 2023, the Organization has an available line of credit with a bank for $200,000 for use in both operations and capital purchases. The line of credit is due on demand and is secured by all of the assets of the Organization. Interest on the agreement is calculated using the bank's prime rate plus 0.98% (9.48% at September 30, 2023). The balance outstanding on the line of credit was $0 at September 30, 2023.

At September 30, 2022, the Organization has an available line of credit with a bank for $200,000 for use in both operations and capital purchases. The line of credit is due on demand and is secured by all of the assets of the Organization. Interest on the agreement is calculated using the bank's prime rate plus 0.98% (7.23% at September 30, 2022). The balance outstanding on the line of credit was $35,000 at September 30, 2022.

## NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at September 30 consist of the following:

| | 2023 | 2022 |
|---|---|---|
| V. Walker Scholarship | $ 2,453 | $ 2,453 |
| Monroe Scholarship | 1,000 | 1,000 |
| Endowment fund held at AAACF - see note 5 | 10,425 | 10,425 |
| Total | $ 13,878 | $ 13,878 |

## NOTE 8 - CONTRIBUTIONS OF NONFINANCIAL ASSETS

The Organization recognized contributed nonfinancial assets within revenue. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions. Contributed nonfinancial assets recognized as revenue are for the use of donated facilities. Contributed facilities are valued and reported at the estimated fair value in the financial statements based on current rates for similar facilities. Management believes the net effect of not recording unmeasurable contributed services is not significant to the financial statements as a whole.

For the years ended September 30, the Organization recognized the following non-cash contributions:

| | 2023 | 2022 |
|---|---|---|
| Facilities | $ 6,000 | $ 6,000 |

## NOTE 9 - LEASE COMMITMENTS

The Organization leases certain buildings for its office spaces under various operating lease agreements. Those leases are categorized as operating right-of-use asset on the statement of financial position for $245,318 at September 30, 2023. The operating leases vary in maturity, from November 2023 to November 2027, with various monthly estimated payments over the life of the leases ranging from $2,000 to $5,000.

Supplemental information relating to the lease agreement for the year ended September 30, 2023, are as follows:

| | |
|---|---|
| Measurement of operating lease liabilities | $ 116,922 |
| Weighted-average remaining lease term in years for operating leases | 1.2 |
| Weighted-average discount rate for operating leases | 2.42% |

Operating lease expense is recognized in the statement of functional expenses for the years ended September 30, 2023 and 2022 as occupancy expense in the amount of $110,963 and $119,027.

Future minimum payments under the operating leases are as follows:

| Year Ending September 30, | |
|---|---|
| 2024 | $ 123,623 |
| 2025 | 49,971 |
| 2026 | 42,088 |
| 2027 | 42,551 |
| 2028 | 7,091 |
| Total undiscounted cash flows | 265,324 |
| Less present value discount | (20,006) |
| Total operating lease liabilities | $ 245,318 |

## NOTE 10 - CHANGE IN ACCOUNTING PRINCIPLE

For the year ended September 30, 2023, the Organization implemented the Financial Accounting Standards Board (the “FASB”) Accounting Standard Update (“ASU”) No. 2016-02, Leases (Topic 842). On February 25, 2016 the FASB issued ASU 2016-02, and thereafter issued additional ASUs to clarify the update to the guidance in ASU 2016-02 (collectively, the “new lease standard”). The objective of ASU 2016-02 is to increase transparency and comparability in financial reporting by requiring financial position recognition of leases and note disclosure of certain information about lease arrangements. The Organization adopted the new lease standard using the effective date method of the modified retrospective transition, under which amounts in prior periods presented were not restated.

The restatement of the beginning of the year had no impact on net assets. The change in assets and liabilities are as follows:

| | Assets | Liabilities |
|---|---|---|
| Balance as of September 30, 2022, as previously stated | $ 770,931 | $ 483,325 |
| Adoption of FASB ASU 2016-02 | 317,501 | 317,501 |
| Balance as of October 1, 2022, as restated | $ 1,088,432 | $ 800,826 |

# SUPPLEMENTARTY INFORMATION

**CHILD CARE NETWORK**
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**FOR THE YEAR ENDED SEPTEMBER 30, 2023**

| Federal Grantor/Pass-through Grantor/Program Title | Federal Assistance Listing Number | Pass-through Entity Identifying Number | Total Federal Expenses |
|---|---|---|---|
| U.S. Department of Treasury | | | |
| Passed through County of Washtenaw, Michigan | | | |
| Coronarvirus State and Local Fiscal Recovery Funds | 21.027 | | |
| Family Support Program | | SLFRFP0226 | $ 557,522 |
| Safety Net Program | | 54155 | 237,854 |
| Total U.S. Department of Treasury | | | 795,376 |
| U.S. Department of Housing and Urban Development | | | |
| Passed through Mott Community College | | | |
| Hope VI Cluster | | | |
| Choice Neighborhoods Implementation Grant | 14.889 | | 56,949 |
| Total Federal Expenditures | | | $ 852,325 |

The accompanying notes are an integral part of this schedule.

**CHILD CARE NETWORK**
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**YEAR ENDED SEPTEMBER 30, 2023**

## NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Child Care Network (the "Organization") under programs of the federal government for the year ended September 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* (CFR) 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 the Organization it is not intended to and does not present the financial position, changes in net assets or cash flow of the Organization.

## 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 now allowable or are limited as to reimbursement. Negative amounts (if any) shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available. The Organization has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance. The Organization does not pass through federal funds.

Maner Costerisan

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**INDEPENDENT AUDITOR'S 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 of the
Child Care Network

We have audited, in accordance with 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 Network (a nonprofit organization), which comprise the statement of financial position as of September 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 18, 2024.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Child Care Network'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 Child Care Network's internal control. Accordingly, we do not express an opinion on the effectiveness of Child Care Network'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 entity'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 or significant deficiencies may exist that have not been identified.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Child Care Network's financial statements are free from 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maney Costerisan PC

March 18, 2024

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors of the
Child Care Network

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited Child Care Network's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Child Care Network's major federal program for the year ended September 30, 2023. Child Care Network's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Child Care Network 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 September 30, 2023.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirement referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Child Care Network's federal programs.

***Auditor's Responsibilities for the Audit of Compliance***

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

In performing an audit in accordance with generally accepted auditing standards, Government Auditing Standards, and the Uniform Guidance, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures including examining, on a test basis, evidence regarding Child Care Network's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of Child Care Network's internal control overcompliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Child Care Network's internal control over compliance. Accordingly, no such opinion is expressed.

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

**Report on Internal Control Over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the 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 or significant deficiencies may exist that have not been identified.

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

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

Maner Costerisan PC

March 18, 2024

# CHILD CARE NETWORK
# SCHEDULE OF FINDINGS AND QUESTIONED COSTS
# YEAR ENDED SEPTEMBER 30, 2023

## Section I - Summary of Auditor's Results

***Financial Statements***

| | |
|---|---|
| Type of auditor's report issued based on financial statements prepared in accordance with generally accepted accounting principles: | *Unmodified* |
| Internal control over financial reporting: | |
| ➢ Material weakness(es) identified? | ____ Yes _X_ No |
| ➢ Significant deficiency(ies) identified? | ____ Yes _X_ None reported |
| Noncompliance material to financial statements noted? | ____ Yes _X_ No |

***Federal Awards***

| | |
|---|---|
| Internal control over major programs: | |
| ➢ Material weakness(es) identified? | ____ Yes _X_ No |
| ➢ Significant deficiency(ies) identified? | ____ Yes _X_ None reported |
| Type of auditor's report issued on compliance for major programs: | *Unmodified* |
| Any audit findings that are required to be reported in accordance with Title 2 CFR Section 200.516(a)? | ____ Yes _X_ No |

Identification of major programs:

| ALN Number(s) | Name of Federal Program or Cluster |
|---|---|
| 21.027 | Coronavirus State and Local Fiscal Recovery Funds |

| | |
|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $750,000 |
| ➢ Auditee qualified as low-risk auditee? | ____ Yes _X_ No |

## Section II - Financial Statement Findings

None noted

## Section III - Federal Award Findings and Questioned Costs

None noted

**CHILD CARE NETWORK**
**SCHEDULE OF PRIOR AUDIT FINDINGS**
**YEAR ENDED SEPTEMBER 30, 2023**

There were no audit findings for the year ended September 30, 2022.