

Educational Child Care Center, Inc.

Financial Report
For the Year Ended September 30, 2022

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January 12, 2023

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Trustees of
Educational Child Care Center, Inc.

We have reviewed the accompanying financial statements of Educational Child Care Center, Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of entity management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

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

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Educational Child Care Center, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Lewis & Knopf, P.C." in a cursive script.

LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Educational Child Care Center, Inc.
Statement of Financial Position
September 30, 2022

Assets

Current Assets	
Cash	\$ 607,114
Accounts receivable	39,194
Prepaid expenses	<u>22,875</u>
Total Current Assets	669,183
Property and Equipment, net	<u>364,652</u>
Total Assets	<u><u>\$ 1,033,835</u></u>

Liabilities and Net Assets

Current Liabilities	
Accounts payable	\$ 20,101
Deferred revenue	56,044
Accrued wages	64,579
Accrued paid time off	54,868
Accrued interest	169
Refundable advance	0
Line of credit	-
Current portion of long-term debt	16,274
Other current liabilities	<u>2,273</u>
Total Current Liabilities	214,308
Long-term Debt, net of current portion	<u>263,482</u>
Total Liabilities	477,790
Net Assets	
Without donor restrictions	540,135
With donor restrictions	<u>15,910</u>
Total Net Assets	<u>556,045</u>
Total Liabilities and Net Assets	<u><u>\$ 1,033,835</u></u>

Educational Child Care Center, Inc.
Statement of Activities
For the Year Ended September 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, Contributions, Other Support			
Support:			
Grants and contributions	\$ 1,185,158	15,910	1,201,068
Tuition and related	1,443,533	-	1,443,533
Processing charges	8,442	-	8,442
Interest income	29,272	-	29,272
Fundraising, net of direct expenses	<u>(1,884)</u>	<u>-</u>	<u>(1,884)</u>
Total Revenue, Contributions, and Other Support	2,664,521	15,910	2,680,431
Expenses			
Program services	1,728,199	-	1,728,199
Management and general	425,682	-	425,682
Fundraising	<u>21,002</u>	<u>-</u>	<u>21,002</u>
Total expenses	<u>2,174,883</u>	<u>-</u>	<u>2,174,883</u>
Change in net assets	489,638	15,910	505,548
Net assets, beginning of year	<u>50,497</u>	<u>-</u>	<u>50,497</u>
Net assets, end of year	<u>\$ 540,135</u>	<u>15,910</u>	<u>556,045</u>

Educational Child Care Center, Inc.
Statement of Functional Expenses
For the Year Ended September 30, 2022

	<u>Program Total</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 1,238,422	256,747	15,103	1,510,272
Payroll taxes	102,226	21,193	1,247	124,666
Employee benefits	114,371	23,711	1,395	139,477
Professional services	16,243	48,078	650	64,971
Office expenses	5,629	563	63	6,255
Advertising and promotion	1,206	704	101	2,011
Information technology	12,548	18,508	314	31,370
Occupancy	77,078	18,306	963	96,347
Conferences and training	5,571	293	-	5,864
Interest expense	11,439	1,271	-	12,710
Depreciation	16,742	3,976	209	20,927
Insurance	20,909	5,227	-	26,136
Bank fees	8,892	669	-	9,561
Materials and supplies	34,165	3,416	380	37,961
Food costs	43,409	895	448	44,752
Licensing and permits	8,752	-	-	8,752
Payroll processing	10,597	2,197	129	12,923
Employee recruiting	-	19,928	-	19,928
Total	\$ <u>1,728,199</u>	<u>425,682</u>	<u>21,002</u>	<u>2,174,883</u>

Educational Child Care Center, Inc.
Statement of Cash Flows
For the Year Ended September 30, 2022

Cash flows from operating activities:	
Changes in net assets	\$ 505,548
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	20,927
Changes in operating assets and liabilities:	
Receivables	(18,578)
Accounts payable	13,391
Prepaid expenses	(11,286)
Accrued wages	1,771
Other accrued liabilities	(1,563)
Deferred revenue	<u>(3,009)</u>
Net cash provided by operating activities	507,201
Cash flows from financing activities:	
Principal payments on long term debt	<u>(14,955)</u>
Net cash provided by (used in) financing activities	<u>(14,955)</u>
Net increase in cash accounts	492,246
Cash accounts - beginning of year	<u>114,868</u>
Cash accounts - end of year	\$ <u><u>607,114</u></u>
Cash paid for:	
Interest	\$ <u><u>12,710</u></u>

Educational Child Care Center, Inc.
Notes to the Financial Statements
September 30, 2022

Note 1 – Organization and Accounting Policies

Organization

The Educational Child Care Center, Inc. (EC3, Organization) was organized in 1984 as a nonprofit corporation to improve the quality of early education for young children. EC3's vision is to be the premier childcare center in the greater Lansing area, and their mission is to provide developmentally appropriate childcare in a nurturing environment that promotes the growth of the child while responding to the needs of the family.

The Organization consists of one distinct center and operates under a volunteer Board of Directors and an Executive Director. The majority of the Organization's revenue is from tuition and fees for services.

The accounting policies of the Organization conform to U.S. generally accepted accounting principles (GAAP) as applicable to nonprofit entities. The Financial Accounting Standards Board (FASB) is the accepted standard-setting body for establishing nonprofit accounting and financial reporting principles.

Basis of Accounting and Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

Net Assets

Net assets and revenue are classified based on the existence or absence of donor-imposed restrictions. Net assets with donor restrictions are net assets that are subject to donor-imposed restrictions either for a specific use, duration, or both. When a time restriction expires or a use restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions. Net assets with donor restrictions are available for subsequent years' activities (see Note 7).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

Grant and tuition receipts determined to be exchange transactions are recognized as services are provided. Revenue under cost-reimbursable contracts is recognized at the point in time that the expenditures are incurred.

The Organization evaluates non-exchange transactions for classification as either conditional or unconditional. Unconditional contributions are reported as revenue when the promise is received. Grant revenue is recorded when the grant is awarded, unless conditional by nature. Conditional contributions are reported as revenue only when substantially all conditions have been met or the conditions have been explicitly waived by the donor. Conditional grants generally take the form of cost-reimbursement grants. In cases where the conditions are substantially met in advance of receiving the grant reimbursement, revenue and grants receivable are recorded. In cases where a grant advance is received prior to the conditions being substantially met, the advance is reported as refundable advances on the statement of financial position until the contribution is recognized as revenue.

Tuition Revenue

Fees for tuition are charged in advance of the period for which the service is intended to be provided which results in a contract asset (accounts receivable). Revenue is recognized over time as the performance obligation is met. There is generally only a single performance obligation, which is providing space in a classroom to enrolled students for days which the facility is expected to be open to students.

Educational Child Care Center, Inc.
Notes to the Financial Statements
September 30, 2022

Note 1 – Organization and Accounting Policies (continued)

Grants and Contributions

Contributions of cash and other assets without donor restrictions concerning the use of such assets are reported as increases in net assets without donor restrictions. Contributions of cash or other assets to be used in accordance with donor stipulations are reported as increases in net assets with donor restrictions. Contributions with donor restrictions whose restrictions are met in the same reporting period are reported as revenue without donor restrictions.

The expiration of a donor-imposed restriction on a contribution is recognized in the period in which the restriction expires and at that time the related resources are reclassified to net assets without donor restrictions. A restriction expires when the stipulated time period has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. All contributions made to the Organization are considered available for use, unless specifically restricted by the donor.

The Organization reports gifts of land, buildings, and equipment as increases in net assets without donor restrictions, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as increases in net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributed Services

The Organization benefits from volunteers whose services do not meet the criteria for recognition according to generally accepted accounting principles. It is not practical to estimate the value of contributed services, which include services such as board member service and fundraising event volunteers.

Cash

At times during the year ended September 30, 2022, the Organization may have deposit accounts that exceeded insurance coverage by the Federal Deposit Insurance Corporation (FDIC). The balance in excess of insured limits as of September 30, 2022, was \$371,147.

Accounts Receivable

Accounts receivable represents amounts that have been billed but not yet collected, primarily for tuition. Management reviews outstanding accounts receivable periodically through the year, with particular attention paid on amounts over 90 days. An estimate is recorded for doubtful accounts identified, which are written off when management determines the receivable will not be collected. There was no allowance for doubtful accounts as of September 30, 2022.

Deferred Revenue

Deferred revenue represents payments received for tuition in advance of services available to be provided in the subsequent fiscal year (a contract liability). Revenues and expenses related to these activities are reflected in the statement of activities in the period the services are available to be provided.

Advertising Costs

Advertising and marketing costs are expensed as incurred.

Property and Equipment

Leasehold improvements and equipment are capitalized at cost basis when the purchase price exceeds \$2,500. If assets are contributed, they are capitalized at fair value if it is greater than \$2,500. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. The cost of normal maintenance that does not add to the functionality of assets or materially extend the asset lives is not capitalized.

Educational Child Care Center, Inc.
Notes to the Financial Statements
September 30, 2022

Note 1 – Organization and Accounting Policies (continued)

Functional Expense Allocation

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. All expenses used allocations except for those expenses related to licensing and employee recruiting, which are direct expenses solely attributable to certain functional categories. Expenses are allocated on the basis of estimates of time and effort.

Liquidity

The Organization’s financial assets available within one year of the balance sheet date for general expenditure are as follows:

Cash and savings accounts	\$	607,114
Grants and accounts receivable		<u>39,194</u>
Financial assets available to meet cash needs for general expenditures within one year		<u><u>646,308</u></u>

As part of the Organization’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Subsequent Events

Subsequent events have been reviewed through January 12, 2023 which is the date the financial statements were available to be issued.

Note 2 – Property and Equipment

The details of property and equipment are presented below:

	<u>2022</u>	<u>Estimated Life</u>
Land	\$ 33,750	-
Building and improvements	555,434	39 Years
Furniture and equipment	<u>148,602</u>	5 - 15 Years
Gross equipment cost	737,786	
Accumulated depreciation	<u>(373,134)</u>	
Property and equipment, net	<u><u>\$ 364,652</u></u>	

Note 3 – Line of Credit

The Organization has a revolving line of credit available with a bank allowing for borrowings up to a maximum of \$25,000, secured by all assets of the Organization, subject to covenants as specified in the agreement, and due on demand. Interest-only payments at prime plus 1.5% (minimum 4.75%) are required monthly until maturity in January 2023. Any outstanding principal balance is due at maturity if not previously demanded by the bank. There was no balance as of September 30, 2022.

Educational Child Care Center, Inc.
Notes to the Financial Statements
September 30, 2022

Note 4 - Debt

A summary of long-term debt follows:

Note payable to bank due in monthly installments of \$2,305, interest at 4.15%, balloon payment due in December 2025, subject to certain covenants and assignments, and collateralized by real estate.	\$ 281,909
Less: debt issue costs, net	(2,153)
Less: current portion of long-term debt	<u>(16,274)</u>
Long-term debt, net	<u>\$ 263,482</u>

Future maturities of long-term debt are scheduled as follows:

2023	\$ 16,274
2024	16,932
2025	<u>248,703</u>
Total	<u>\$ 281,909</u>

Note 5 – Retirement Plan

The Organization maintains a 403(b) defined contribution retirement plan to which employees may contribute an annual maximum amount established by the Internal Revenue Service. No contributions from the Organization were made for the year ended September 30, 2022.

Note 6 – Income Taxes

The Organization is organized as a tax-exempt entity under section 501(c)(3) of the Internal Revenue Code. The Organization is generally exempt from federal and state income taxes on its related activities. The Organization files its income tax return (Form 990) in the U.S. Federal Jurisdiction.

Note 7 – Net Assets with Donor Restrictions

The balance of donor restricted net assets as of September 30, 2022, was \$15,910, which is purpose-restricted for board capacity building.

Note 8 – Related Party Transactions

The Organization utilized accounting services of a member of the board of directors, which amounted to \$2,675 during the year. The Organization also engaged the firm of a different board member to perform website design and development. A deposit of \$15,000 was recorded to prepaid expenses and accounts payable for services to be performed in the subsequent fiscal year.

Educational Child Care Center, Inc.
Notes to the Financial Statements
September 30, 2022

Note 9 – Employee Retention Credit

Under the provisions of the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) signed into law on March 27, 2020, and the subsequent extension of the CARES Act, the Company was eligible for a refundable employee retention credit subject to certain criteria. The Company received and recognized \$655,627 in employee retention credits during the 2022 year. The credit is shown in grants on the statement of activities.