Educational Child Care Center, Inc.

Financial Report
For the Year Ended September 30, 2020

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Independent Accountants' Review Report

To the Board of Directors
Educational Child Care Center, Inc.
Lansing, Michigan

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, 2020, 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 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.

Accountants' 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.

Accountants' 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 conformity with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standards
As described in Note 1 to the consolidated financial statements, Educational Child Care Center, Inc. changed its method of accounting for contributions in 2020 as required by the provisions of FASB Accounting Standards Update 2018-08 *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

Yeo & Yeo, P.C.

Lansing, Michigan
January 8, 2021

Educational Child Care Center, Inc.
Statement of Financial Position
September 30, 2020

Assets	
Current Assets	
Cash	$ 127,110
Accounts receivable	17,890
Prepaid expenses	827
Total Current Assets	145,827
Property and Equipment, net	332,804
Total Assets	$ **478,631**
Liabilities and Net Assets	
Current Liabilities	
Accounts payable	$ 3,596
Deferred revenue	40,329
Accrued wages	31,343
Accrued paid time off	40,918
Accrued interest	1,546
Refundable advance	413,400
Current portion of long-term debt	15,643
Other current liabilities	4,213
Total Current Liabilities	550,988
Long-term Debt, net of current portion	235,190
Total Liabilities	786,178
Net Assets (Deficiency)	
Without donor restrictions	(316,308)
With donor restrictions	8,761
Total Net Assets (Deficiency)	(307,547)
Total Liabilities and Net Assets	$ **478,631**

Educational Child Care Center, Inc.
Statement of Activities
For the Year Ended September 30, 2020

		Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Contributions, Other Support				
Support:				
Grants and contributions	$	390,424	756	391,180
Tuition and related		1,291,455	-	1,291,455
Processing charges		6,026	-	6,026
Interest income		62	-	62
Fundraising, net of direct expenses		15,359	-	15,359
Total Revenue, Contributions, and Other Support		1,703,326	756	1,704,082
Expenses				
Program services		1,597,438	-	1,597,438
Management and general		335,211	-	335,211
Fundraising		18,803	-	18,803
Total expenses		1,951,452	-	1,951,452
Change in net assets		**(248,126)**	**756**	**(247,370)**
Net assets, beginning of year		(68,182)	8,005	(60,177)
Net assets, end of year	$	(316,308)	8,761	(307,547)

Educational Child Care Center, Inc.
Statement of Functional Expenses
For the Year Ended September 30, 2020

	Program Total	Management and General	Fundraising	Total
Grants to individuals	$ 1,042	-	-	1,042
Salaries and wages	1,116,846	231,541	13,620	1,362,007
Payroll taxes	104,136	21,589	1,270	126,995
Employee benefits	115,130	23,869	1,404	140,403
Accounting services	2,182	6,457	87	8,726
Office expenses	6,782	678	75	7,535
Advertising and promotion	877	512	73	1,462
Information technology	9,124	13,458	228	22,810
Occupancy	58,341	13,856	729	72,926
Conferences and training	12,028	633	-	12,661
Interest expense	9,909	1,101	-	11,010
Depreciation	22,748	5,403	284	28,435
Insurance	24,294	6,074	-	30,368
Bank fees	11,607	874	-	12,481
Materials and supplies	31,128	3,113	346	34,587
Bad debt	7,101	-	-	7,101
Food costs	49,170	1,014	507	50,691
Licensing and permits	225	-	-	225
Payroll processing	14,768	3,062	180	18,010
Employee recruiting	-	1,977	-	1,977
Total	$ 1,597,438	335,211	18,803	1,951,452

Educational Child Care Center, Inc.
Statement of Cash Flows
For the Year Ended September 30, 2020

Cash flows from operating activities:	
Changes in net assets	$ (247,370)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	28,435
Changes in operating assets and liabilities:	
Receivables	8,722
Accounts payable	(26,237)
Prepaid expenses	(827)
Accrued wages	(109,284)
Other accrued liabilities	1,815
Refundable advance	413,400
Deferred revenue	(19,161)
Net cash provided by operating activities	49,493
Cash flows from financing activities:	
(Payments to) receipts from line of credit, net	(12,800)
Principal payments on long term debt	(13,100)
Net cash provided by (used in) financing activities	(25,900)
Net increase in cash accounts	23,593
Cash accounts - beginning of year	103,517
Cash accounts - end of year	$ 127,110
Cash paid for:	
Interest	$ 9,464

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. Their mission is to provide developmentally appropriate childcare in a nurturing environment that promotes growth of the child while responding to the needs of the family.

The Organization consists of two distinct centers 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.

Adoption of New Accounting Standard

In June 2018, FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958)*. The ASU, as updated, requires that an entity determine whether support and revenues should be accounted for as exchange transactions or as contribution transactions. If both parties involved in a transaction receive commensurate value, then a transaction is an exchange transaction. If both parties do not receive commensurate value, then a transaction is a contribution transaction. The ASU also requires that the entity determine whether a received contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. If both a barrier and a right of return or a right of release is present, that fact indicates that a recipient is not entitled to the assets contributed until the entity has overcome all barriers in the agreement. The Organization adopted the new standard effective October 1, 2019, the first day of the Organization's fiscal year using the modified prospective approach. The adoption of ASU No. 2018-08 did not result in a change to the accounting for any grants or contributions. Therefore, no cumulative effect adjustment was recorded.

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 8).

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 Contributions, and Receivables

Revenues of the Organization are primarily fees for tuition and related services. The Organization also receives contributions. All such contributions are considered to be without donor restriction unless specifically instructed otherwise by the donor. When a time restriction expires or a purpose restriction is satisfied, the amount is reclassified to net assets without donor restrictions and reported as "released from restriction" in the statement of activities.

Note 1 – Organization and Accounting Policies (continued)

The Organization evaluates contributions for classification as conditional or unconditional. Unconditional contributions are reported as revenue and 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 contributions are reported as refundable advances on the statement of financial position until the contribution is recognized as revenue.

The balance reported as refundable advance of September 30, 2020 represents funds received related to the paycheck protection program loan (P3 loan) under the Coronavirus Aid, Relief, and Economic Security Act (Cares Act). Based on all the facts and circumstances, the Organization reasonably expects that the P3 loan proceeds will be forgiven in their entirety, as intended by Congress. Therefore, this amount is treated as a conditional contribution and reported in the financial statements as a refundable advance.

Accounts receivable represents amounts that have been billed but not yet collected for various items such as 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, 2020.

Deferred Revenue
Deferred revenue represents payments received for tuition in advance of services provided in the subsequent fiscal year. Revenues and expenses related to these activities are reflected in the Statement of Activities in the period the services are 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.

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 grants, bad debts, 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.

Note 1 – Organization and Accounting Policies (continued)

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	$	127,110
Grants and accounts receivable		17,890
Total		145,000
Restricted by donors with time or purpose restrictions		8,761
Financial assets available to meet cash needs for general expenditures within one year	$	136,239

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.

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.

COVID-19
The COVID-19 pandemic remains a serious issue to institutions around the world. Management has considered the effects the pandemic on the Organization, including the potential for going concern considerations. While much remains unknown about the future effects of the pandemic, the Organization has experienced a significant decline in enrollment and, therefore, tuition revenue, which is the Organization's largest source of revenue. In response, the Organization has applied for and received a P3 loan made available under the CARES Act (described previously), applied for and received other grants from the State of Michigan and other not for profit entities, shifted focus of executive responsibilities from day to day management to fundraising and grant writing, and lowered tuition revenue to be more competitive in the market while maintaining high quality.

Note 2 – Property and Equipment

The details of property and equipment are presented below:

		2020	Estimated Life
Land	$	33,750	-
Buidling and improvements		482,102	39 Years
Furniture and equipment		148,602	5 - 15 Years
Gross equipment cost		664,454	
Accumulated depreciation		(331,650)	
Property and equipment, net	$	332,804	

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 December 2020. Any outstanding principal balance is also due at maturity if not previously demanded by the bank.

Note 4 - Debt

A summary of long-term debt follows:

Note payable to bank due in monthly installments of $1,519, interest at 4.5%, balloon payment due in February 2021, subject to certain covenants and assignments, and collateralized by real estate.	$	204,911
Note payable to bank due in monthly installments of $825, interest at 5.75%, balloon payment due in December 2023, subject to certain covenants and assignments, and collateralized by real estate.		45,922
Total long-term debt		250,833
Less: current portion of long-term debt		(15,643)
Long-term debt, net of current portion	$	235,190

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

2021	$	15,643
2022		16,445
2023		17,288
2024		18,175
2025		183,282
Total	$	250,833

Subsequent to the date of the financial statements, the mortgage and term notes were refinanced into a 5-yr balloon note with monthly payments of $1,880, including interest at 4.15%. Accordingly, only the portion of debt due in the next fiscal year is included in current liabilities. The current portion of long-term debt and schedule of future maturities reflect the terms of the new note.

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, 2020.

Note 6 – Subsequent Events

Subsequent events have been reviewed through January 8, 2021 which is the date the financial statements were available to be issued.

See Note 4 regarding debt refinancing.

Note 7 – 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 8 – Net Assets with Donor Restrictions

Net assets of $8,761 are restricted for uses related to building upgrades and repairs as part of the ongoing Building Blocks Campaign efforts.

Note 9 – Related Party Transactions

The Organization utilizes accounting services of the firm where a member of the board of directors is employed, which amounted to $2,640 during the year.