Educational Child Care Center, Inc.

Financial Report
For the Year Ended September 30, 2021

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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 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 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 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 from others (contributions) 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 time period for which the service is intended to be provided resulting 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.

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.

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, 2021.

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.

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 bad debt, 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	$	114,867
Grants and accounts receivable		20,616
Financial assets available to meet cash needs for general expenditures within one year		135,483

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.

COVID-19
The COVID-19 pandemic remains a serious issue to institutions around the world. Management has considered the effects of the pandemic on the Organization, including the potential for going concern considerations. The extent of the impact of COVID-19 pandemic on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the pandemic, which are unknown at this time.

As discussed in Note 9, the Organization obtained two Paycheck Protection Program (P3) loans which helped mitigate the affect the COVID-19 pandemic had on the Organization. However, the full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Organization's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation and the impact on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Organization is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for the fiscal year ended September 30, 2021.

Subsequent Events
Subsequent events have been reviewed through January 24, 2022 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:

		2021	Estimated Life
Land	$	33,750	-
Building and improvements		555,434	39 Years
Furniture and equipment		148,602	5 - 15 Years
Gross equipment cost		737,786	
Accumulated depreciation		(352,206)	
Property and equipment, net	$	385,580	

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 2022. Any outstanding principal balance is due at maturity if not previously demanded by the bank. There was no balance as of September 30, 2021.

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.	$	297,527
Less: debt issue costs, net		(2,816)
Less: current portion of long-term debt		(15,614)
Long-term debt, net	$	279,097

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

2021	$	15,614
2022		16,274
2023		16,932
2024		17,679
2025		231,028
Total	$	297,527

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, 2021.

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

Net assets of $8,761 were used for building upgrades, repairs, and maintenance as part of the ongoing Building Blocks Campaign efforts. There was no balance of donor restricted net assets as of September 30, 2021.

Note 8 – Related Party Transactions

The Organization utilized accounting services of the firm where a member of the board of directors was employed, which amounted to $3,055 during the year. These services were later provided directly by the director and amounted to $425 during the year.

Note 9 – Paycheck Protection Program Loans

In April 2020 and January 2021, the Organization entered into loans (P3 loans) with Michigan State University Federal Credit Union (Lender) evidencing unsecured promissory notes amounting to $413,400 and $197,600 (Notes), respectively, pursuant to the Paycheck Protection Program (Program) under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Subject to the terms of the Notes, the loans bear interest at a fixed rate of 1% per year, with the first ten months of interest deferred, and payable over a term of two to five years. The loans are unsecured and guaranteed by the Small Business Administration.

The P3 loans were used for payroll costs, costs related to certain group health care benefits and insurance premiums, mortgage payments, utility payments, and also interest payments on any debt obligation that were entered into before February 15, 2020. Loan recipients can apply for and be granted forgiveness for all or a portion of the loan granted under the Program, with such forgiveness to be determined, subject to limitations, based on the use of the loan proceeds for payment of payroll and related costs and any payments of mortgage interest and utilities.

The Organization incurred costs during the eligible periods that resulted in full forgiveness of the loan balance and received formal notice of forgiveness during year ended September 30, 2021. Pursuant to the guidance under the Debt Topic of the Financial Accounting Standards Board Accounting Standards Codification (ASC) 470, the Organization has recorded the loan as a government grant by analogy to International Accounting Standard (IAS) 20, Accounting for Government Grants and Disclosure of Government Assistance. The Organization has recognized the loan forgiveness in grants and contributions for the period ended September 30, 2021.