EARLY CONNECTIONS, INC.

ERIE, PENNSYLVANIA

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2020

EARLY CONNECTIONS, INC.
Table of Contents
June 30, 2020

FELIX & GLOEKLER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
2306 Peninsula Drive • Erie, Pennsylvania 16506

Independent Auditor's Report

To the Board of Directors
Early Connections, Inc.
Erie, Pennsylvania

We have audited the accompanying financial statements of Early Connections, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020 and the related statement of activities, functional expenses, and cash flows for the year then ended, as well as the related notes to the financial statements.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

<u>Independent Auditor's Report</u>
<u>(Continued)</u>

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Early Connections, Inc. as of June 30, 2020 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated September 22, 2020 on our consideration of Early Connections, Inc.'s internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit in accordance with *Government Auditing Standards* in considering Early Connections, Inc.'s internal control over financial reporting and compliance.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

September 22, 2020
Erie, Pennsylvania

EARLY CONNECTIONS, INC.

Statement of Financial Position

For the year ended June 30, 2020

		2020
Current Assets		
Cash & Cash Equivalents	$	760,586
Accounts Receivable		111,025
Prepaid Expenses		41,519
Total Current Assets		913,130
Fixed Assets		
Property & Equipment		3,200,474
Accumulated Depreciation		(1,533,511)
Fixed Assets, Net		1,666,963
Endowment & Other Assets		
Beneficial Interest in Erie Community Foundation Investments		61,522
Security Deposits		1,969
Unemployment Deposits		8,401
Total Endowment & Other Assets		71,892
Total Assets	$	2,651,985
Current Liabilities		
Accounts Payable - Trade	$	120,408
Accrued Wages, Taxes & Benefits		216,218
Deferred Revenue		528
Credit Card Liabilities		661
Paycheck Protection Program Loan		234,719
Current Portion of Long-Term Debt		273,711
Total Current Liabilities		846,245
Long-Term Debt		467,889
Total Long-Term Liabilities		467,889
Total Liabilities		1,314,134
Net Assets		
Net Assets without Donor Restrictions		1,177,712
Net Assets with Donor Restrictions		160,139
Total Net Assets		1,337,851
Total Liabilities & Net Assets	$	2,651,985

See notes to the financial statements.

EARLY CONNECTIONS, INC.

Statement of Activities

For the year ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support			
Contribution & Tax Credit Program	$ 60,613	$ 251,612	**$ 312,225**
Special Events	6,538		**6,538**
United Way	52,998	180,000	**232,998**
Government Grants	941,249		**941,249**
Funding from Community Agencies	62,810		**62,810**
Total Public Support	1,124,208	431,612	**1,555,820**
Revenue & Other Gains/(Losses)			
Program Service Fees	1,769,574	-	**1,769,574**
Government Food Programs	129,286	-	**129,286**
Program Incidental Revenue	2,595	-	**2,595**
Investment Income	899	-	**899**
Unrealized Gains/(Losses)	(166)	-	**(166)**
Total Revenue & Other Gains/(Losses)	1,902,188	-	**1,902,188**
Assets Released from Restrictions			
Satisfied by Payments	321,382	(321,382)	**-**
	321,382	(321,382)	**-**
Total Support, Revenue, Other Gains/(Losses), & Reclassifications	3,347,778	110,230	**3,458,008**
Expenses			
Program Services	2,827,707	-	**2,827,707**
Supporting Services	315,658	-	**315,658**
Total Expenses	3,143,365	-	**3,143,365**
Change in Net Assets	204,413	110,230	**314,643**
Net Assets at Beginning of Year	973,299	49,909	**1,023,208**
Net Assets at End of Year	$ 1,177,712	$ 160,139	**$ 1,337,851**

See notes to the financial statements.

EARLY CONNECTIONS, INC.

Statement of Cash Flows

For the year ended June 30, 2020

		2020
Cash Flows from Operating Activities		
Increase/(Decrease) in Net Assets	$	314,643
Adjustments to Reconcile Change in Net Assets to Net Cash Provided/(Used) by Operating Activities:		
Depreciation		99,991
Changes in Operating Assets and Liabilities		
(Increase)/Decrease in Accounts Receivable		19,597
(Increase)/Decrease in Prepaid Expenses		(1,055)
(Increase)/Decrease in Security Deposits		-
(Increase)/Decrease in Unemployment Deposits		12,318
Increase/(Decrease) in Accounts Payable		74,653
Increase/(Decrease) in Accrued Wages & Benefits		(4,561)
Increase/(Decrease) in Credit Card Liabilities		(718)
Net Cash Provided/(Used) by Operating Activities		514,868
Cash Flows from Investing Activities		
Purchase of Property & Equipment		(91,528)
Purchases of Investments/Reinvested Dividends & Interest		87
Net Cash Provided/(Used) by Investing Activities		(91,441)
Cash Flows from Financing Activities		
Proceeds From Paycheck Protection Program		234,719
Payments on Long-Term Debt		(33,011)
Net Cash Provided/(Used) by Financing Activities		201,708
Increase/(Decrease) in Cash & Cash Equivalents		625,135
Cash & Cash Equivalents at Beginning of Year		135,451
Cash & Cash Equivalents at End of Year	$	760,586
Supplemental Disclosure of Cash Flow Information:		
Cash Paid During the Year for Interest	$	50,059

See notes to the financial statements.

EARLY CONNECTIONS, INC.

Statement of Functional Expenses

For the Year ended June 30, 2020

	Program Services								
	West Side Child Care	JEHGA Child Care	City Center Child Care	Union City Child Care	Harbor Homes Child Care	North East Child Care	Iroquios Child Care	West Ridge Child Care	Community Outreach Services
Salaries & Wages	$ 207,328	$ 117,670	$ 520,758	$ 308,871	$ 107,275	$ 107,896	$ -	$ -	$ 23,887
Employee Benefits & Other Costs	19,642	23,419	82,299	46,073	8,750	8,555	-	-	3,079
Payroll Taxes	15,445	8,588	38,542	22,327	8,044	7,931	-	-	1,824
Total salaries & benefits	242,415	149,677	641,599	377,271	124,069	124,382	-	-	28,790
Food	-	-	-	-	-	-	-	-	-
Professional & Contracted Services	2,407	1,020	4,756	4,248	1,065	1,170	-	240	120
Program Expenses	1,462	7,013	26,409	9,227	8,171	2,017	116,355	-	2,515
Telephone & Internet	5,796	-	4,195	4,127	-	1,974	-	-	-
Scholarships	-	-	-	-	-	-	-	-	-
Office	1,697	2,638	7,416	4,559	2,254	1,668	-	-	852
Rent & Occupancy	7,613	3,375	37,474	23,061	764	18,169	-	-	7,200
Utilities	5,353	-	19,323	7,182	-	-	-	-	-
Insurance	4,466	720	5,833	1,939	944	373	-	-	-
Travel & Vehicle	5,690	263	6,715	4,068	339	603	-	-	411
Conferences, Meetings, & Training	776	1,038	1,464	1,327	818	1,739	-	-	-
Dues & Subscriptions	108	79	102	108	102	108	-	-	79
PR, Advertising, & Research	-	-	-	-	-	-	-	-	-
Interest & Finance Charges	13,508	-	8,771	7,191	-	-	-	-	-
Bad Debt	6,343	35	8,844	-	55	224	-	1,138	-
Loss on Fixed Asset Disposal	-	-	-	(275)	-	-	-	-	-
Depreciation	23,805	2,835	49,126	16,554	1,737	1,663	-	3,084	127
Total	$ 321,439	$ 168,693	$ 822,027	$ 460,587	$ 140,318	$ 154,090	$ 116,355	$ 4,462	$ 40,094

EARLY CONNECTIONS, INC.

Statement of Functional Expenses (Continued)

For the Year ended June 30, 2020

	Program Services						Supporting Services		
	Erie's Future Fund	UW Scholarship Fund	OCY	Food Program	Food Pantry	Total Program Services	Fundraising	Management & General	Total Expenses
Salaries & Wages	$ 17,719	$ 42,540	$ 86,962	$ 11,028	$ -	$ 1,551,934	$ -	$ 123,700	$ 1,675,634
Employee Benefits & Other Costs	2,532	-	9,634	6,097	-	210,080	-	47,703	257,783
Payroll Taxes	1,853	-	6,128	793	-	111,475	-	41,945	153,420
Total salaries & benefits	22,104	42,540	102,724	17,918	-	1,873,489	-	213,348	2,086,837
Food	-	-	-	171,530	-	171,530	-	-	171,530
Professional & Contracted Services	240	-	720	240	-	16,226	648	7,877	24,751
Program Expenses	-	-	1,669	-	306	175,144	-	20,025	195,169
Telephone & Internet	-	-	1,225	-	-	17,317	-	5,577	22,894
Scholarships	143,182	85,310	-	-	-	228,492	-	-	228,492
Office	198	-	863	-	-	22,145	-	15,274	37,419
Rent & Occupancy	-	-	2,242	-	-	99,898	-	11,059	110,957
Utilities	-	-	4,663	-	-	36,521	-	3,086	39,607
Insurance	-	-	-	-	-	14,275	-	3,930	18,205
Travel & Vehicle	49	-	84	-	-	18,222	-	1,035	19,257
Conferences, Meetings, & Training	-	-	292	-	-	7,454	-	3,426	10,880
Dues & Subscriptions	374		121	-	-	1,181		5,515	6,696
PR, Advertising, & Research	-	-	-	-	-	-	503	3,754	4,257
Interest & Finance Charges	20	-	1,028	-	-	30,518	24	19,517	50,059
Bad Debt	-	-	-	-	-	16,639	-	-	16,639
Loss on Fixed Asset Disposal	-	-	-	-	-	(275)	-	-	(275)
Depreciation	-	-	-	-	-	98,931	-	1,060	99,991
Total	$ 166,167	$ 127,850	$ 115,631	$ 189,688	$ 306	$ 2,827,707	$ 1,175	$ 314,483	$ 3,143,365

EARLY CONNECTIONS, INC.
Notes to the Financial Statements
June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. <u>Organization & Nature of Activities</u>

In February 2004, Early Connections, Inc. (the Organization), formerly known as the Young Women's Christian Association of Erie, disaffiliated from the Young Women's Christian Association of the USA. Early Connections, Inc. is an independent organization whose mission is to provide a cohesive source of support and stability to children and their families. Program services provided are identified in the statement of functional expenses. They include providing early childhood education and childcare, as well as improving the system and quality of early care and education. The Organization's revenues are primarily derived from charges for childcare services and grants from governments and community agencies. The programs are offered in Erie County and elsewhere in northwestern Pennsylvania.

B. <u>Standards of Accounting & Reporting</u>

The Organization follows standards of accounting and financial reporting prescribed for voluntary health and welfare non-profit organizations.

C. <u>Contributions, Promises to Give, & Donor Restrictions</u>

All contributions without donor-imposed restrictions are considered to be available for use as of the date of the financial statements. Donations of property and equipment are recorded as support at estimated fair value. Amounts received that are designated for future periods or are subject to donor-imposed restrictions by the donor for specific purposes are reported as contributions with donor restrictions, these contributions increase net asset classes that are subject to donor restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions.

D. <u>Revenue Recognition</u>

A portion of the Organization's revenue is derived from grants. Amounts received but not yet earned are reported as deferred revenue. Funding sources may, at their discretion, amend the grant and contract amounts. In addition, reimbursement for expenses or return of funds, or both, may be requested as a result of noncompliance by the Organization with the terms of the grants and contracts. The Organization records such amendments, reimbursements, and returns of funds as an adjustment to revenue in the year of the amendment.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Federal Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and has been determined to be an organization which is not a private foundation within the meaning of Section 509(a) of the Code. As of June 30, 2020, no amounts have been recognized for uncertain income tax positions.

F. Property & Equipment

Property and equipment are stated at cost. Donated capital assets are recorded at the fair value at the date of the receipt. Expenditures for maintenance, repairs and minor renewals are charged to expenses as incurred. The Organization capitalizes property and equipment with a cost of over $1,000 and an estimated life of three or more years. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets, as follows:

	Years
Buildings & Improvements	10-30
Furniture & Equipment	5-10
Vehicles	5-10

G. Cash & Cash Equivalents

The Organization considers cash and cash equivalents to include all cash on hand and in banks, which, at times, may exceed federally insured limits. The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Organization had deposits at three different institutions. Each institution maintains FDIC insurance up to $250,000. Amounts in excess of FDIC uninsured levels at June 30, 2020 were $535,345.

H. Estimates & Allowance for Bad Debt

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Accounts receivable are considered to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts are determined to be uncollectible, they are charged to operations. Accounts receivable consisted of the following as of June 30, 2020:

Contributions, Food Program, & Other	$ 35,824
Child care	75,201
Total	$ 111,025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Functional Expenses

Expenses are summarized and categorized based upon their functional classification as either program or supporting services. Specific expenses that are readily identifiable to one of Early Connections, Inc.'s programs are charged directly to that function. Certain other expenses are related to management and general administration and are classified as supporting services. Certain categories of expenses are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. These expenses are allocated on the basis of time and effort studies.

J. Economic Dependence

The Organization relies on support from local, state, and federal governments to maintain its programs, including subsidized daycare. During the year ended June 30, 2020 these sources comprised approximately 67% of the Organization's total support and revenue.

K. Net Asset Presentation

The Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions, and net assets with donor restrictions. Net assets of the Organization and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions - Net assets not subject to donor-imposed stipulations or restrictions for use.

Net Assets with Donor Restrictions - Net assets subject to donor-imposed stipulations or restrictions that may be maintained by the Organization. When a donor-imposed restriction expires, net assets with donor restrictions are reclassified to net assets without restrictions and reported in the statement of activities as net assets released from restrictions. The donors of these assets generally permit the Organization to use the income earned on any related investments for general or specific purposes.

L. Subsequent Events

Subsequent events have been evaluated through September 22, 2020, which is the date the financial statements were available to be issued.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Accounting Pronouncement Adopted

In June 2018, the FASB issued (ASU) 2018-08, *Not-for-Profit Entities: Topic 958: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The amendments in this update provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional. The Organization adopted this ASU on July 1, 2019.

The Organization implemented ASU 2018-08 using a modified prospective method of application. The adoption of ASU 2018-08 resulted in changes to the disclosure of revenue and contributions. There were no material changes to the recognition or presentation of revenue and contributions as a result of the application of ASU 2018-08.

Future Changes in Accounting Principles

Revenue Recognition

The Financial Accounting Standards Board amended the revenue recognition standards with the issuance of ASU 2014-09, *Revenue from Contracts with Customers.* This ASU replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. This ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for nonpublic entities for annual periods beginning after December 15, 2019. The Organization is in the process of evaluating the impact the standard will have on the financial statements for the year ending June 30, 2021.

NOTE 2 – BENEFICIAL INTEREST IN ECF INVESTMENTS & FAIR VALUE

The Organization's beneficial interest in investments held by the Erie Community Foundation (ECF) was $61,522 as of June 30, 2020. Under applicable accounting standards governing this arrangement, the value of the Organization's interest in future income distributions is determined to be the same as the Organization’s proportionate share of the fair value of assets held by the ECF in trust for the benefit of the Organization.

NOTE 2 – BENEFICIAL INTEREST IN ECF INVESTMENTS & FAIR VALUE (CONTINUED)

The assets held by the ECF consist of the two components shown in the table below. The Board Designated without restrictions component reflects assets transferred by Board action. The donor-imposed restrictions component represents donations received from donors that have placed restrictions that these funds be held in an endowment fund. Income from the endowment fund is to be used for Early Connections, Inc's operations and will be released to the Organization in accordance with ECF policies.

The ECF pools the endowment fund with the funds received from various other organizations. The pooled funds are then utilized to create an investment portfolio that is managed and administered by ECF. ECF is responsible for allocating the Organization their respective share of the investment portfolio's performance. As is often typical with agency endowment funds, ECF has variance power over the endowment fund. This variance power provides ECF the authority to modify or discontinue the appropriations if they determine the Organization's charitable purpose is not consistent with the donors' original intent and, in its judgment, is no longer serving the charitable needs of the community.

The Organization used the principal and income policy for accounting for the earnings in the beneficial interest in investments held by the ECF. Under that policy, the Organization spends only the investment's earnings and not the capital gains or the principal. Changes in the unrestricted and restricted components of the endowment balance for the year ended June 30, 2020 was as follows:

Investment Income/(Loss)

	Board Designated Without Restrictions	With Donor Restrictions	Total
June 30, 2020			
Beginning Balance - Investments	$ 52,059	$ 9,550	$ 61,609
Reinvested Interest and Dividends	752	-	752
Management Fees	(672)	-	(672)
Net Realized and Unrealized Gains/(Losses)	(167)	-	(167)
Net Purchases/(Withdrawals)	-	-	-
Ending Balance - Investments	$ 51,972	$ 9,550	$ 61,522

NOTE 2 – BENEFICIAL INTEREST IN ECF INVESTMENTS & FAIR VALUE (CONTINUED)

Interpretation of Relevant Law

The current relevant law for the investment and distribution of restricted endowment and trust funds in the Commonwealth of Pennsylvania is PA Act 141 (Act 141). Act 141 requires an organization to adopt and follow a "total return" investment policy to seek the best total return on the principal, whether from capital appreciation, earnings, or both. Since the Organization's endowment account is an agency endowment with another organization, the Organization does not determine the annual amounts to be appropriated for expenditure. The Board of Directors of the ECF is responsible for determining that the amounts released for expenditure comply with relevant law and the long-term objectives of the endowment fund are being met.

Return Objectives & Risk Parameters

Since the endowment account is an agency endowment fund held with another organization, the Organization relies on the ECF to develop the return objectives and risk parameters for the investment portfolio, as well as to employ the strategies to achieve the objectives. While determined by the other organization, the primary objective of the endowment fund is generally long-term growth of principal with generation of income, without an undue exposure to risk.

Spending Policy & How the Investment Objectives Relate to Spending Policy

The Board of Directors of ECF determines the annual amount to be appropriated for expenditure to the Organization. ECF is responsible for ensuring the appropriation from the fund is distributed in accordance with Act 141.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants at the measurement date. There is an established hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Organization.

Unobservable inputs are inputs that reflect the Organization's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

NOTE 2 – BENEFICIAL INTEREST IN ECF INVESTMENTS & FAIR VALUE (CONTINUED)

The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 – Valuations based on quoted market prices in active market for identical assets or liabilities that the Organization has the ability to access. Valuation adjustments are not applied to Level 1 instruments. Since valuations are based on quoted market prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2 – Valuations based on quoted market prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.
- Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

As of June 30, 2020, the Organization's investments were classified by level within the valuation hierarchy as follows:

2020

	Fair Value	Level 1	Level 2	Level 3
Pooled Investments	$ 61,522	$ -	$ -	$ 61,522
Total	$ 61,522	$ -	$ -	$ 61,522

See previous schedule for change in activity during the year ended June 30, 2020.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment was comprised of the following as of June 30, 2020:

	2020
Land	$ 145,327
Building & Improvements	2,651,154
Vehicles	136,470
Furniture & Equipment	267,523
	3,200,474
Less: Accumulated Depreciation	(1,533,511)
Fixed Assets, Net	$ 1,666,963
	$ 1,666,963

NOTE 4 – LINE OF CREDIT & NOTE PAYABLE

The note through Erie Bank bears an interest rate of 5.86% through the first 60 payments or until May 2024, thereafter, the interest rate changes to the index rate plus a margin of 3%. The index rate is the 5 Year Federal Home Loan Bank of Pittsburgh. The loan is collateralized by all of the Organization's real estate and equipment. Monthly payments of $4,338 are due through April of 2034. Annual maturities for each of the next five years and thereafter are as follows:

Year Ended June 30,		
2021	$	273,711
2022		26,482
2023		28,033
2024		29,810
2025		31,630
Thereafter		351,934
Total		741,600
Less: Current Portion		(273,711)
Long-Term Portion	$	467,889

The Organization also maintains a $100,000 line of credit with Erie Bank bearing an interest rate which is equal to the prime rate published in the Wall Street Journal. Interest payments are due monthly and the line is secured by real estate, equipment, and all other assets of the Organization. The balance due as of June 30, 2020 was $0.

NOTE 5 – CONTINGENT LIABILITIES

The Organization participates in government-funded programs. These programs are subject to program compliance audits by the funding agencies or their representatives. Early Connections, Inc. is potentially liable for any expenditure that may be disallowed pursuant to the terms of the programs.

NOTE 6 – OFFICE OF CHILDREN & YOUTH

Included in Program Service Fees on the Statement of Activities is $167,772 of revenue from the Office of Children & Youth (OCY) for the year ended June 30, 2020.

NOTE 7 – RETIREMENT PLAN

The Organization sponsors a 401(k)-retirement plan for employees who have completed at least one year of service and work at least 30 hours a week.

The Organization contributes an amount equal to 5% of eligible participants' compensation to the plan and additionally matches up to 3% of participants' contributions. Total pension expense associated with the plans was $88,185 for the year ended June 30, 2020.

NOTE 8 – MANAGEMENT OF FINANCIAL RESOURCES AND LIQUIDITY

The financial statements presented above are presented in accordance with the adoption of FASB's Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities.* The following information is required to be disclosed in accordance with this standard:

Availability of Financial Assets

Early Connections, Inc. has $913,130 of financial assets available within one year of the balance sheet date of June 30, 2020. This balance consists of $760,586 in cash, accounts receivable of $111,025 and prepaid expenses of $41,519. None of these financial assets is subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the date of the statement of financial position.

Management & Liquidity of Financial Resources

The Organization maintains a $100,000 line of credit with a financial institution which can be used for general expenditures.

NOTE 9 – THE CARES ACT AND THE PAYCHECK PROTECTION PROGRAM

In March 2020, the federal government passed the CARES Act (the ACT); one of the provisions of the ACT was the Paycheck Protection Program (PPP), which provided loans to eligible organizations to be used for payroll and certain other costs. If the organization meets certain requirements, the loan may be forgiven, partially or in full. The Organization received $234,719 in PPP loan funds; at the issuance of these financial statements, the amount of loan forgiveness has not yet been determined. This PPP loan is classified as current liabilities on the Statement of Financial Position.

F&G

FELIX & GLOEKLER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
2306 Peninsula Drive • Erie, Pennsylvania 16506

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
Early Connections, Inc.
Erie, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Early Connections, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 22, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Early Connections, Inc.'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 Early Connections, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Early Connections, Inc.'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 the 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

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<u>(Continued)</u>

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Early Connections, Inc.'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 Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

September 22, 2020
Erie, Pennsylvania