

***Early Connections, Inc.***

**Financial Statements with  
Independent Auditors' Report**

**June 30, 2017**

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## Knowledge to Solutions

Certified Public Accountants and Advisors

### *Independent Auditors' Report*

*Board of Directors  
Early Connections, Inc.*

We have audited the accompanying financial statements of Early Connections, Inc., which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets, program service functional expenses and supporting services and cash flows for the year then ended, and 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 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

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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.

### **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, 2017, and the changes in its net assets, functional expenses, and 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 28, 2017, on our consideration of Early Connections Inc'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 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 performed in accordance with *Government Auditing Standards* in considering Early Connection Inc's internal control over financial reporting and compliance.

*K2S, PC*

K2S, PC

Erie, Pennsylvania  
September 28, 2017

*Early Connections, Inc.*

*Statement of Financial Position*

|   | <i>June 30,</i> | <i>2017</i>      |
|---|-----------------|------------------|
| <b>Current Assets:</b>  |                 |                  |
| Cash and Cash Equivalents- Unrestricted                                 | \$              | 451,147          |
| Accounts Receivable   |                 | 170,480          |
| Prepaid Items   |                 | 9,971            |
|   |                 | <hr/>            |
| <b>Total Current Assets</b>   |                 | <b>631,598</b>   |
| Property and Equipment  |                 | 2,976,521        |
| Accumulated Depreciation  |                 | (1,250,344)      |
|   |                 | <hr/>            |
|   |                 | 1,726,177        |
| Beneficial Interest in Investments<br>Held by Erie Community Foundation |                 | 55,099           |
| Security Deposits   |                 | 1,970            |
| Unemployment Deposits   |                 | 5,900            |
|   |                 | <hr/>            |
| <b>Total Assets</b>   | <b>\$</b>       | <b>2,420,744</b> |
|   |                 | <hr/> <hr/>      |
| <b>Current Liabilities:</b>   |                 |                  |
| Trade Accounts Payable  | \$              | 102,315          |
| Accrued Wages and Benefits  |                 | 190,699          |
| Payroll Withholdings and Other Liabilities                              |                 | 26,178           |
| Deferred Income   |                 | 6,578            |
| Current Portion of Long Term Debt                                       |                 | 66,464           |
|   |                 | <hr/>            |
| <b>Total Current Liabilities</b>  |                 | <b>392,234</b>   |
| Long Term Debt, Net of Deferred Loan Cost                               |                 | 482,912          |
|   |                 | <hr/>            |
| <b>Total Liabilities</b>  |                 | <b>875,146</b>   |
| Unrestricted Net Assets   |                 | 984,922          |
| Temporarily Restricted Net Assets                                       |                 | 551,126          |
| Permanently Restricted Net Assets                                       |                 | 9,550            |
|   |                 | <hr/>            |
| <b>Total Net Assets</b>   |                 | <b>1,545,598</b> |
|   |                 | <hr/>            |
| <b>Total Liabilities and Net Assets</b>                                 | <b>\$</b>       | <b>2,420,744</b> |
|   |                 | <hr/> <hr/>      |

*See Independent Auditors' Report and Notes to Financial Statements*

*Early Connections, Inc.*

*Statement of Activities and Changes in Net Assets*

*For the year ended June 30, 2017*

|  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>        |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| <b>Public Support:</b>   |                     |                                   |                                   |                     |
| Contribution and Tax Credit Program  | \$ 28,376           | 340,643                           | \$ -                              | \$ 369,019          |
| Special Events   | 6,466               | -                                 | -                                 | 6,466               |
| United Way   | 148,482             | 69,515                            | -                                 | 217,997             |
| Government Grants  | 1,001,368           | -                                 | -                                 | 1,001,368           |
| Funding from Community Agencies  | 7,198               | -                                 | -                                 | 7,198               |
|  | <u>1,191,890</u>    | <u>410,158</u>                    | <u>-</u>                          | <u>1,602,048</u>    |
| <b>Revenue and Other Gains/(Losses):</b>                                       |                     |                                   |                                   |                     |
| Program Service Fees   | 1,398,359           | -                                 | -                                 | 1,398,359           |
| Government Food Programs   | 193,400             | -                                 | -                                 | 193,400             |
| Program Incidental Revenue   | 6,351               | -                                 | -                                 | 6,351               |
| Investment Income  | 1,439               | -                                 | 112                               | 1,551               |
| Miscellaneous Income   | 650                 | -                                 | -                                 | 650                 |
| Unrealized Gain on Endowment   | 4,064               | -                                 | 853                               | 4,917               |
|  | <u>1,604,263</u>    | <u>-</u>                          | <u>965</u>                        | <u>1,605,228</u>    |
| <b>Assets Released from Restrictions</b>                                       |                     |                                   |                                   |                     |
| Satisfaction of Purpose Restrictions   | 421,471             | (421,471)                         | -                                 | -                   |
|  | <u>3,217,624</u>    | <u>(11,313)</u>                   | <u>965</u>                        | <u>3,207,276</u>    |
| <b>Total Support, Revenue, Other Gains/<br/>(Losses) and Reclassifications</b> |                     |                                   |                                   |                     |
|  | <u>3,217,624</u>    | <u>(11,313)</u>                   | <u>965</u>                        | <u>3,207,276</u>    |
| <b>Expenses:</b>   |                     |                                   |                                   |                     |
| Program Services   | 3,052,794           | -                                 | -                                 | 3,052,794           |
| Supporting Services  | 323,594             | -                                 | -                                 | 323,594             |
|  | <u>3,376,388</u>    | <u>-</u>                          | <u>-</u>                          | <u>3,376,388</u>    |
| <b>Change in Net Assets</b>  | <u>(158,764)</u>    | <u>(11,313)</u>                   | <u>965</u>                        | <u>(169,112)</u>    |
| Beginning Net Assets   | 1,143,686           | 562,439                           | 8,585                             | 1,714,710           |
| <b>Ending Net Assets</b>   | <u>\$ 984,922</u>   | <u>\$ 551,126</u>                 | <u>\$ 9,550</u>                   | <u>\$ 1,545,598</u> |

*See Independent Auditors' Report and Notes to Financial Statements*

**Early Connections, Inc.**

**Statement of Program Service Functional Expenses and Supporting Services**

For the year ended June 30, 2017

|  | West Side<br>Child Care | JEHGA<br>Child Care | City Center<br>Child Care | Union City<br>Child Care | Harbor Homes<br>Child Care | Iroquois<br>Child Care | North East<br>Child Care |
|--|-------------------------|---------------------|---------------------------|--------------------------|----------------------------|------------------------|--------------------------|
| Salaries and Wages   | \$ 253,063              | \$ 115,626          | \$ 564,340                | \$ 278,507               | \$ 107,242                 | \$ 500                 | \$ 66,271                |
| Employee Benefits  | 34,199                  | 13,732              | 75,682                    | 50,069                   | 16,005                     | -                      | 10,269                   |
| Payroll Taxes  | 18,605                  | 8,371               | 41,538                    | 20,297                   | 8,463                      | 37                     | 4,823                    |
| <b>Total Salaries, Wages, and<br/>Related Expenses</b>         | <b>305,867</b>          | <b>137,729</b>      | <b>681,560</b>            | <b>348,873</b>           | <b>131,710</b>             | <b>537</b>             | <b>81,363</b>            |
| Food   | 159                     | 13                  | 336                       | (182)                    | 13                         | -                      | 6                        |
| Prof Fees and Contracted Services                              | 3,922                   | 1,563               | 9,179                     | 3,187                    | 1,846                      | -                      | 855                      |
| Program Expenses   | 6,375                   | 2,302               | 11,943                    | 3,501                    | 2,275                      | 95,305                 | 1,477                    |
| Scholarships   | -                       | -                   | -                         | -                        | -                          | -                      | -                        |
| Telephone  | 2,409                   | 1,846               | 3,117                     | 4,156                    | 1,476                      | -                      | 367                      |
| Office   | 3,195                   | 730                 | 3,070                     | 2,126                    | 837                        | -                      | 2,617                    |
| Occupancy  | 32,039                  | 1,400               | 68,139                    | 24,098                   | 1,101                      | -                      | 18,939                   |
| Travel and Vehicle Expenses                                    | 12,377                  | 110                 | 11,554                    | 6,255                    | 165                        | -                      | 461                      |
| Conferences, Meetings and Training                             | 4,474                   | 2,588               | 3,318                     | 1,955                    | 1,535                      | 139                    | 320                      |
| Dues and Subscriptions   | -                       | -                   | -                         | -                        | -                          | -                      | -                        |
| Public Relations, Adv and Research                             | (60)                    | -                   | -                         | 107                      | (10)                       | -                      | 250                      |
| Interest and Finance Charges                                   | 15,503                  | 1                   | 7,778                     | 9,384                    | 1                          | -                      | 51                       |
| Bad Debts and Adjustments                                      | 731                     | 1,368               | 1,983                     | -                        | 619                        | -                      | -                        |
| <b>Total Expenses Before<br/>Depreciation and Amortization</b> | <b>386,991</b>          | <b>149,650</b>      | <b>801,977</b>            | <b>403,460</b>           | <b>141,568</b>             | <b>95,981</b>          | <b>106,706</b>           |
| Depreciation and Amortization                                  | 23,898                  | 1,994               | 37,960                    | 20,406                   | 912                        | -                      | 393                      |
| <b>Total Program Service Expenses</b>                          | <b>\$ 410,889</b>       | <b>\$ 151,644</b>   | <b>\$ 839,937</b>         | <b>\$ 423,866</b>        | <b>\$ 142,480</b>          | <b>\$ 95,981</b>       | <b>\$ 107,099</b>        |

See Independent Auditors' Report and Notes to Financial Statements

**Early Connections, Inc.**

**Statement of Program Service Functional Expenses and Supporting Services (continued)**

For the year ended June 30, 2017

|  | Community<br>Outreach Services | Erie's<br>Future Fund | Professional &<br>Technical Services | OCY               | Food<br>Program   | CIZ<br>Program   | Total Program<br>Services |
|--|--------------------------------|-----------------------|--------------------------------------|-------------------|-------------------|------------------|---------------------------|
| Salaries and Wages   | \$ 22,727                      | \$ 26,381             | \$ 57,751                            | \$ 101,802        | \$ 57,657         | \$ 13,728        | \$ 1,665,595              |
| Employee Benefits  | 2,581                          | 2,139                 | 8,464                                | 6,851             | 5,444             | 3,707            | 229,142                   |
| Payroll Taxes  | 1,797                          | 1,874                 | 4,000                                | 7,076             | 3,987             | -                | 120,868                   |
| <b>Total Salaries, Wages, and<br/>Related Expenses</b>         | <b>27,105</b>                  | <b>30,394</b>         | <b>70,215</b>                        | <b>115,729</b>    | <b>67,088</b>     | <b>17,435</b>    | <b>2,015,605</b>          |
| Food   | 42                             | -                     | 1,250                                | 90                | 194,151           | -                | 195,878                   |
| Prof Fees and Contracted Services                              | 249                            | 615                   | 615                                  | 615               | 615               | -                | 23,261                    |
| Program Expenses   | 2,526                          | -                     | 291                                  | 1,773             | 49                | 37,148           | 164,965                   |
| Scholarships   | -                              | 281,351               | -                                    | -                 | -                 | -                | 281,351                   |
| Telephone  | -                              | -                     | 1,683                                | 856               | -                 | -                | 15,910                    |
| Office   | 192                            | 149                   | 248                                  | 387               | -                 | -                | 13,551                    |
| Occupancy  | 7,200                          | -                     | -                                    | 3,533             | 28                | 2,000            | 158,477                   |
| Travel and Vehicle Expenses                                    | 420                            | -                     | 5,484                                | 1,106             | 625               | -                | 38,557                    |
| Conferences, Meetings and Training                             | 13                             | -                     | 144                                  | 120               | 30                | -                | 14,636                    |
| Dues and Subscriptions   | -                              | -                     | -                                    | -                 | -                 | -                | -                         |
| Public Relations, Adv and Research                             | 5,650                          | 1,500                 | -                                    | -                 | -                 | -                | 7,437                     |
| Interest and Finance Charges                                   | 1                              | 31                    | 2                                    | 1                 | -                 | -                | 32,753                    |
| Bad Debts and Adjustments                                      | -                              | -                     | -                                    | -                 | -                 | -                | 4,701                     |
| <b>Total Expenses Before<br/>Depreciation and Amortization</b> | <b>43,398</b>                  | <b>314,040</b>        | <b>79,932</b>                        | <b>124,210</b>    | <b>262,586</b>    | <b>56,583</b>    | <b>2,967,082</b>          |
| Depreciation and Amortization                                  | 149                            | -                     | -                                    | -                 | -                 | -                | 85,712                    |
| <b>Total Program Service Expenses</b>                          | <b>\$ 43,547</b>               | <b>\$ 314,040</b>     | <b>\$ 79,932</b>                     | <b>\$ 124,210</b> | <b>\$ 262,586</b> | <b>\$ 56,583</b> | <b>\$ 3,052,794</b>       |

See Independent Auditors' Report and Notes to Financial Statements



*Early Connections, Inc.*

*Statement of Program Service Functional Expenses and Supporting Services (continued)*

*For the year ended June 30, 2017*

|  | <i>Management<br/>and General</i> | <i>Total<br/>Expenses</i> |
|--|-----------------------------------|---------------------------|
| Salaries and Wages   | \$ 197,514                        | \$ 1,863,109              |
| Employee Benefits  | 26,941                            | 256,083                   |
| Payroll Taxes  | 25,576                            | 146,444                   |
| <b>Total Salaries, Wages, and<br/>Related Expenses</b>         | <b>250,031</b>                    | <b>2,265,636</b>          |
| Food   | 1,158                             | 197,036                   |
| Prof Fees and Contracted Services                              | 12,419                            | 35,680                    |
| Program Expenses   | -                                 | 164,965                   |
| Scholarships   | -                                 | 281,351                   |
| Telephone  | 6,865                             | 22,775                    |
| Office   | 13,134                            | 26,685                    |
| Occupancy  | 17,158                            | 175,635                   |
| Travel and Vehicle Expenses                                    | 1,920                             | 40,477                    |
| Conferences, Meetings and Training                             | 2,734                             | 17,370                    |
| Dues and Subscriptions   | 6,643                             | 6,643                     |
| Public Relations, Adv and Research                             | 5,723                             | 13,160                    |
| Interest and Finance Charges                                   | 3,967                             | 36,720                    |
| Bad Debts and Adjustments                                      | -                                 | 4,701                     |
| <b>Total Expenses Before<br/>Depreciation and Amortization</b> | <b>321,752</b>                    | <b>3,288,834</b>          |
| Depreciation and Amortization                                  | 1,842                             | 87,554                    |
| <b>Total Program Service Expenses</b>                          | <b>\$ 323,594</b>                 | <b>\$ 3,376,388</b>       |

*See Independent Auditors' Report and Notes to Financial Statements*

*Early Connections, Inc.*

*Statement of Cash Flows*

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|  | <i>Year Ended June 30,</i> | <i>2017</i>            |
|--|----------------------------|------------------------|
| <b>Cash Flows from Operating Activities:</b>     |                            |                        |
| Change in Net Assets                             | \$                         | (169,112)              |
| Adjustments to Reconcile Change in Net Assets to |                            |                        |
| Net Cash Provided by Operating Activities:       |                            |                        |
| Depreciation                                     |                            | 86,609                 |
| Amortization                                     |                            | 945                    |
| Changes in assets and liabilities:               |                            |                        |
| Accounts receivable                              |                            | (13,031)               |
| Prepaid items                                    |                            | 15,354                 |
| Unemployment deposits                            |                            | (1,318)                |
| Trade accounts payable                           |                            | 59,166                 |
| Accrued wages and benefits                       |                            | 10,767                 |
| Payroll withholdings and other liabilities       |                            | (3,710)                |
| <b>Net Cash Used by Operating Activities</b>     |                            | <u><b>(14,330)</b></u> |
| <b>Cash Flows from Investing Activities:</b>     |                            |                        |
| Purchase of Property and Equipment               |                            | (15,984)               |
| Beneficial Interest in Investments               |                            |                        |
| Held by Erie Community Foundation                |                            | (5,754)                |
| <b>Net Cash Used by Investing Activities</b>     |                            | <u><b>(21,738)</b></u> |
| <b>Cash Flows from Financing Activities:</b>     |                            |                        |
| Payments on Long Term Debt                       |                            | (62,781)               |
| <b>Net Cash Used by Financing Activities</b>     |                            | <u><b>(62,781)</b></u> |
| <b>Net Change in Cash</b>                        |                            | <b>(98,849)</b>        |
| Cash and Cash Equivalents, Beginning of Year     |                            | <u>549,996</u>         |
| <b>Cash and Cash Equivalents, End of Year</b>    | <b>\$</b>                  | <u><b>451,147</b></u>  |
| <b>Supplemental Data:</b>                        |                            |                        |
| Interest Paid                                    | \$                         | <u><u>32,115</u></u>   |

*See Independent Auditors' Report and Notes to Financial Statements*

**Note 1 - Summary of Significant Accounting Policies**

**Nature of Business**

In February 2004, Early Connections (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 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 program service 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.

**Basis of Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

**Financial Statement Presentation**

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows. Net assets of the Organization and changes therein are classified and reported as follows:

**Unrestricted Net Assets** - Net assets not subject to donor-imposed stipulations.

**Temporarily Restricted Net Assets** - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**Permanently Restricted Net Assets** - Net assets subject to donor-imposed stipulations that they may be maintained permanently by the Organization. The donors of these assets generally permit the Organization to use the income earned on any related investments for general or specific purposes.

**Contributions**

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Donations of property and equipment are recorded as support at estimated fair value. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

**Cash and Cash Equivalents**

For the purposes of the statements of cash flows, cash and cash equivalents 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. Certain of these accounts are not federally insured. The Organization has not experienced any losses in these accounts and does not believe it is exposed to any significant credit risk with respect to cash and cash equivalents.

**Accounts Receivable**

Accounts receivable are considered to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they are charged to operations when that determination is made.

*Notes to Financial Statements*

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**Property and Equipment**

Property and equipment, when purchased 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:

|                           | <u>Years</u> |
|---------------------------|--------------|
| Building and Improvements | 10-30        |
| Furniture and Equipment   | 5-10         |
| Vehicles                  | 5-10         |

**Beneficial Interest in Investments Held by Erie Community Foundation**

The Organization used the principal and income policy for accounting for the earnings in the beneficial interest in investments held by the Erie Community Foundation. Under that policy, the Organization spends only the investment's earnings, not the capital gains or the principal.

**Revenue Recognition**

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.

**Functional Expenses**

The costs of providing the various program services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and management and general categories.

An immaterial amount of fund raising costs for the year ended June 30 are included in management and general expenses.

**Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates also affect the reported amount of revenue and expenses during the reporting period, and disclosures included in the financial statements. Actual results could differ from those estimates.

**Income Tax Status**

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is included in the accompanying financial statements. The Organization is designated as a public charity.

**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, 2017 these sources comprised approximately 69% of the Organization's total support and revenue.

*Early Connections, Inc.*

*Notes to Financial Statements*

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**Note 2 - Accounts Receivable**

Accounts receivable at June 30th consists of the following:

|   | <u>2017</u>       |
|---|-------------------|
| Contributions, food program and other items | \$ 81,262         |
| Child care                                  | 89,218            |
|   | <u>\$ 170,480</u> |

**Note 3 - Property and Equipment**

Property and equipment at June 30th consists of:

|                                | <u>2017</u>         |
|--------------------------------|---------------------|
| Land                           | \$ 145,327          |
| Buildings and improvements     | 2,508,368           |
| Equipment                      | 176,956             |
| Furniture and fixtures         | 16,175              |
| Vehicles                       | <u>129,695</u>      |
|                                | 2,976,521           |
| Less: Accumulated depreciation | <u>1,250,344</u>    |
|                                | <u>\$ 1,726,177</u> |

Depreciation expense for the year ended June 30, 2017 was \$86,609.

**Note 4 - Fair Value of Financial Instruments**

FASB ASC 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 also established a 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 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 Foundation. Unobservable inputs are inputs that reflect the Foundation'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. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 - Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 - Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Level 3 inputs are unobservable inputs for the asset or liability.

*Early Connections, Inc.*

*Notes to Financial Statements*

The table below presents the balance of assets measured at fair value as of June 30, 2017:

|                                | <u>Total</u>     | <u>Level I</u> | <u>Level II</u> | <u>Level III</u> |
|--------------------------------|------------------|----------------|-----------------|------------------|
| Interest in Assets Held by ECF | \$ 55,099        | --             | \$ --           | \$ 55,099        |
| Total Assets                   | <u>\$ 55,099</u> | <u>--</u>      | <u>\$ --</u>    | <u>\$ 55,099</u> |

*Note 5 - Long Term Debt*

Long term debt at June 30th consists of the following:

|   | <u>2017</u>       |
|---|-------------------|
| 5.28% mortgage, dated September 29, 2006, \$5,646 payable monthly including interest through October 2026; collateralized by all Early Connection's real estate and equipment.                  | \$ 412,581        |
| 5.93% mortgage, dated September 25, 2008, \$2,262 payable monthly including interest through September 2023; collateralized by all Early Connection's real estate and all related improvements. | <u>140,811</u>    |
| Total   | 553,392           |
| Less: Unamortized debt issuance costs   | 4,016             |
| Less: Current portion   | <u>66,464</u>     |
| Net, Long term portion  | <u>\$ 482,912</u> |

The aggregate maturities at June 30th over the next five years are as follows:

|            |                   |
|------------|-------------------|
| 2018       | \$ 66,464         |
| 2019       | 70,192            |
| 2020       | 74,130            |
| 2021       | 78,289            |
| 2022       | 82,682            |
| Thereafter | <u>181,635</u>    |
| Total      | <u>\$ 553,392</u> |

*Note 6 - Accrued Vacation Pay*

Certain employees are eligible to receive accrued unpaid vacation pay, as outlined in the employee handbook. At June 30, 2017, the Organization has an unpaid vacation pay liability of \$62,635 included in accrued wages and benefits on the statement of financial position.

*Notes to Financial Statements*

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***Note 7 - Line of Credit***

During the year, the organization had a \$100,000 line of credit with First Niagara Bank which bears interest at 3.75%. Interest payments are due monthly. At June 30, 2017, there was no balance. The line is secured by real estate, equipment and all other assets.

***Note 8 - Restricted Assets***

Permanently restricted net assets at June 30, 2017 are restricted to investment in perpetuity; the income from which is expendable to support activities of the organization.

***Note 9 - Temporarily Restricted Net Assets***

For the year ended June 30, 2017, temporarily restricted net assets of \$537,779 are restricted for the Erie's Future Fund Scholarship Program. While an additional \$50 was restricted for costs associated with the Children Don't Come with Directions book, \$365 was restricted for food panty and \$12,932 was restricted for the Community Innovation Zone (CIZ) Grant Program.

***Note 10 - Office of Children and Youth***

Included in Program Service Fees on the Statement of Activities and Changes in Net Assets is \$166,395 of revenue from the Office of Children and Youth (OCY) for the year ended June 30, 2017.

***Note 11 - Pension Plans***

Effective July 1, 2004, the Organization adopted a 401(k) plan. Employees who work at least 30 hours a week are eligible to participate in the plan after completion of one year of service. The Organization contributes an amount equal to 5% of eligible participants' compensation to the plan and also matches up to 3% of participants' contributions. Total pension expense associated with the plans was \$103,292 for the year ended June 30, 2017.

***Note 12 - Leases***

The Organization has leases for their administrative facility and office equipment with varying terms. Total rent expense associated with these leases was \$17,436 for the year ended June 30, 2017. The lease for the administrative facility is a monthly amount to rent the space plus additional varying costs for shared building overhead.

At June 30, 2017, future minimum lease payments under non-cancelable leases are as follows:

|       |    |               |
|-------|----|---------------|
| 2018  | \$ | 12,636        |
| 2019  |    | 2,798         |
| 2020  |    | 1,608         |
| 2021  |    | <u>1,340</u>  |
| Total | \$ | <u>18,382</u> |

**Note 13 - Beneficial Interest in Investments Held by Erie Community Foundation**

The assets held by The Erie Community Foundation (ECF) consist of the two components shown in the following tables. The Board Designated component reflects assets transferred by Board action. The Permanently Restricted component represents donations received with donor restrictions that they be held in an endowment fund. Income from the endowment fund is to be used for Early Connections operations and will be released to the Organization in accordance with The Erie Community Foundation policies.

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.

**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 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.

**Endowment Net Asset Class**

The Unrestricted and Permanently Restricted components of the endowment balance at June 30, 2017 are as follows:

|                           | Unrestricted -<br>Board<br>Designated | Permanently<br>Restricted | Total            |
|---------------------------|---------------------------------------|---------------------------|------------------|
| Assets, beginning of year | \$ 40,760                             | \$ 8,585                  | \$ 49,345        |
| Contributions             | --                                    | --                        | --               |
| Disbursements             | --                                    | --                        | --               |
| Investment return         |                                       |                           |                  |
| Interest & dividends      | 732                                   | --                        | 732              |
| Unrealized gains (losses) | 4,064                                 | 853                       | 4,917            |
| Realized gains (losses)   | 536                                   | 112                       | 648              |
| Total investment return   | 5,332                                 | 965                       | 6,297            |
| Disbursements             |                                       |                           |                  |
| Investmt/mgmt fees        | (543)                                 | --                        | (543)            |
| Total                     | <u>\$ 45,549</u>                      | <u>\$ 9,550</u>           | <u>\$ 50,999</u> |



**Return Objectives and Risk Parameters**

Since the endowment account is an agency endowment fund held with another organization, the Organization relies on 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 and 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.

***Note 14 - 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 is potentially liable for any expenditure that may be disallowed pursuant to the terms of the programs.

***Note 15 - Adoption of New Accounting Pronouncement***

In April 2015, the Financial Accounting Standards Board (FASB) issue Accounting Standards Update (ASU) 2015-03, "Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs", which requires that debt issuance costs be reported in the statement of financial position as a direct deduction from long-term debt. Prior to this ASU, debt issuance costs were reported as an asset. Early Connections, Inc. adopted this ASU in the current year. There was no impact to total net assets or change in net assets. Similarly, the Organization now reports amortization of debt issue costs as interest expense.

***Note 16 - Subsequent Events***

Management has evaluated and discovered no subsequent events through September 28, 2017, the date the financial statements were available to be issued.



## Knowledge to Solutions

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### *Independent Auditors' 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.*

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 Standard 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, 2017, 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 September 28, 2017.

#### **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 the Organization'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 may exist that have not been identified.

### **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 Standard's* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



K2S, PC  
Erie, Pennsylvania  
September 28, 2017

*Early Connections, Inc.*  
*Schedule of Findings and Responses*

*For the Year Ended June 30, 2017*

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None