

CHILD CARE AWARE OF MINNESOTA

**FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED
SEPTEMBER 30, 2015**

CHILD CARE AWARE OF MINNESOTA

FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

For the Year Ended September 30, 2015
(With Comparative Totals for 2014)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Child Care Aware of Minnesota
Saint Paul, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Child Care Aware of Minnesota (a nonprofit organization), which comprise the statement of financial position as of September 30, 2015, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to 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 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 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.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Child Care Aware of Minnesota as of September 30, 2015, 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 Matters

Report on Summarized Comparative Information

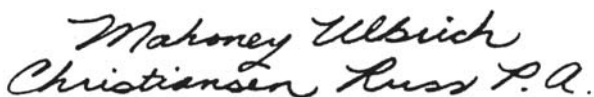
We have previously audited Child Care Aware of Minnesota’s 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 5, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2016, on our consideration of Child Care Aware of Minnesota’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 Child Care Aware of Minnesota’s internal control over financial reporting and compliance.



Saint Paul, Minnesota
January 13, 2016

CHILD CARE AWARE OF MINNESOTA

STATEMENT OF FINANCIAL POSITION

September 30, 2015
(With Comparative Totals for 2014)

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash	\$ 1,837,230	\$ 1,592,236
Government grants and contracts receivable	869,743	598,429
Contributions receivable	-	10,000
Prepaid expenses	62,757	62,587
Total current assets	<u>2,769,730</u>	<u>2,263,252</u>
Equipment	44,725	65,652
Less accumulated depreciation	(40,089)	(53,046)
Net equipment	<u>4,636</u>	<u>12,606</u>
Total assets	<u>\$ 2,774,366</u>	<u>\$ 2,275,858</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 32,188	\$ 20,125
R.E.E.T.A.I.N. grants payable	310,289	96,089
Accrued expenses	96,337	99,701
Deferred revenue	34,335	19,710
Refundable advances	1,504,415	1,344,763
Total current liabilities	<u>1,977,564</u>	<u>1,580,388</u>
Net assets:		
Unrestricted net assets	796,802	676,991
Temporarily restricted net assets	-	18,479
Total net assets	<u>796,802</u>	<u>695,470</u>
Total liabilities and net assets	<u>\$ 2,774,366</u>	<u>\$ 2,275,858</u>

See accompanying notes to financial statements.

CHILD CARE AWARE OF MINNESOTA

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended September 30, 2015
(With Comparative Totals for 2014)

	2015			2014
	Unrestricted	Temporarily restricted	Total	
Support and revenue:				
Government grants and contracts	\$ 3,244,931	\$ -	\$ 3,244,931	\$ 2,652,160
Contributions	1,413	-	1,413	21,748
Program income	304,710	-	304,710	235,255
Investment income	992	-	992	1,020
Net assets released from restrictions upon satisfaction of program restrictions	18,479	(18,479)	-	-
 Total support and revenue	 <u>3,570,525</u>	 <u>(18,479)</u>	 <u>3,552,046</u>	 <u>2,910,183</u>
Expenses:				
Program services:				
CCR&R System Support	1,122,142	-	1,122,142	1,220,082
Financial Support	834,764	-	834,764	409,789
Eager to Learn	321,433	-	321,433	282,381
Race to the Top	932,015	-	932,015	702,174
Other	65,678	-	65,678	64,510
Total program services	<u>3,276,032</u>	<u>-</u>	<u>3,276,032</u>	<u>2,678,936</u>
Management and general	168,338	-	168,338	161,622
Fundraising	6,344	-	6,344	11,397
 Total expenses	 <u>3,450,714</u>	 <u>-</u>	 <u>3,450,714</u>	 <u>2,851,955</u>
 Change in net assets	 119,811	 (18,479)	 101,332	 58,228
Net assets, beginning of year	<u>676,991</u>	<u>18,479</u>	<u>695,470</u>	<u>637,242</u>
Net assets, end of year	<u>\$ 796,802</u>	<u>\$ -</u>	<u>\$ 796,802</u>	<u>\$ 695,470</u>

See accompanying notes to financial statements.

CHILD CARE AWARE OF MINNESOTA

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2015
(With Comparative Totals for 2014)

	2015									2014
	Program Services					Total program services	Management and general	Fundraising	Total	
	CCR&R System Support	Financial Support	Eager To Learn	Race To The Top	Other					
Salaries	\$ 552,385	\$ 121,251	\$ 93,860	\$ 163,285	\$ 27,920	\$ 958,701	\$ 87,638	\$ 4,434	\$ 1,050,773	965,915
Payroll taxes	41,759	8,773	8,336	11,813	1,669	72,350	6,394	326	79,070	78,281
Employee benefits	71,690	18,380	15,084	26,223	3,968	135,345	11,348	567	147,260	136,578
Retirement plan	23,772	4,612	5,758	8,055	776	42,973	4,804	236	48,013	43,912
Total employee compensation	689,606	153,016	123,038	209,376	34,333	1,209,369	110,184	5,563	1,325,116	1,224,686
Insurance	3,951	778	535	-	256	5,520	368	-	5,888	5,743
Scholarships and grants	-	627,007	-	358,043	-	985,050	-	-	985,050	438,301
Accounting and legal	25,204	4,001	1,500	-	100	30,805	23,546	-	54,351	57,564
Supplies and advertising	13,661	4,420	2,141	-	586	20,808	3,520	-	24,328	18,883
Telephone, postage and copying	25,761	6,277	4,909	-	88	37,035	1,952	46	39,033	45,851
Rent	54,588	8,853	5,027	-	-	68,468	8,602	735	77,805	79,670
Equipment	71,670	5,662	16,152	-	-	93,484	2,145	-	95,629	85,521
Database development	-	-	-	38,426	-	38,426	-	-	38,426	123,423
Public relations and marketing	133,893	14,560	-	15,000	3,864	167,317	3,718	-	171,035	110,481
Staff travel and meals	6,134	2,002	43	3,498	2,199	13,876	2,536	-	16,412	22,646
Board and committee travel	25,218	522	305	3,375	170	29,590	808	-	30,398	36,318
Training and conferences	32,781	2,697	137,100	29,761	12,780	215,119	2,481	-	217,600	165,773
Depreciation	-	-	-	-	-	-	7,970	-	7,970	12,848
Miscellaneous	-	181	24,901	-	527	25,609	7	-	25,616	14,099
Consulting	39,675	4,788	5,782	274,536	10,775	335,556	501	-	336,057	410,148
	<u>\$ 1,122,142</u>	<u>\$ 834,764</u>	<u>\$ 321,433</u>	<u>\$ 932,015</u>	<u>\$ 65,678</u>	<u>\$ 3,276,032</u>	<u>\$ 168,338</u>	<u>\$ 6,344</u>	<u>\$ 3,450,714</u>	<u>\$ 2,851,955</u>

See accompanying notes to financial statements.

CHILD CARE AWARE OF MINNESOTA

STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2015
(With Comparative Totals for 2014)

Increase (Decrease) in Cash

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ 101,332	\$ 58,228
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation	7,970	12,848
Changes in operating assets and liabilities:		
Grants receivable	(271,314)	17,030
Contributions receivable	10,000	10,000
Accounts receivable	-	3,497
Prepaid expenses	(170)	(5,938)
Accounts payable	12,063	(43,628)
R.E.E.T.A.I.N. grants payable	214,200	(66,161)
Accrued expenses	(3,364)	1,533
Deferred revenue	14,625	5,300
Refundable advances	159,652	185,483
Net cash from operating activities	<u>244,994</u>	<u>178,192</u>
Net increase in cash	244,994	178,192
Cash, beginning of year	<u>1,592,236</u>	<u>1,414,044</u>
Cash, end of year	<u>\$ 1,837,230</u>	<u>\$ 1,592,236</u>

See accompanying notes to financial statements.

CHILD CARE AWARE OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2015
(With Comparative Totals for 2014)

1. ORGANIZATION

Minnesota Child Care Resource and Referral Network, doing business as Child Care Aware of Minnesota, (the Organization) is a nonprofit corporation which provides statewide leadership in shaping collaborations that build a diverse, high quality child care system accessible to all Minnesota families. The Organization's goal is to ensure a solid infrastructure for quality child care in the state. Approximately 90% of the Organization's funding was provided from state government grants funded with pass-through money from the U.S. Department of Health and Human Services and U.S. Department of Education in 2015 and 2014. Other support is provided from program income and contributions from foundations and individuals.

The Organization operates several programs to achieve its purpose which include:

Child Care Resource and Referral (CCR&R) System Support: The coordinating office provides coordination, training/technical assistance and infrastructure support to the 14 agencies that are contracted by the Minnesota Department of Human Services to provide community based activities, including child care referrals and consultation for parents, support for child care programs, training for early care and education providers, implementation of the Parent Aware quality rating and improvement system, and community networking. The duties of the System are prescribed by state statute.

Parent Aware is a voluntary Quality Rating and Improvement System (QRIS) for early care and education programs including licensed family child care programs, child care centers, Head Start, and School Readiness programs. The program is led by the Minnesota Department of Human Services in coordination with the Minnesota Office of Early Learning. The Child Care Aware system is coordinating local-level implementation.

Financial Support Programs:

The T.E.A.C.H.® Early Childhood Minnesota scholarship program (Teacher Education and Compensation Helps) is an education scholarship program for early care and education providers to attain higher education degrees, with the goal of increasing their competency, and reducing staff turnover by providing incentives to stay in the field.

The CDA/MN Child Care Credential Support Project focuses on financial support and guidance to child care professionals who are working toward and completing their National Child Development Associate (CDA) Credential or the Minnesota Child Care Credential, with a special emphasis on providers serving infants and toddlers and pre-school age children.

(Continued)

CHILD CARE AWARE OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2015
(With Comparative Totals for 2014)

1. ORGANIZATION (Continued)

The R.E.E.T.A.I.N. workforce retention program (Retaining Early Educators Through Attaining Incentives Now) both rewards quality and reduces turnover in the field by providing grants to child care providers who have already graduated with at least a two-year associate degree or currently hold a Child Development Associate (CDA) Credential.

Eager-to-Learn is an internet-based program offering high quality, online education for providers. Eager-to-Learn courses offer a continuum of research-based topics that promote developmentally appropriate care and effective early care and education strategies, and fill a niche between self-study/individual training opportunities, and the formal higher education system.

Race to the Top activities are focused primarily on increasing the education and training of the early care and education workforce in Minnesota, and providing additional supports for their participation in Parent Aware. This work is funded by Minnesota's Race to the Top "Early Learning Challenge Grant".

Other programs consist of statewide conference support, and additional funding that support the basic work of the Child Care Aware system.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Presentation – Revenues and support are classified based on the presence or absence of donor restrictions and reported in the following net asset categories:

- Unrestricted net assets represent the portion of net assets that are not subject to donor restrictions.
- Temporarily restricted net assets arise from contributions that are restricted by donors for specific purposes or time periods.

(Continued)

CHILD CARE AWARE OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2015
(With Comparative Totals for 2014)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Permanently restricted net assets arise from contributions that the donor has stipulated must be maintained in perpetuity. At this time, the Organization has no permanently restricted net assets.

Concentration of Credit Risk – The Organization maintains cash balances in one large banking institution. At September 30, 2015, these accounts exceeded the FDIC insured limit by \$505,347. The Organization does not believe it is exposed to any significant credit risk on these funds.

Contributions – Contributions are recognized when the donor makes an unconditional commitment to give to the Organization. Contributions that are restricted by the donor are reported as increases in temporarily restricted net assets and transferred to unrestricted net assets when restrictions expire or the condition is met.

Contributions Receivable – Promises to give that are expected to be collected within one year are recorded at their net realizable value. Promises that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. As of September 30, 2015, there are no receivables due. Management reviews receivable balances at year end and establishes an allowance for doubtful accounts based on expected collections.

Accounts Receivable – Accounts receivable are stated at the amount management expects to collect. Management reviews receivable balances at year end and establishes an allowance for doubtful accounts based on expected collections. Receivables are written off as a charge to the allowance when, in managements estimation, it is probable the receivable is worthless. As of September 30, 2015, no allowance for uncollectible amounts has been recorded since management believes all receivables are collectible.

Equipment – Equipment with a value of at least \$5,000 and a useful life greater than one year is carried at cost, with the exception of contributed equipment, which is recorded at its fair market value at the date of the contribution. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Depreciation is computed using the straight-line method over estimated useful lives of three to five years. Maintenance and repairs are expensed as incurred. Major renewals or betterments that extend the lives of equipment are capitalized.

(Continued)

CHILD CARE AWARE OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2015
(With Comparative Totals for 2014)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue – Deferred revenue includes class payments which will be recognized in a future period when the class occurs.

Government Grants and Contracts – Government grants and contract funds are generally considered exchange transactions and are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined in each grant or contract, are incurred. Funds received but not yet earned are recorded as refundable advances. Expenditures under government grants and contracts are subject to review by the granting authority. If, as a result of such a review, expenditures are determined to be unallowable, the disallowance will be recorded at the time the assessment for refund is made.

Scholarships and Grants – Scholarships and grants awarded by the Organization are recorded as liabilities when they become unconditional. R.E.E.T.A.I.N., CDA, and Adult Ed grants are unconditional and are recorded when the award is made. T.E.A.C.H. scholarship grants generally cover multiple semesters of education and are considered conditional upon continued enrollment. Liabilities are recorded at the time confirmation of enrollment for the semester is received. At September 30, 2015, approximately \$1.2M of the refundable advances is for encumbered but not recorded T.E.A.C.H. scholarships.

Functional Expenses – Expenses have been recorded in program service and support service categories based on whether an expense can be identified to either area. In the absence of specific identification, expenses have been allocated based on staff time spent in each category or by square footage. The time allocations are based on management estimates.

Income Taxes – The Organization is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and applicable Minnesota Statutes, except to the extent it has taxable income from businesses that are not related to its exempt purpose. Management believes the Organization did not have any unrelated business income or uncertain tax positions in 2015 or 2014.

Prior Year Summarized Information – The financial statements include certain prior year summarized information in total but not by net asset class or by functionalized expenses. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2014, from which the summarized information was derived.

(Continued)

CHILD CARE AWARE OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2015
(With Comparative Totals for 2014)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications – Certain 2014 amounts on the statement of functional expenses were reclassified to be consistent with the current year financial statements. These reclassifications did not affect net assets or the change in net assets.

3. UNEMPLOYMENT FUND DEPOSIT

Child Care Aware of Minnesota has elected to opt out of participation in the Minnesota Unemployment Insurance Program. Child Care Aware of Minnesota is self-insured for unemployment claims through Unemployment Services Trust (UST). Contributions to UST are accumulated and used to pay future claims. Child Care Aware of Minnesota could be required to make additional payments if claims exceeded the accumulated contributions. The unemployment fund deposit of \$36,378 and \$35,973, is included in prepaid expenses at September 30, 2015 and 2014, respectively.

4. REFUNDABLE ADVANCES

Refundable advances are for the following programs:

	2015	2014
CCR&R System Support	\$ 985,656	\$ 1,016,449
Scholarship Programs –T.E.A.C.H.	160,243	155,801
Race to the Top	339,766	172,513
Adult Education	18,750	-
	<u>\$ 1,504,415</u>	<u>\$ 1,344,763</u>

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes:

	2015	2014
Scholarship Programs –T.E.A.C.H.	\$ -	\$ 3,390
Parent Outreach	-	15,089
	<u>\$ -</u>	<u>\$ 18,479</u>

(Continued)

CHILD CARE AWARE OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2015
(With Comparative Totals for 2014)

5. TEMPORARILY RESTRICTED NET ASSETS (Continued)

Temporarily restricted net assets consist of the following:

	<u>2015</u>	<u>2014</u>
Cash	\$ -	\$ 8,479
Contributions receivable	-	10,000
	<u>\$ -</u>	<u>\$ 18,479</u>

6. ECONOMIC DEPENDENCY

The Organization received approximately 90% of its support and revenue from one state governmental agency for the years ended September 30, 2015 and 2014. A significant reduction in the level of this support would have an effect on Child Care Aware of Minnesota's programs and services and could prevent Child Care Aware of Minnesota from continued existence in its present form.

7. RETIREMENT PLAN

During June 2012, the Organization discontinued its retirement savings plan under the requirements of Section 403(b) of the Internal Revenue Code and established a 401(k) retirement savings plan. Subject to certain plan requirements, employees of the Organization are eligible to participate in the plan. The plan is a matched plan under which voluntary employee contributions are matched by the employer. Matching contributions are made by the Organization at a maximum rate up to 5% of gross salaries to be determined annually and based on the availability of funds. For 2015 and 2014, the match was set at 5%. The Organization's retirement plan expense was \$48,013 and \$43,912 in 2015 and 2014, respectively.

8. LEASES

The Organization leases its office space under the terms of an operating lease agreement that expires on December 31, 2015. In addition to base rent for operating space, the Organization pays its share of operating costs. Total rental expense was \$77,805 and \$79,670 for the years ended September 30, 2015 and 2014, respectively.

Future minimum rental payments consist of \$19,525 for the year ending September 30, 2016.

(Continued)

CHILD CARE AWARE OF MINNESOTA

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2015
(With Comparative Totals for 2014)

9. CONTINGENCIES

Management is not aware of any reported or unreported unemployment claims pending against the Organization. Liabilities resulting from unreported unemployment claims cannot be estimated by management and therefore are not included in the accompanying financial statements.

10. SUBSEQUENT EVENTS

On November 20, 2015, the Organization signed a 92 month lease for new office space that expires June 30, 2023. The Organization will receive the first eight months rent free, and then begin paying rent of \$54,400 per year increasing 2.5% annually along with a share of operating expenses. The Organization received a \$143,616 tenant improvement allowance for design, engineering and construction costs of the new space.

Management has evaluated subsequent events through January 13, 2016, the date on which the financial statements were available for issue, and identified no further significant events or transactions to disclose.

SUPPLEMENTARY INFORMATION

CHILD CARE AWARE OF MINNESOTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2015

Federal Grantor/ Pass-through Grantor/ Program Title/Grant Number	Federal CFDA Number	Federal Expenditures
Department of Health and Human Services, Administration for Children and Families:		
Passed through the State of Minnesota Department of Human Services, Community Partnerships Division		
Child Care and Development Block Grant	93.575	
Award #65048		\$ 1,622,357
Award #94351		444,451
Award #94582		35,933
Program Income		<u>294,497</u>
<i>Total Department of Health and Human Services, Administration for Children and Families</i>		<u>2,397,238</u>
Department of Education		
Passed through the State of Minnesota Department of Human Services, Community Partnerships Division		
Race to the Top - Early Learning Challenge Grant	84.412A	
Award #65048		457,953
Award #94351		<u>209,092</u>
<i>Total Department of Education</i>		<u>667,045</u>
		<u><u>\$ 3,064,283</u></u>

(Continued)

CHILD CARE AWARE OF MINNESOTA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2015

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Child Care Aware of Minnesota under programs of the federal government for the year ended September 30, 2015. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Child Care Aware of Minnesota, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Child Care Aware of Minnesota.

Note 2. Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

Note 3. Program Income on Child Care and Development Block Grant

In accordance with terms of the Child Care and Development Block Grant, program income totaling \$294,497 was used to reduce the amount of federal funds for the program. Program income is included in the schedule of expenditures of federal awards when received.



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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
Child Care Aware of Minnesota
Saint Paul, Minnesota

We have audited the financial statements of Child Care Aware of Minnesota (a nonprofit organization), which comprise the statement of financial position as of September 30, 2015, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to financial statements, and have issued our report thereon dated January 13, 2016. 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.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Child Care Aware of Minnesota'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 Child Care Aware of Minnesota's internal control. Accordingly, we do not express an opinion on the effectiveness of Child Care Aware of Minnesota'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.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Child Care Aware of Minnesota'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.

*Mahoney Ulbrich
Christiansen Russ P.A.*

Saint Paul, Minnesota
January 13, 2016



Mahoney Ulbrich Christiansen Russ P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
Child Care Aware of Minnesota
Saint Paul, Minnesota

Report on Compliance for the Major Federal Program

We have audited Child Care Aware of Minnesota's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Child Care Aware of Minnesota's major federal program for the year ended September 30, 2015. Child Care Aware of Minnesota's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Child Care Aware of Minnesota's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about Child Care Aware of Minnesota's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Child Care Aware of Minnesota's compliance.

Opinion on the Major Federal Program

In our opinion, Child Care Aware of Minnesota complied, in all material respects, with the types of

(Continued)

compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2015.

Report on Internal Control Over Compliance

Management of Child Care Aware of Minnesota is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Child Care Aware of Minnesota's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Child Care Aware of Minnesota's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2015-001, that we consider to be a significant deficiency.

Child Care Aware of Minnesota's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Child Care Aware of Minnesota's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


Saint Paul, Minnesota

January 13, 2016

CHILD CARE AWARE OF MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2015

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(s) identified? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

FEDERAL AWARDS

Internal control over major program:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(s) identified? X yes _____ none reported

Type of auditor's report issued on compliance for major program Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? X yes _____ no

Identification of major program:

- CFDA Number 93.575 – Child Care and Development Block Grant

Dollar threshold used to distinguish between type A and type B programs \$ 300,000

Auditee qualified as low-risk auditee? X yes _____ no

(Continued)

CHILD CARE AWARE OF MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2015

SECTION II – FINDINGS – FINANCIAL STATEMENTS AUDIT

No matters were reported.

SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

2015-001 Monitoring Scholarship Eligibility Determinations

Significant Deficiency

Federal Program – CFDA Number 93.575 Child Care and Development Block Grant

Criteria – The A-102 Common Rule and OMB Circular A-110 require that non-federal entities receiving federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. The Internal Control-Integrated Framework (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission, includes monitoring as one of the main components of good internal control.

Condition – The Organization does not document or always perform monitoring controls for eligibility determination for scholarship recipients. Under the T.E.A.C.H. program, the Organization has performed second reviews of files on a sample basis, but does not document this review. For the R.E.E.T.A.I.N. program, no second review of eligibility determination is performed.

Cause – The Organization had several changes in scholarship program staff during fiscal year 2015. During these changes, the review process which was practiced in fiscal year 2014 was not performed.

Effect – Failure to perform second review of scholarship eligibility can result in recipients being incorrectly determined eligible and awarded a scholarship due to error or fraud.

Recommendation – We recommend the Organization develop and implement a second review process for all scholarship files and document the performance of this review. We also recommend that the Organization document this process in writing so future staff changes will not result in the practice being abandoned again.

Management's Response and Corrective Action – The Organization has determined to document the T.E.A.C.H. review process which has been performed in the past. The Organization has also adopted a policy to review and document the review of a sample of the R.E.E.T.A.I.N. grant files, including those who are potential awardees as well as those within 10 points of the lowest potential awardees.

Responsible party for corrective action: Ann McCully, Executive Director