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THE COLORADO SPRINGS CHILD NURSERY CENTERS, INC.
dba EARLY CONNECTIONS LEARNING CENTERS
AND AFFILIATES

Independent Auditors' Reports

And

Consolidated Financial Statements

For the Year Ended December 31, 2019

And

Schedule of Expenditures of Federal Awards,

Schedule of Findings and Questioned Costs

And

Summary Schedule of Prior Audit Findings

For the Year Ended December 31, 2019

THE COLORADO SPRINGS CHILD NURSERY CENTERS, INC.
dba EARLY CONNECTIONS LEARNING CENTERS
AND AFFILIATES

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STOCKMAN KAST RYAN + COMPANY

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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Colorado Springs Child Nursery Centers, Inc.
dba Early Connections Learning Centers and Affiliates
Colorado Springs, Colorado

We have audited the accompanying consolidated financial statements of The Colorado Springs Child Nursery Centers, Inc. dba Early Connections Learning Centers and Affiliates (collectively, the Organization), which comprise the consolidated balance sheet as of December 31, 2019, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Colorado Springs Child Nursery Centers, Inc. dba Early Connections Learning Centers and Affiliates as of December 31, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The Colorado Springs Child Nursery Centers, Inc. dba Early Connections Learning Centers and Affiliates' 2018 consolidated financial statements and we expressed an unmodified opinion on those audited financial statements in our report dated March 28, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 February 27, 2020 on our consideration of The Colorado Springs Child Nursery Centers, Inc. dba Early Connections Learning Centers and Affiliates' 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 The Colorado Springs Child Nursery Centers, Inc. dba Early Connections Learning Centers and Affiliates' internal control over financial reporting and compliance.

Stockman Kast Ryan + Co, LLP

February 27, 2020

THE COLORADO SPRINGS CHILD NURSERY CENTERS, INC.
dba EARLY CONNECTIONS LEARNING CENTERS
AND AFFILIATES

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2019 (with comparative totals for 2018)

	2019					
	Without Donor Restriction			With Donor		2018
	Undesignated	Designated	Total	Restriction	Total	Total
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	$ 19,885	$ 2,023	$ 21,908	$ 93,768	$ 115,676	$ 118,787
Accounts receivable	216,215		216,215		216,215	237,875
Pledges receivable				413,901	413,901	377,173
Investments		3,734,256	3,734,256	1,186,683	4,920,939	4,588,032
Prepaid expenses	33,256		33,256		33,256	27,959
Total	269,356	3,736,279	4,005,635	1,694,352	5,699,987	5,349,826
PLEDGES RECEIVABLE				215,199	215,199	129,000
BENEFICIAL INTEREST IN PERPETUAL TRUSTS				769,051	769,051	677,969
PROPERTY AND EQUIPMENT, NET	1,242,611		1,242,611		1,242,611	1,140,818
TOTAL	$ 1,511,967	$ 3,736,279	$ 5,248,246	$ 2,678,602	$ 7,926,848	$ 7,297,613
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES						
Accounts payable	$ 106,655	$ 10,000	$ 116,655		$ 116,655	$ 96,287
Accrued expenses	322,289		322,289		322,289	270,994
Line of credit	60,000		60,000		60,000	
Total liabilities	488,944	10,000	498,944	$ —	498,944	367,281
NET ASSETS	1,023,023	3,726,279	4,749,302	2,678,602	7,427,904	6,930,332
TOTAL	$ 1,511,967	$ 3,736,279	$ 5,248,246	$ 2,678,602	$ 7,926,848	$ 7,297,613

See notes to consolidated financial statements.

THE COLORADO SPRINGS CHILD NURSERY CENTERS, INC.
dba EARLY CONNECTIONS LEARNING CENTERS
AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019 (with comparative totals for 2018)

	2019					2018
	Without Donor Restriction			With Donor		
	Undesignated	Designated	Total	Restriction	Total	Total
REVENUES						
Program service fees	$ 3,976,646		$ 3,976,646		$ 3,976,646	$ 4,078,922
Contributions	452,460	$ 155	452,615	$ 722,868	1,175,483	1,044,291
Investment income (loss)	11	680,613	680,624	19,632	700,256	(279,829)
Gain (loss) on beneficial interest in perpetual trusts				91,082	91,082	(69,936)
Net assets released from restrictions— Satisfaction of time and purpose restrictions	484,918	93,529	578,447	(578,447)		
Transfers	388,596	(388,596)				
Total	5,302,631	385,701	5,688,332	255,135	5,943,467	4,773,448
EXPENSES						
Program	4,643,043		4,643,043		4,643,043	4,623,953
Management and general	445,422		445,422		445,422	453,493
Fundraising	357,430		357,430		357,430	351,089
Total	5,445,895	—	5,445,895	—	5,445,895	5,428,535
CHANGE IN NET ASSETS	(143,264)	385,701	242,437	255,135	497,572	(655,087)
NET ASSETS, Beginning of year	1,166,287	3,340,578	4,506,865	2,423,467	6,930,332	7,585,419
NET ASSETS, End of year	$ 1,023,023	$ 3,726,279	$ 4,749,302	$ 2,678,602	$ 7,427,904	$ 6,930,332

See notes to consolidated financial statements.

THE COLORADO SPRINGS CHILD NURSERY CENTERS, INC.
dba EARLY CONNECTIONS LEARNING CENTERS
AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019 (with comparative totals for 2018)

	2019				2018
	Program	Management and General	Fund Raising	Total	Total
Salaries, taxes and benefits	$ 3,348,089	$ 354,646	$ 195,202	$ 3,897,937	$ 3,922,718
Food	362,924			362,924	377,742
Repairs and maintenance	206,187	43,134		249,321	170,506
Supplies	205,537	7,516	5,696	218,749	200,933
Home Network expenses	142,977			142,977	123,498
Professional fees	91,577	7,393	36,004	134,974	164,428
Fundraising expenses			88,155	88,155	58,462
Telephone and utilities	57,462	6,840	5,472	69,774	60,632
Advertising and recruitment	46,092	4,508	6,761	57,361	48,523
Insurance	52,409	2,818	1,128	56,355	48,124
Depreciation	48,416	6,678	556	55,650	130,916
Conferences and travel	30,550	1,441	9,228	41,219	47,217
Bad debt expense	26,363			26,363	28,251
Printing	7,495	3,504	8,383	19,382	19,845
Rental expense	16,041	1,047		17,088	21,042
Interest expense		4,845		4,845	3,098
Postage	924	1,052	845	2,821	2,600
Total	$ 4,643,043	$ 445,422	$ 357,430	$ 5,445,895	
Percent of total	85%	8%	7%	100%	
Comparative totals — 2018	$ 4,623,953	$ 453,493	$ 351,089		$ 5,428,535
Percent of total — 2018	85%	8%	7%	100%	

See notes to consolidated financial statements.

THE COLORADO SPRINGS CHILD NURSERY CENTERS, INC.
dba EARLY CONNECTIONS LEARNING CENTERS
AND AFFILIATES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019 (with comparative totals for 2018)

	2019	2018
OPERATING ACTIVITIES		
Change in net assets	$ 497,572	$ (655,087)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	55,650	130,916
Provisions for bad debts	26,363	28,251
Unrealized and realized loss (gain) on investments	(743,605)	366,625
Loss (gain) on beneficial interest in perpetual trusts	(91,082)	69,936
Changes in operating assets and liabilities:		
Accounts receivable	(4,703)	(27,889)
Pledges receivable	(122,927)	83,847
Prepaid expenses	(5,297)	(14,798)
Accounts payable and accrued expenses	71,663	(74,162)
Net cash used in operating activities	(316,366)	(92,361)
INVESTING ACTIVITIES		
Purchases of property and equipment	(157,443)	(186,797)
Purchases of investments	(440,623)	(669,498)
Sales of investments	851,321	826,875
Net cash provided by (used in) investing activities	253,255	(29,420)
FINANCING ACTIVITIES		
Principal payments on capital lease obligations		(2,496)
Advances on line of credit	2,196,000	333,000
Payments on line of credit	(2,136,000)	(413,000)
Net cash provided by (used in) financing activities	60,000	(82,496)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,111)	(204,277)
CASH AND CASH EQUIVALENTS, Beginning of year	118,787	323,064
CASH AND CASH EQUIVALENTS, End of year	$ 115,676	$ 118,787
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 4,845	$ 3,098

See notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Colorado Springs Child Nursery Centers, Inc. dba Early Connections Learning Centers (the Center) offers a comprehensive program of social, emotional and cognitive development for children in the Pikes Peak Region. This includes education with an emphasis on literacy and language development, nutrition and health, all in partnership with families. The Center's goal is to help each child grow physically, mentally and cognitively in an atmosphere of acceptance that helps build feelings of confidence and independence. Every effort is made to consider the whole child in all environmental experiences.

The Colorado Springs Child Nursery Centers, Inc. Foundation (the Foundation) was organized for the purpose of raising and investing funds for the mission of the Center. The Foundation's Board of Directors is made up of members from the Center's Board of Directors as well as individuals from the community. Foundation income may be distributed to the Center to meet operating and non-operating expenses upon resolution of the Foundation Board.

Home Network of the Pikes Peak Region, LLC (Home Network) is an affiliated program providing professional development, coaching and business support to improve quality of the early childhood education programs of its members.

Day Nursery Building Corp. and CNC-Chelton Building Corp. are real estate holding companies established for the benefit of the Center.

Principles of Consolidation — The consolidated financial statements include the accounts of the Center, the Foundation, Home Network, Day Nursery Building Corp. and CNC-Chelton Building Corp. (collectively, the Organization). All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation — The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions, which represents the expendable resources that are available for operations at management's discretion; and net assets with donor restrictions, which represents resources restricted by donors as to purpose or by the passage of time and resources whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

The accompanying financial statements include certain prior-year summarized comparative information in total. 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 December 31, 2018, from which the summarized information was derived.

Cash and Cash Equivalents — For the purposes of the financial statements, cash and cash equivalents are defined as cash on hand, demand deposits at banks, and money market funds. The Organization maintains its cash in various bank deposit accounts which, at times, may exceed federally insured limits.

Contributions — Gifts of cash and other assets received without donor stipulations are reported as revenue without donor restrictions and net assets. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restriction and reported in the statements of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restriction.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized and is reported as contribution revenue.

Conditional gifts are reported as revenue during the period when conditions are satisfied. During the year ended December 31, 2019, the Organization recognized revenues of approximately $190,000 related to conditional gifts. Of this amount, approximately $30,000 is expected to be received by the Organization in 2021.

Program Service Fees — Program service fees are recognized in the period to which they relate, as performance obligations are met. Due to the nature of program services and underlying revenue sources, a portion of program service fees are considered contributions and the remaining portion is related directly to contracts with customers. For the year ended December 31, 2019, $782,459 of program service fees are related to contracts with customers.

Donated Services and Materials — Donated services and materials are recorded as both a revenue and expenditure in the accompanying statements of activities and changes in net assets at their estimated values. Contributions of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donations.

Accounts Receivable — Accounts receivable are stated at the invoiced amount. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance. Changes in the valuation allowance have not been material to the financial statements. Accounts receivable are considered by management to be fully collectible and accordingly, no allowance for doubtful accounts is deemed necessary.

Pledges Receivable — Management believes that all pledges receivable recorded at December 31, 2019 and 2018 are collectible and no allowance for doubtful contributions is deemed necessary.

Investments — Investments are recorded at fair value. Investment income and gains restricted by donors are reported as increases in net assets without donor restrictions if the restrictions are met in the reporting period in which the income and gains are recognized. Donated investments are recorded at fair value on the date of donation. Fair values for money market funds and mutual funds are determined through quoted market prices.

Property and Equipment — Property and equipment are recorded at cost or at fair value at date of receipt if donated. Depreciation is provided for on a straight-line basis over the estimated useful lives of the assets, which range from three to fifty years. All acquisitions in excess of $5,000 and expenditures for repairs, maintenance and improvements that materially extend the useful lives of assets are capitalized.

Compensated Absences — Employees of the Organization earn a vested right to compensation for unused vacation time. Accordingly, the Organization has made an accrual for vacation compensation that employees have earned but not taken.

Tax Status — The Center, the Foundation and Home Network are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Day Nursery Building Corp and CNC-Chelton Building Corp are exempt from federal income taxes under Section 501(c)(2) of the Internal Revenue Code.

The Organization believes that it does not have any uncertain tax positions that are material to the financial statements.

Use of Estimates — Preparation of the Organization's financial statements in conformity with accounting principles generally accepted in the United States of America 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 income and expenses during the reporting period. Actual results could differ from those estimates.

Changes in Accounting Principle — In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which replaces numerous requirements in U.S. GAAP, including industry-specific requirements, and provides companies with a single revenue recognition model for recognizing revenue from contracts with customers. The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. During the year ended December 31, 2019, management implemented ASU 2014-09 and adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied using a modified-retrospective approach during the year ended December 31, 2019, in accordance with ASU 2016-10, *Revenue from Contracts with Customers (Topic 606)*. The implementation of the ASU had no effect on the financial statements.

In June 2018, the Financial Accounting Standards Board (FASB) issued ASU 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which provides clarity related to determination of contributions, including conditional contributions, and exchange transactions. During the year ended December 31, 2019, management implemented ASU 2018-08 and adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied using a modified-prospective approach during the year ended December 31, 2019 and had no effect on the financial statements.

Reclassifications — Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

Subsequent Events — The Organization has evaluated subsequent events for recognition or disclosure through the date of the Independent Auditors' Report, which is the date the financial statements were available for issuance.

2. LIQUIDITY AND AVAILABILITY

The following table reflects the Center's financial assets as of December 31, 2019 and 2018, reduced by amounts that are not available to meet general expenditures within one year of the balance sheet date because of contractual restrictions or internal board designations. Amounts not available include net assets with donor restrictions and net assets with board designations.

	2019	2018
Cash and cash equivalents	$ 115,676	$ 118,787
Accounts receivable	216,215	237,875
Pledges receivable	629,100	506,173
Investments	4,920,939	4,588,032
Total financial assets	5,881,930	5,450,867
Less amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with time restrictions	(215,199)	(129,000)
Restricted by donors with purpose restrictions	(93,768)	
Restricted by donors in perpetuity less beneficial interest in perpetual trusts	(1,186,683)	(1,112,622)
Total amounts unavailable for general expenditures within one year	(1,495,650)	(1,241,622)
Less amounts unavailable to management without Board's approval:		
Board designated for Endowment	(3,726,279)	(3,340,578)
Total amounts unavailable to management without Board's approval	(5,221,929)	(4,582,200)
Total financial assets available to management to meet cash needs for general expenditures within one year	$ 660,001	$ 868,667

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests any cash in excess of daily requirements in short-term investments. The Organization's typical operating procedure to manage an emergency cash flow need is to draw from the Organization's line of credit (see note 12) or draw funds from the Foundation. The Organization manages its cash flow through regular (daily) analysis of cash flows and budgeted expenses.

3. METHODS USED FOR ALLOCATION OF EXPENSES AMONG PROGRAM AND SUPPORTING SERVICES

The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the Organization. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits, supplies, repairs and maintenance, professional fees, depreciation and other operating expenses, which are allocated on the basis of estimates of time and effort spent by personnel in the various program and supporting services or use of supplies.

4. PLEDGES RECEIVABLE

The Organization has pledges receivable from donors. Pledges receivable are as follows as of December 31:

	2019	2018
Due in less than one year	$ 413,901	$ 377,173
Due in two to five years	215,199	129,000
Total	$ 629,100	$ 506,173

5. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Organization is required to use a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2: Prices determined using significant other observable inputs. Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Prices determined using significant unobservable inputs.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following tables set forth by level, within the fair value hierarchy, the Organization's assets measured on a recurring basis stated at fair value as of December 31:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2019:				
Investments:				
Money market funds	$ 10,409	$ 10,409		
Equity mutual funds:				
International funds	914,328	914,328		
Large-cap value funds	902,284	902,284		
Large-cap growth funds	721,108	721,108		
Alternative funds	360,152	360,152		
Mid-cap blend funds	239,687	239,687		
Preferred securities	168,268	168,268		
Large-cap blend funds	2,500	2,500		
Fixed income mutual fund	1,602,203	1,602,203		
Total investments	4,920,939	4,920,939	$ —	$ —
Beneficial interest in perpetual trusts	769,051		769,051	
Total	$ 5,689,990	$ 4,920,939	$ 769,051	$ —

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2018:				
Investments:				
Money market funds	$ 14,784	$ 14,784		
Equity mutual funds:				
International funds	922,898	922,898		
Large-cap value funds	637,653	637,653		
Large-cap growth funds	612,520	612,520		
Alternative funds	345,661	345,661		
Preferred securities	237,586	237,586		
Mid-cap blend funds	207,929	207,929		
Large-cap blend funds	2,500	2,500		
Fixed income mutual fund	1,606,501	1,606,501		
Total investments	4,588,032	4,588,032	$ —	$ —
Beneficial interest in perpetual trusts	677,969		677,969	
Total	$ 5,266,001	$ 4,588,032	$ 677,969	$ —

6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of December 31:

	2019	2018
Land	$ 107,894	$ 107,894
Buildings and improvements	2,545,717	2,401,760
Furniture and equipment	738,122	724,636
Total	3,391,733	3,234,290
Less accumulated depreciation	2,149,122	2,093,472
Property and equipment, net	$ 1,242,611	$ 1,140,818

7. BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The Organization is an income beneficiary of three separate trusts whose principal is held at various financial institutions in perpetuity. The Organization's share of the fair value of the trusts totaled $769,051 and $677,969 at December 31, 2019 and 2018, respectively. The fair value of the Organization's interest in the trusts is determined primarily based on the Organization's proportionate share of the fair value of the underlying assets of the trusts. Fair value of the underlying assets is determined using quoted market prices and pricing services. The Organization received $23,224 and $22,847 in distributions from the trusts during the years ended December 31, 2019 and 2018, respectively. The Organization's shares of gains (losses) from these trusts were $91,082 and ($69,936) in 2019 and 2018, respectively.

8. BOARD DESIGNATED NET ASSETS

The Board of Directors has designated the Foundation assets, excluding the endowment funds to be held indefinitely, for the purpose of generating additional income to be used for the Organization's operations. As of December 31, 2019 and 2018, board designated net assets were $3,726,279 and $3,340,578, respectively.

9. NET ASSETS WITH DONOR RESTRICTION

Net assets are restricted for the following purposes or periods, as of December 31:

	2019	**2018**
Endowment funds to be held indefinitely	$ 1,955,734	$ 1,790,591
Subject to the passage of time	629,100	632,876
Subject to expenditure for a specified purpose	93,768	
Total	$ 2,678,602	$ 2,423,467

Endowment funds are to be held indefinitely. The income from the assets can be used for operations.

10. ENDOWMENT FUNDS

The Organization's endowment consists of five donor restricted endowment funds established and restricted for the purpose of supporting the operations of the Organization. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Colorado adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions to be held permanently (a) the original value of gifts donated to the permanent endowment, and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as net assets with donor restrictions to be held permanently is classified as net assets with donor restrictions subject to time restriction until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1) The duration and preservation of the fund

2) The purposes of the Organization and the donor-restricted endowment fund
3) General economic conditions
4) The possible effect of inflation and deflation
5) The expected total return from income and the appreciation of investments
6) Other resources of the Organization
7) The investment policies of the Organization

Changes in endowment fund net assets and the endowment net asset composition by type of fund as of December 31, 2019 and 2018 are as follows:

	With Donor Restriction
Year ended December 31, 2019:	
Endowment balance, beginning of year	$ 1,790,591
Total investment return	553,739
Appropriation for expenditures	(388,596)
Endowment balance, end of year	$ 1,955,734
Net Assets with Donor Restrictions	
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	$ 1,186,683
The portion of endowment funds held in perpetual trusts	$ 769,051
Year ended December 31, 2018:	
Endowment balance, beginning of year	$ 1,994,109
Total investment return	(141,274)
Appropriation for expenditures	(62,244)
Endowment balance, end of year	$ 1,790,591
Net Assets with Donor Restrictions	
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	$ 1,112,622
The portion of endowment funds held in perpetual trusts	$ 677,969

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. As of December 31, 2018 the Organization had such deficiencies of $54,429.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy the endowment assets are invested in a manner that is intended to produce maximum results with stated risk tolerances. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately the sum of 3.5% plus the consumer price in (CPI) annually. Actual returns in any given year may vary from this amount. Included in endowments are perpetual trusts held by third parties, these trusts are controlled by the third party and the investment policies of the Organization does not apply to them.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a great emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. Equity based investments include large-cap, mid-cap, small-cap and international equities. The Organization also uses fixed income securities to achieve its objectives.

11. OPERATING LEASE COMMITMENTS

The Organization leases equipment under a non-cancellable operating lease expiring in 2024. As of December 31, 2019, future minimum lease payments under the operating lease are as follows:

2020	$ 30,732
2021	30,732
2022	30,732
2023	30,732
2024	23,049
Total minimum lease payments	$ 145,977

Rent expense for the operating lease was $25,140 and $22,344 for the years ended December 31, 2019 and 2018, respectively.

12. LINE OF CREDIT

As of December 31, 2019, the Organization had a $300,000 line of credit with a bank that expires September 1, 2020. The line of credit bears interest at the bank's prime rate and is secured by all accounts, instruments, and investments. The outstanding balance on the line at December 31, 2019 was $60,000. There was no outstanding balance on the line at December 31, 2018.

13. CONTRIBUTED SUPPLIES AND SERVICES

The value of donated supplies and services included in the financial statements as contributions and the corresponding expenses are as follows for the years ended December 31:

	2019	2018
EXPENSES		
Supplies	$ 19,521	$ 28,625
Rental expense	5,550	9,000
Services	4,698	12,476
Total expenses	$ 29,769	$ 50,101

14. RELATED PARTY TRANSACTIONS

The Organization received contributions from various members of the Board of Directors. During the year ended December 31, 2019, the Organization received $198,055 from such members. As of December 31, 2019, there were $108,050 of pledges receivable related to these contributions.

THE COLORADO SPRINGS CHILD NURSERY CENTERS, INC.
dba EARLY CONNECTIONS LEARNING CENTERS
AND AFFILIATES

SUPPLEMENTAL INFORMATION

AND

COMPLIANCE AND INTERNAL CONTROL SECTION

THE COLORADO SPRINGS CHILD NURSERY CENTERS, INC.
dba EARLY CONNECTIONS LEARNING CENTERS
AND AFFILIATES

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019

Federal Agency/Pass-Through Entity and Cluster or Program	CFDA Number	Amount Expended
United States Department of Health and Human Services:		
Pass-Through Programs:		
Child Care and Development Fund Cluster:		
El Paso County Department of Human Services:		
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	$ 661,664
Child Care and Development Block Grant	93.575	523,057
Joint Initiatives for Youth and Families:		
Child Care and Development Block Grant	93.575	16,161
Total Child Care and Development Fund Cluster		1,200,882
El Paso County Department of Human Services:		
Social Services Block Grant	93.667	165,997
United States Department of Agriculture:		
Pass-Through Programs:		
Colorado Department of Public Health and Environment:		
Child and Adult Food Care Program	10.558	218,740
TOTAL		$ 1,585,619

Notes To Schedule:

1. The schedule of expenditures of federal awards includes the federal grant activity of The Colorado Springs Child Nursery Centers, Inc. dba Early Connections Learning Centers and Affiliates (collectively, the Organization) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. The Organization provided no federal awards to subrecipients.
3. The Organization has elected to not use the 10 percent de minimus indirect cost rate to charge costs to their federal awards.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
The Colorado Springs Child Nursery Centers, Inc.
dba Early Connections Learning Centers
Colorado Springs, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of The Colorado Springs Child Nursery Centers, Inc. dba Early Connections Learning Centers and Affiliates (collectively, the Organization), which comprise the consolidated balance sheet as of December 31, 2019, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 27, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization'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 the Organization's consolidated 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 purposes.

Stockman Kast Ryan + Co, LLP

February 27, 2020

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
The Colorado Springs Child Nursery Centers, Inc.
dba Early Connections Learning Centers
Colorado Springs, Colorado

Report on Compliance for Each Major Federal Program

We have audited The Colorado Springs Child Nursery Centers, Inc. dba Early Connections Learning Centers and Affiliates (collectively, the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2019. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization'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 with each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of the Organization 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 the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the Organization'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 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Stockman Kast Ryan + Co, LLP

February 27, 2020

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

SECTION I – SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

1. Type of auditors' report issued was:

   ☒ Unmodified ☐ Modified ☐ Adverse ☐ Disclaimed

2. Internal control over financial reporting:

   (A) Material weakness(es) identified? ☐ Yes ☒ No

   (B) Significant deficiency(ies) identified? ☐ Yes ☒ None reported

3. Noncompliance material to financial statements noted? ☐ Yes ☒ No

FEDERAL AWARDS

1. Internal control over major programs:

   (A) Material weakness(es) identified? ☐ Yes ☒ No

   (B) Significant deficiency(ies) identified? ☐ Yes ☒ None reported

2. Type of auditors' report issued on compliance for major federal programs:

   ☒ Unmodified ☐ Modified ☐ Adverse ☐ Disclaimed

3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☐ Yes ☒ No

4. The Organization's major programs were:

CFDA Number	Cluster/Program
93.575 and 93.596	Child Care and Development Fund Cluster

5. Dollar threshold used to distinguish between Type A and Type B programs was $750,000.

6. The Organization qualified as a low-risk auditee? ☒ Yes ☐ No

(Continued)

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters are reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters are reported.

(Concluded)

THE COLORADO SPRINGS CHILD NURSERY CENTERS, INC.
dba EARLY CONNECTIONS LEARNING CENTERS
AND AFFILIATES

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2019

No matters were reportable.