Early Connections, Inc.

Financial Statements

Year Ended June 30, 2024
with Independent Auditor's Reports

MaherDuessel

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EARLY CONNECTIONS, INC.

YEAR ENDED JUNE 30, 2024

TABLE OF CONTENTS

MaherDuessel

Independent Auditor's Report

Board of Directors
Early Connections, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Early Connections, Inc. (Organization), which comprise the statement of financial position as of June 30, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2024, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2024 on our consideration of the Organization'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 solely 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 the effectiveness of the Organization's 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 Organization's internal control over financial reporting and compliance.

Maher Duessel

Pittsburgh, Pennsylvania
September 27, 2024

EARLY CONNECTIONS, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2024

Assets		
Cash and cash equivalents	$	643,144
Restricted cash - Erie's Future Fund		493,089
Receivables:		
Contribution receivables		173,165
Accounts receivable		94,720
Other receivables		20,928
Prepaid expenses		29,937
Property and equipment, net		938,844
Beneficial interest in Erie Community Foundation investments		86,324
Right-of-use asset - operating leases		28,552
Other assets		66,113
Total Assets	$	2,574,816
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$	110,052
Accrued wages, taxes, and benefits		177,421
Credit card liabilities		11,890
Lease liabilty - operating		28,552
Long-term debt		381,055
Total Liabilities		708,970
Net Assets:		
Without donor restrictions		1,324,559
With donor restriction		541,287
Total Net Assets		1,865,846
Total Liabilities and Net Assets	$	2,574,816

See accompanying notes to financial statements.

EARLY CONNECTIONS, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Contributions, Revenues, Other Gains (Losses):			
Contributions:			
Contributions	$ 68,369	$ 46,753	$ 115,122
Erie's Future Fund contributions	-	280,612	280,612
Governmental contributions	1,528,000	-	1,528,000
Apprenticeship program	233,205	-	233,205
Revenues:			
Office of Children and Youth program fees	215,080	-	215,080
Program service fees	609,180	-	609,180
Government food program	136,031	-	136,031
Investment income (loss)	17,585	-	17,585
Miscellaneous revenue	4,052	-	4,052
Net assets released from restrictions	308,068	(308,068)	-
Total contributions, revenue, and other gains (losses)	3,119,570	19,297	3,138,867
Expenses:			
Program services	2,874,941	-	2,874,941
Fundraising	56	-	56
Management and general	448,378	-	448,378
Total expenses	3,323,375	-	3,323,375
Change in Net Assets	(203,805)	19,297	(184,508)
Net Assets:			
Beginning of year	1,528,364	521,990	2,050,354
End of year	$ 1,324,559	$ 541,287	$ 1,865,846

See accompanying notes to financial statements.

EARLY CONNECTIONS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2024

	Programs								
	Child Care Centers	Apprenticeship	Erie's Future Fund	Office of Children and Youth	Other Programs	Total Programs	Fundraising	Management and General	Total
Salaries and wages	$ 1,254,584	$ 144,677	$ 26,730	$ 82,982	$ -	$ 1,508,973	$ -	$ 276,415	$ 1,785,388
Employee benefits and other costs	182,350	20,859	3,854	11,964	-	219,027	-	37,891	256,918
Payroll taxes	99,719	11,499	2,125	6,596	-	119,939	-	21,755	141,694
Food	180,573	-	-	-	-	180,573	-	-	180,573
Professional and contracted services	161,719	1,093	202	627	-	163,641	-	51,001	214,642
Program expenses	77,702	8,160	-	295	-	86,157	-	2,876	89,033
Telephone and internet	15,013	1,562	137	1,465	-	18,177	-	5,895	24,072
Scholarships	(3,513)	-	201,123	-	-	197,610	-	250	197,860
Office	21,879	1,143	220	128	-	23,370	56	12,218	35,644
Lease and occupancy	149,061	9,695	2,149	5,124	-	166,029	-	18,688	184,717
Utilities	33,363	3,085	-	-	-	36,448	-	2,870	39,318
Insurance	15,533	970	179	556	-	17,238	-	4,395	21,633
Travel and vehicle	13,914	1,504	-	739	-	16,157	-	1,152	17,309
Conferences, meetings, and training	2,826	-	-	115	-	2,941	-	4,734	7,675
Dues and subscriptions	5,069	328	91	-	-	5,488	-	6,681	12,169
Public relations, advertising, and research	9,764		-	-	-	9,764	-	359	10,123
Interest and finance charges	19,459	-	-	-	-	19,459	-	97	19,556
Bad debt	3,519	-	-	-	-	3,519	-	41	3,560
Depreciation	80,304	-	-	-	127	80,431	-	1,060	81,491
Total expenses	$ 2,322,838	$ 204,575	$ 236,810	$ 110,591	$ 127	$ 2,874,941	$ 56	$ 448,378	$ 3,323,375

See accompanying notes to financial statements.

EARLY CONNECTIONS, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2024

Cash Flows From Operating Activities:		
Change in net assets	$	(184,508)
Adjustments to reconcile change in net assets to		
net cash provided by (used in) operating activities:		
Depreciation		81,491
Right-of-use asset - operating leases		5,456
(Gains)/loss on investments		(7,694)
Change in:		
Accounts receivable		134,526
Prepaid expenses		(551)
Other assets		(3,800)
Accounts payable		(6,772)
Accrued wages, taxes, and benefits		(4,148)
Credit card liabilities		109
Lease liabilty - operating		(5,456)
Net cash provided by (used in) operating activities		8,653
Cash Flows From Investing Activities:		
Purchase of property and equipment		(2,788)
Sale of Investments		(92)
Net cash provided by (used in) investing activities		(2,880)
Cash Flows From Financing Activities:		
Payments on long-term debt		(29,311)
Net Increase (Decrease) in Cash and Cash Equivalents		(23,538)
Cash and Cash Equivalents:		
Beginning of year		1,159,771
End of year	$	1,136,233
Consists of:		
Cash and cash equivalents	$	643,144
Restricted cash - Erie's Future Fund		493,089
	$	1,136,233
Supplemental Data:		
Cash paid during the year for interest	$	19,459
Inclusion of operating lease right of use asset and liability	$	29,362

See accompanying notes to financial statements.

1. Organization and Summary of Accounting Policies

Organization

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

Basis of Accounting

The Organization’s financial statements utilize the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America. Expenses are recognized in the period incurred. Revenues are recognized in the period in which they are earned.

To ensure observance of limitations and restrictions placed on the uses of the Organization’s available resources, resources are classified for accounting and reporting purposes into classes of net assets established according to their nature and purpose.

The assets, liabilities, and net assets of the Organization are reported in two self-balancing net asset classes as follows:

Without Donor Restrictions - Used to accumulate all net assets that are not subject to donor-imposed restrictions or stipulations as to purpose or use. The Organization held board-designated net assets, which are included as part of without donor restrictions, related to the Erie County Community Foundation, as further described in Note 3.

With Donor Restrictions - Net assets subject to donor-imposed stipulations or restrictions that may be maintained by the Organization. When a donor-imposed restriction expires, net assets with donor restrictions are reclassified to net assets without restrictions and reported in the statement of activities as net assets released from restrictions. The donors of these assets generally permit the Organization to use the income earned on any related investments for general or specific purposes. Net assets with donor restrictions are available for the following purpose at June 30, 2024:

Restricted for specific purpose:		
Erie's Future Fund - Scholarships	$	490,155
Early Explorers Summer Program		33,102
Food Pantry		3,062
CPSF - Scholarships		5,418
Total restricted for specific purpose		531,737
Restricted in perpetuity		9,550
	$	541,287

Cash, Cash Equivalents, and Restricted Cash

The Organization considers cash and cash equivalents to include all cash on hand and in banks, which, at times, may exceed federally insured limits. The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Organization had deposits at three different institutions. Each institution maintains FDIC insurance up to $250,000. Amounts in excess of FDIC uninsured levels at June 30, 2024 totaled $771,972. Restricted cash reported at June 30, 2024 represents the Organization's cash restricted to fund the Erie's Future Fund programming.

Contributions, Promises to Give, and Donor Restrictions

Contributions, which include unconditional promises to give funds to the Organization, are recognized as with donor restrictions or without donor-restricted support as of the earlier of the date on which unconditional promises or the cash or property contributed is received, depending on the existence and/or nature of any donor restrictions. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. All contributions without donor-imposed restrictions are considered to be available for use as of the date of the financial statements. Donations of property and equipment are recorded as support at estimated fair value. Amounts received that are designated for future periods or are subject to donor-imposed restrictions by the donor for specific purposes are reported as contributions with donor restrictions, these contributions increase net asset classes that are subject to donor restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions.

A portion of the Organization's contributions are derived from governmental grants, including funds received to support the Pre K Counts, Infant Toddler Contracted Slots (ITCS), and Apprenticeship programs. Recognition of governmental grants are conditioned upon the incurrence of allowable qualifying expenses. Amounts received prior to meeting the established conditions are reported as refundable advances in the statements of financial position. As June 30, 2024, the Organization had no refundable advances. Contribution receivables are considered to be fully collectible; accordingly, no allowance for doubtful accounts is recorded at June 30, 2024.

Property and Equipment

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

Buildings and improvements	10-30 years
Furniture and equipment	5-10 years
Vehicles	5-10 years

Use of Estimates

The preparation of financial statements in conformity with the 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 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.

Fair Value Measurements

The Organization has adopted a framework for measuring fair value under current accounting pronouncements that require fair value measurements and enhanced disclosures about fair value measurements. This framework defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit

price) in the principal or most advantageous market for the asset or liability in an orderly transaction. Disclosures include a fair value hierarchy which requires an entity to maximize the use of observable inputs when measuring fair value.
The three levels of inputs that may be used to measure fair value are as follows:

Level 1 - Observable inputs such as quoted prices in active markets for identical investments that the Organization has the ability to access.

Level 2 - Inputs include:

a. Quoted prices for similar assets or liabilities in active markets;
b. Quoted prices for identical or similar assets or liabilities in inactive markets;
c. Inputs, other than quoted prices in active markets, that are observable either directly or indirectly;
d. Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.

Level 3 - Unobservable inputs in which there is little or no market activity for the asset or liability, which require the reporting entity to develop its own estimates and assumptions relating to the pricing of the asset or liability including assumptions regarding risk.

Income Taxes

The Organization is exempt from federal income tax under Section 501 (c)(3) of the Internal Revenue Code and has been determined to be an organization which is not a private foundation within the meaning of Section 509(a) of the Code. The Organization annually files a Form 990.

Revenue Recognition

Revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services by following a five-step process, (1) identify the contract with the customer, (2) identify the performance obligation in the contract, (3) determine the transaction price, (4) allocate the transaction price, and (5) recognize revenue when or as the Organization satisfies a performance obligation, as further described below.

Program service revenues and Office of Children and Youth program fees primarily consists of monthly child care fees charged and reflects the consideration to which the Organization expects to be entitled to in exchange for providing services to students. The Organization recognizes revenue from child care services during the month in which the related services are provided to students. The performance obligation of delivering child care services is simultaneously received and consumed by the children; therefore, the revenue is recognized monthly as it is received.

Government food program revenues reflect the consideration to which the Organization expects to be entitled to in exchange for providing meals to students. Food services are funded through the Commonwealth of Pennsylvania based upon reimbursement rates for each meal served. The Organization recognizes revenue from food services during the month in which the related services are provided to students. The performance obligation of delivering meals to students is simultaneously received and consumed by the children; therefore, the revenue is recognized monthly as it is received.

Beginning and ending accounts receivable related to program service and food service revenues consisted of the following as of June 30:

	2024	2023
Program and Office of Children and Youth services	$ 39,358	$ 100,363
Food services	25,362	22,752
	$ 64,720	$ 123,115

Functional Expenses

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

Economic Dependence

The Organization relies on support from local, state, and federal governments to maintain its programs, including subsidized daycare funded through the Child Care Works Program (CCW) included as part of program service fees and Infant Toddler Contracted Slots (ITCS) and Pennsylvania Pre-K Counts programs included as part of government grants and program service fees on the statement of activities $1,528,000. During the year ended June 30, 2024, these sources comprised approximately 49% of the Organization's total support and revenue.

Accounts Receivable and Allowance for Credit Losses

The Organization operates in the early childhood education and childcare industry and its accounts receivable are primarily derived from government payors where in the ordinary course of business accounts receivable are collected within the year. At each statement of financial position date, the Organization recognizes an expected allowance for credit losses. In addition, also at each reporting date, this estimate is updated to reflect any changes in credit risk since the receivable was initially recorded. This estimate is calculated on a pooled basis where similar risk characteristics exist.

The allowance estimate is derived from a review of the Organization’s historical losses based on the aging of accounts receivable. This estimate is adjusted for management’s assessment of current conditions, reasonable and supportable forecasts regarding future events, and any other factors deemed relevant by the Organization. The Organization has determined, as of June 30, 2024, that a credit loss of zero is expected and no allowance for credit loss was recorded.

Leases

The Organization leases administrative and program building space. The Organization determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets and operating lease liabilities on the statement of financial position.

ROU assets represent the Organization’s right to use an underlying asset for the lease term and lease liabilities represent the Organization’s obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Organization’s leases do not provide an implicit rate, the incremental borrowing rate is used which is based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The Organization's lease terms may include options to extend or terminate the lease when it is reasonably certain that they will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Organization's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In evaluating contracts to determine if they qualify as a lease, the Organization considers factors such as if they have obtained substantially all of the rights to the underlying asset through exclusivity, if they can direct the use of the asset by making decisions about how and for what purpose the asset will be used and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

In determining the discount rate used to measure the right-of-use asset and lease liability, the Organization uses rates implicit in the lease, or if not readily available, they use their incremental borrowing rate. The incremental borrowing rate is based on an estimated secured rate comprised of a risk-free rate plus a credit spread as secured by the Organization's assets. Determining a credit spread as secured by the assets may require significant judgment.

Adopted Accounting Standards

The provisions of this Standards Update have been adopted and incorporated into these financial statements:

ASU 2016-13, *"Allowance for Credit Losses (Topic 326)."* In June 2016, Financial Accounting Standards Board (FASB) issued guidance (FASB 326) which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the Organization that are subject to the guidance in FASB ASC 326 were trade accounts receivables. We adopted the standard effective June 30, 2023. The standard did not have a material impact to the financial statements.

Subsequent Events

Subsequent events have been evaluated through the Independent Auditor's Report date, which is the date the consolidated financial statements were available to be issued.

2. Liquidity and Availability

The Organization manages its cash available to meet general expenditures by maintaining adequate liquid assets and sufficient reserves to provide reasonable assurance that the long-term mission of Organization will continue to be met. The Organization prepares a detailed budget that is monitored by the Organization's management. In addition, the Organization maintains a line of credit, as further described in Note 5 with a financial institution which can be used as needed to help maintain liquidity.

The following reflects the Organization's financial assets as of June 30, expected to be available within one year to meet the cash needs for general expenditures:

Cash and cash equivalents	$ 643,144
Receivables	288,813
	$ 931,957

Income from the Beneficial Interest in Erie Community Foundation may be used for the operations of the Organization, as further described in Note 3. Although the Organization does not intend to spend from the corpus of this board-designated endowment, this estimated amount of $76,774 is available upon Board of Directors approval.

3. Beneficial Interest in Erie Community Foundation

The assets held by the Erie Community Foundation (ECF) consist of the two components shown in the table below. The board-designated without restrictions component reflects assets transferred by Board action and accumulated net investment income reinvested in the ECF. The donor-imposed restrictions component represents donations received from donors that have placed restrictions that these funds be held in an endowment fund. Income from the endowment fund is to be used for the Organization's operations and will be released to the Organization in accordance with ECF policies.

The ECF pools the endowment fund with the funds received from various other organizations. The pooled funds are then utilized to create an investment portfolio that is managed and administered by ECF. ECF is responsible for allocating the Organization their respective share of the investment portfolio's investment income. The agreement with ECF indicates the property in the fund shall remain an asset of the Organization. ECF does maintain the right to modify the agreement with the Organization if the Organization becomes a for-profit, goes out of business, alters its mission, or if the Organization somehow becomes inconsistent with the charitable needs on the community.

Changes in the estimated endowment balance for the year ended June 30, 2024 were as follows:

	Board Designated Without Restrictions	With Donor Restrictions	Total
Beginning balance - investments	$ 68,988	$ 9,550	$ 78,538
Reinvested interest and dividends	905	-	905
Management fees	(813)	-	(813)
Net realized and unrealized gains (losses)	7,694	-	7,694
Ending balance - investments	$ 76,774	$ 9,550	$ 86,324

Interpretation of Relevant Law

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

Return Objectives and Risk Parameters

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

Fair Value Measurements

The Organization's investments held by ECF's fair value is determined to be the same as the Organization's proportionate share of the fair value of assets held by the ECF in trust for the benefit of the Organization.

The Beneficial interest in Erie Community Foundation investments is valued at the Foundation's best estimate of the fair value as reviewed by the Organization. Because there is not an active market for an investment in the Foundation, these funds are considered a Level 3 asset. The Organization does not use separate quantitative information to value the investments held at the Foundation.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. There have not been any changes in the methodologies used. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

As of June 30, 2024, the Organization's estimated investments were classified by level within the valuation hierarchy as follows:

	Fair Value	Level 1	Level 2	Level 3
Pooled investments	$ 86,324	$ -	$ -	$ 86,324

4. Property and Equipment

Property and equipment was comprised of the following as of June 30, 2024:

Land	$	145,327
Buildings and improvements		1,880,664
Vehicles		61,392
Furniture and equipment		188,608
		2,275,991
Less: accumulated depreciation		(1,337,147)
	$	938,844

5. Line of Credit and Long-Term Debt

The Organization holds a note payable with Erie Bank. The interest rate of the loan is 7.70% and will remain in effect until the next scheduled variable rate change on April 11, 2029. The loan is collateralized by all of the Organization's real estate and equipment. Monthly payments of $3,962 are due through April of 2034.

Annual maturities for each of the next five years and thereafter are as follows:

Year Ended June 30,		
2025	$	32,039
2026		33,435
2027		34,891
2028		36,410
Thereafter		244,280
Total	$	381,055

The Organization also maintains a $100,000 line of credit with Erie Bank bearing an interest rate which is equal to the prime rate published in the Wall Street Journal, which was 8.50% at June 30, 2024. Interest payments are due monthly, and the line is secured by real estate, equipment, and all other assets of the Organization. There was no outstanding balance on the line of credit at June 30, 2024.

6. Contingent Liabilities

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

7. Retirement Plan

The Organization sponsors a 401(k)-retirement plan for employees who have completed at least one year of service and work at least 30 hours a week. The Organization contributes an amount equal to 5% of eligible participants' compensation to the plan and additionally matches up to 3% of participants' contributions. Total pension expense associated with the plan was $77,844 for the year ended June 30, 2024.

8. Leases

The Organization has an operating lease for office space. The lease has a remaining lease terms of two years.

Future minimum lease payments under non-cancellable leases as of June 30, 2024 are as follows:

Year Ending June 30,	Operating Leases
2025	$ 17,820
2026	11,880
Total future minimum lease payments	29,700
Less: interest	(1,148)
Total	$ 28,552

Other information related to leases was as follows:

	2024
Weighted average remaining lease term:	
Operating leases	1.67 years
Weighted average discount rate:	
Operating leases	4.54%
Lease Cost	
Operating leases	$ 17,820
Cash Paid	
Operating leases	$ 17,820

Early Connections, Inc.

Independent Auditor's Report
in Accordance with
Government Auditing Standards

Year Ended June 30, 2024

<u>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*</u>

Board of Directors
Early Connections, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Early Connections, Inc. (Organization), which comprise the statement of financial position as of June 30, 2024, and the related statements of activities, functional expenses (if applicable), and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 27, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing 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 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 Organization'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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 financial statements. 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.

Maher Duessel

Pittsburgh, Pennsylvania
September 27, 2024