Chicago Child Care Society and Subsidiary

Independent Auditor's Report, Consolidated Financial Statements, and Supplementary Information

December 31, 2020

Chicago Child Care Society and Subsidiary
December 31, 2020

Contents

FORV/S

1901 S. Meyers Road, Suite 500 / Oakbrook Terrace, IL 60181
P 630.282.9500 / **F** 630.282.9495
forvis.com

Independent Auditor's Report

Board of Directors
Chicago Child Care Society
and Subsidiary
Chicago, Illinois

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Chicago Child Care Society and Subsidiary (Society), which comprise the consolidated statement of financial position as of December 31, 2020, and the related consolidated statements of activities, functional expenses and cash flows for the six month period 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.

Auditor's 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 audits 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 Society as of December 31, 2020, and the changes in its net assets and its cash flows for the six month period then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information including the schedule of expenditures of federal awards required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as listed in the table of contents, 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 January 31, 2023, on our consideration of the Society'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 Society'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 Society's internal control over financial reporting and compliance.

FORVIS, LLP

Oakbrook Terrace, Illinois
January 31, 2023

Chicago Child Care Society and Subsidiary

Consolidated Statement of Financial Position

December 31, 2020

Assets

Cash	$ 231,571
Program receivables	1,679,321
Accrued interest receivable	30,716
Investments	19,497,360
Prepaid expenses and other	9,944
Land, building and equipment, net	5,672,336
Beneficial interest in perpetual trusts	9,003,490
Total assets	$ 36,124,738

Liabilities and Net Assets

Liabilities	
Accounts payable and accrued expenses	$ 294,504
Interest payable	16,859
Deferred revenue	237,887
Accrued pension liability	1,204,555
Notes and mortgage payable	4,605,618
Total liabilities	6,359,423
Net Assets	
Without donor restrictions	
Undesignated	2,902,011
Board designated	13,149,619
With donor restrictions	13,713,685
Total net assets	29,765,315
Total liabilities and net assets	$ 36,124,738

Chicago Child Care Society and Subsidiary

Consolidated Statement of Activities

Six Month Period Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Fees and grants from governmental agencies and other	$ 2,711,216	$ -	$ 2,711,216
Private grants	4,811	-	4,811
Annual contributions	229,756	-	229,756
Program service fees	71,027	-	71,027
Estates and trusts	94,292	-	94,292
Investment income	47,471	18,825	66,296
Net realized gains on sale of investments	2,721,332	102,904	2,824,236
Miscellaneous revenue	132,996	-	132,996
Net assets released from restrictions	593,598	(593,598)	-
Total support and revenue	6,606,499	(471,869)	6,134,630
Expenses			
Program services			
Early Childhood Services	3,030,363	-	3,030,363
Youth and Family Services	172,328	-	172,328
Kinship/Housing/Advocacy	181,818	-	181,818
Total program services	3,384,509	-	3,384,509
Supporting services			
Management and general	1,716,003	-	1,716,003
Fundraising	138,763	-	138,763
Total supporting services	1,854,766	-	1,854,766
Total expenses	5,239,275	-	5,239,275
Change in Net Assets Before Other Income	1,367,224	(471,869)	895,355
Other Income			
Net unrealized gains on investments	128,482	752,602	881,084
Change in fair value of beneficial interest in perpetual trusts	-	917,512	917,512
Pension related changes other than net periodic pension cost	93,449	-	93,449
Nonoperating Changes in Net Assets	221,931	1,670,114	1,892,045
Change in Net Assets	1,589,155	1,198,245	2,787,400
Net Assets, Beginning of Period	14,462,475	12,515,440	26,977,915
Net Assets, End of Period	$ 16,051,630	$ 13,713,685	$ 29,765,315

Chicago Child Care Society and Subsidiary

Consolidated Statement of Functional Expenses

Six Month Period Ended December 31, 2020

	Program Services				Supporting Services			
	Early Childhood Services	Youth and Family Services	Kinship/ Housing/ Advocacy	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries	$ 2,230,098	$ 79,607	$ 114,633	$ 2,424,338	$ 577,283	$ 86,702	$ 663,985	$ 3,088,323
Employee health and retirement benefits and other benefits	269,750	43,819	19,767	333,336	84,422	12,538	96,960	430,296
Payroll taxes	123,443	24,006	9,577	157,026	67,657	9,213	76,870	233,896
Total salaries and related expenses	2,623,291	147,432	143,977	2,914,700	729,362	108,453	837,815	3,752,515
Professional fees	16,603	8,375	5,132	30,110	365,181	8,726	373,907	404,017
Insurance	1,940	267	603	2,810	41,952	457	42,409	45,219
Occupancy	47,007	4,773	5,252	57,032	113,025	3,569	116,594	173,626
Telephone	15,612	1,554	3,495	20,661	92,208	2,534	94,742	115,403
Office expenses	3,149	121	162	3,432	525	81	606	4,038
Printing	-	-	-	-	-	5,061	5,061	5,061
Postage and delivery	108	3	6	117	389	2,030	2,419	2,536
Equipment rentals	2,405	40	343	2,788	6,961	220	7,181	9,969
Program supplies, catering and food	41,841	5,215	7,220	54,276	101,606	737	102,343	156,619
Special events	60	49	20	129	893	58	951	1,080
Special assistance to clients	-	200	9,415	9,615	15,253	-	15,253	24,868
Local transportation	692	41	748	1,481	3,026	1	3,027	4,508
Conference and meetings	938	51	115	1,104	18,252	87	18,339	19,443
Interest	39,157	-	-	39,157	39,157	-	39,157	78,314
Miscellaneous	1,121	1,014	540	2,675	48,154	6,749	54,903	57,578
Total expenses before depreciation	2,793,924	169,135	177,028	3,140,087	1,575,944	138,763	1,714,707	4,854,794
Depreciation of building and equipment	236,439	3,193	4,790	244,422	140,059	-	140,059	384,481
Total expenses	$ 3,030,363	$ 172,328	$ 181,818	$ 3,384,509	$ 1,716,003	$ 138,763	$ 1,854,766	$ 5,239,275

Chicago Child Care Society and Subsidiary

Consolidated Statement of Cash Flows

Six Month Period Ended December 31, 2020

Operating Activities		
Change in net assets	$	2,787,400
Items not requiring (providing) cash		
Depreciation and amortization		384,481
Net realized gains on sale of investments		(2,824,236)
Net unrealized gains on investments		(881,084)
Change in fair value of beneficial interest in perpetual trusts		(917,512)
Changes in assets and liabilities		
Program receivables		(604,971)
Contributions receivable		20,250
Accrued interest receivable		250
Prepaid expenses and other		(9,944)
Accounts payable and accrued expenses		(86,965)
Interest payable		16,859
Deferred revenue		(80,647)
Accrued pension liability		(105,379)
Net cash used in operating activities		(2,301,498)
Investing Activities		
Proceeds from sales and maturities of investments		12,315,925
Purchases of investments		(10,441,432)
Purchases of building and equipment		(9,595)
Net cash provided by investing activities		1,864,898
Financing Activities		
Repayments of borrowings under notes payable		(73,156)
Net Decrease in Cash		(509,756)
Cash, Beginning of Period		741,327
Cash, End of Period	$	231,571
Supplemental Cash Flows Information		
Cash paid for interest	$	61,455

Chicago Child Care Society and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2020

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Chicago Child Care Society and Subsidiary (Society) is a not-for-profit multi-service child welfare agency licensed by the State of Illinois and accredited by the National Association for the Education of Young Children. The mission of the Society reflects the core of its activities: to provide innovative, community-based education and social service programs that address the current and emerging needs of vulnerable children and their families.

Sarah Hackett Stevenson Memorial (Memorial) was incorporated in 1969 to assist women and children in need of temporary aid, to assist families in maintaining their family units within the community, and to offer such services to parents and children that will further these purposes. The Board of Directors of the Memorial is comprised entirely of members who also serve as the directors of the Society. In addition, the Memorial has entered into an agreement with the Society which provides that the annual income earned from the investment of the Memorial's assets is to be used to support the operation of the Society's program operations. Accordingly, the accompanying consolidated financial statements include the accounts of both the Society and the Memorial.

All intercompany balances and transactions between and among the Society and the Memorial have been eliminated in consolidation.

The Society's revenues and other support are derived principally from contributions and federal, state and city grants and its activities are conducted principally in the Chicago, Illinois area.

Basis of Accounting

The consolidated financial statements of the Society have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, other assets and other liabilities.

Use of Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Program and Other Receivables

Program receivables represent amounts due for reimbursement of program services and related revenue, the majority of which is due from governmental agencies. There is no allowance for doubtful accounts recorded for these receivables based on management's historical experience with these agencies and analysis of specific accounts.

Investments and Net Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Certificates of deposit are stated at cost plus accrued interest.

Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expenses. Dividend income is recognized on the ex-dividend date. Interest income is recognized on the accrual basis.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same period is included in net assets without donor restrictions. Other investment return is reflected in the consolidated statements of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

The Society maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

Property and Equipment

Property and equipment acquisitions over $5,000 are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are charged to expense on the straight-line basis over the estimated useful life of each asset.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Building	30 - 45 years
Building improvements	10 - 25 years
Furniture, equipment and vehicles	2 - 10 years

Long-Lived Asset Impairment

The Society evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds it fair value. No asset impairment was recognized during the six month period ended December 31, 2020.

Deferred Revenue

Deferred revenue represents amounts received pursuant to certain grant agreements in advance of services performed.

Paycheck Protection Program (PPP Loan)

The entity received a PPP loan established by the *Coronavirus Aid, Relief and Economic Security Act* (CARES Act) and has elected to account for the funding as a loan in accordance with Accounting Standards Codification (ASC) Topic 470, *Debt*. Interest is accrued in accordance with the loan agreement. Any forgiveness of the loan is recognized as a gain in the consolidated financial statements in the period the debt is legally released. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration, or lender; as a result of such audit, adjustments could be required to any gain recognized.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment. The Board of Directors retains control over such net assets and may, at its discretion, subsequently use them for other purposes.

Net assets with donor restrictions are subject to donor restrictions that may be either temporary or permanent. Restrictions that are temporary in nature are those that will be met by the passage of time or other events specified by the donor. Other restrictions are permanent in nature, where the donor stipulates that resources be maintained in perpetuity.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. 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 restrictions and reported in the consolidated statement 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 restrictions.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Gifts of land, buildings, equipment and other long-lived assets are reported as revenue and net assets without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as revenue and net assets with donor restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of net assets with donor restrictions as net assets without donor restrictions are reported when the long-lived assets are placed in service.

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 initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

Government Grants and Contracts

Support funded by grants is recognized as the Society meets the conditions prescribed by the grant agreement, performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Income Taxes

The Society and Memorial are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Society and Memorial are subject to federal income tax on any unrelated business taxable income.

Functional Allocation of Expenses

The cost of providing services and other activities are summarized on a functional basis in the consolidated statement of activities. The consolidated statement of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the programs and supporting services based on the units of service and other methods.

Change in Accounting Principle

On July 1, 2020, the Society adopted the Financial Accounting Standards Board Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using a modified retrospective method of adoption to all contracts with customers at July 1, 2020.

The core guidance in ASU 2014-09 is to recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the Society expects to be entitled in exchange for those goods or services.

The amount to which the Society expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing goods or services.

Adoption of ASU 2014-09 did not result in any changes in presentation of the consolidated financial statements since the impact was immaterial.

Note 2: Investments and Investment Return

Investments held as of December 31, 2020, consisted of the following:

Cash and money market funds in brokerage accounts	$ 2,381,459
Common stocks	2,929,926
Mutual funds	10,664,279
U.S. government and agency issued bonds	398,280
Corporate bonds	3,123,416
Total investments	$ 19,497,360

Total investment return during the six month period ended December 31, 2020, is comprised of the following:

Investment income - interest and dividend income	$ 66,296
Net realized gains on sale of investments	2,824,236
Net unrealized gains on investments	881,084
Total return on investments	$ 3,771,616

Investment fees incurred totaled $47,228 for the six month period ended December 31, 2020, which were netted with interest and dividend income.

Note 3: Beneficial Interest in Perpetual Trusts

The Society has been named as an irrevocable beneficiary of several perpetual trusts held and administered by independent trustees. Perpetual trusts provide for the distribution of some or all of the net income of the trusts to the Society; however, the Society will never receive the assets of the trusts.

At the date the Society receives notice of a beneficial interest, a contribution with donor restrictions of a perpetual nature equal to its proportionate share of the fair value of the trust assets is recorded in the consolidated statement of activities. A beneficial interest in a perpetual trust is recorded in the consolidated statement of financial position at the fair value of the underlying trust assets. Thereafter, beneficial interests in the trust are reported at the fair value of the trust's assets in the consolidated statement of financial position, with trust distributions and changes in fair value recognized in the consolidated statement of activities.

The estimated value of the expected future cash flows is $9,003,490, which represents the fair value of the trust assets as of December 31, 2020. The income from these trusts for the six month period ended December 31, 2020, was $94,292, and is recognized as estates and trusts revenue on the consolidated statement of activities.

Note 4: Property and Equipment

Property and equipment as of December 31, 2020, consisted of:

Land	$ 25,117
Buildings and improvements	8,655,906
Furniture, equipment and vehicles	1,587,480
	10,268,503
Less accumulated depreciation and amortization	(4,596,167)
	$ 5,672,336

Note 5: Pension and Other Postretirement Benefit Plans

Salary-Deferred 401(k) Plan

The Society has a salary-deferred plan under Section 401(k) of the Internal Revenue Code covering substantially all employees. The Society contributes 4% of eligible employees' salaries, while employees can contribute 1% of their salary unless they choose to opt out of the plan. If employees contribute the 1%, the Society matches that 1%. For the six month period ended December 31, 2020, the Society's contribution to the 401(k) plan was $135,849.

Defined Benefit Plan

The Society sponsors a noncontributory defined benefit pension plan covering all employees who met the eligibility requirements prior to January 1, 2011, when the Society froze the plan. Prior to December 31, 2010, employees became participants after the attainment of age 21 with one year of service. The normal retirement benefit under the plan is based upon the employee's compensation over five consecutive plan years out of the final ten years of employment that produces the highest average. Final average earnings were frozen for all participants effective December 31, 2010. The Society's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Society may determine to be appropriate from time to time. For the six month period ended December 31, 2020, the Society contributed $38,956, to the pension plan and expects to contribute $92,566 to the plan during the six month period ended June 30, 2021.

Chicago Child Care Society and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2020

The Society uses December 31, 2020 measurement date for respective plan year 2020. Information about the plan's funded status is summarized as follows:

	Pension Benefits
Benefit obligation	$ 3,828,109
Fair value of plan assets	2,623,554
Funded status	$ (1,204,555)

Liabilities recognized in the statements of financial position as of December 31, 2020:

	Pension Benefits
Accrued pension liability	$ 1,204,555

Amounts recognized in the change in net assets not yet recognized as components of net periodic benefit cost consist of the following for the six month period ended December 31, 2020:

	Pension Benefits
Net gain	$ (30,936)
Amortization of net gain	(62,513)
	$ (93,449)

Information for pension plans with an accumulated benefit obligation in excess of plan assets as of December 31, 2020:

Accumulated benefit obligation	$ 3,828,109
Fair value of plan assets	$ 2,623,554

Information for pension plans with a projected benefit obligation in excess of plan assets as of December 31, 2020:

Projected benefit obligation	$ 3,828,109
Fair value of plan assets	$ 2,623,554

Chicago Child Care Society and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020

Other significant balances and costs for the six month period ended December 31, 2020:

		Pension Benefits
Employer contributions	$	38,956
Benefits paid		75,565
Net periodic benefit costs		27,026

The components of net periodic benefit cost other than the service cost components was $27,026 for the six month period ended December 31, 2020, and is included in expenses in the consolidated statement of activities.

Other changes in plan assets and benefit obligations recognized in change in net assets for the six month period ended December 31, 2020:

		Pension Benefits
Net gain	$	(30,936)
Amortization of net gain		(62,513)
	$	(93,449)

Significant assumptions include:

Weighted-average assumptions used to determine benefit obligations for six month period ended December 31, 2020:

	Pension Benefits
Discount rate	2.30%

Weighted-average assumptions used to determine benefit costs for the six month period ended December 31, 2020:

	Pension Benefits
Discount rate	2.50%
Expected return on plan	7.25%

The Society has estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information. The estimated long-term rate of return of 7.25% remained unchanged from the previous fiscal year.

The Society invests the defined benefit pension plan assets in a professionally managed portfolio of fixed income, equity mutual funds and other. The current target asset allocation for the plan is approximately 65-70% equity, 20-25% fixed income and 5-10% other. The expected rate of return is based on both historical returns as well as the outlook of future returns given the current economic conditions with a greater weight toward the outlook of future returns.

The target asset allocation percentages for the period ended December 31, 2020, was as follows:

	Pension Benefits
Equity securities	65%
Fixed income	21%
Other (cash and cash equivalents)	14%
	100%

Pension Plan Assets

Following is a description of the valuation methodologies used for pension plan assets measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include money market funds, common stocks, and mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. Level 2 plan assets include U.S. government and agency issued and corporate bonds. Significant inputs and valuation techniques used in measuring fair values include quoted prices for similar assets in active markets.

The fair values of the Society's pension plan assets at December 31, 2020, by asset class are as follows:

		Fair Value Measurements Using		
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities				
Money market funds	$ 90,667	$ 90,667	$ -	$ -
Common stocks	1,767,670	1,767,670	-	-
Mutual funds	83,121	83,121	-	-
U.S. government and agency issued bonds	49,785	-	49,785	-
Corporate bonds	589,393	-	589,393	-
	$ 2,580,636	$ 1,941,458	$ 639,178	$ -

At December 31, 2020, plan assets also include cash equivalents and other assets of $42,918.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31, 2020:

2021	$ 180,959
2022	195,869
2023	196,949
2024	193,944
2025	191,408
2026-2029	918,828
	$ 1,877,957

Note 6: Notes and Mortgage Payable

The following summarizes notes and mortgages payable as of December 31, 2020:

Note payable - bank (A)	$ 1,932,624
Note payable - Payroll Protection Program (B)	1,041,102
Mortgage payable - bank (C)	1,631,892
	$ 4,605,618

(A) On January 31, 2020, the Society obtained a secured commercial term loan in the amount of $2,000,000. The loan bears interest at the one-month LIBOR rate plus 2.00%, which was

2.15% as of December 31, 2020, with monthly interest and principal payments of $11,778 and remaining principal and interest due February 10, 2025. This loan was refinanced subsequent to year end with new maturity date of June 4, 2026. The loan is secured by all inventory, chattel paper, accounts, equipment, general intangibles and fixtures, except any such items located at the Society's South Shore location.

(B) On April 16, 2020, the Society obtained an unsecured commercial term loan [SBA – Payroll Protection Program through the CARES Act signed into law on March 27, 2020] in the amount of $1,041,102. The loan bears interest at 1.00% with monthly interest and principal payments of $58,298 beginning February 16, 2021 through April 16, 2022. The Society anticipates using all of the proceeds to pay for eligible expenses, and therefore expects substantially all of the loan to be forgiven. This loan was forgiven on March 29, 2021.

(C) On January 31, 2020, the Society assumed a mortgage loan on its South Shore facility in the amount of $1,676,875 with monthly principal and interest payments of $10,819 through June 1, 2028. The interest rate is fixed at 4.875%. The loan is secured by the building located at the Society's South Shore location.

Aggregate annual principal maturities of notes and mortgage payable as of December 31, 2020, are as follows:

Six months ended June 30, 2021	$ 403,743
Year ending June 30, 2022	819,670
Year ending June 30, 2023	130,902
Year ending June 30, 2024	136,431
Year ending June 30, 2025	142,199
Thereafter	2,972,673
	$ 4,605,618

Note 7: Net Assets

Net Assets With Donor Restrictions

Net assets with donor restrictions as of December 31, 2020, are restricted for the following purposes:

Subject to expenditure for specified purpose	
Unappropriated income from donor-restricted endowment funds	$ 2,979,974
Early Head Start-Blowitz Ridway Foundation	110,000
S. Rinder Memorial	98,308
Next Step	35,000

Kenneth Watson Education Fund	$	22,905
Extended Family Summer Camp Fund		5,259
Junior Board		2,828
		3,254,274
Not subject to spending policy or appropriation		
Beneficial interest in irrevocable perpetual trusts invested in perpetuity by third-party trustees, the income from which is expendable to support any of the activities of the Society		9,003,490
Endowments		
Sarah Hackett Stevenson Memorial Endowment invested in perpetuity by the Society, the income from which is expendable to support counseling services of the Society		1,455,921
Net assets with donor restriction	$	13,713,685

Net Assets Without Donor Restrictions

Net assets without donor restrictions as of December 31, 2020, have been designated for the following purposes:

Undesignated	$	2,902,011
Designated by the Board for endowment		13,149,619
Net assets without donor restrictions	$	16,051,630

Net Assets Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors for the six month period ended December 31, 2020, is as follows:

Satisfaction of purpose restrictions		
Clinton/Duncan Scholar Program	$	28,098
American Family Insurance Foundation		15,000
Andrew and Alice Fischer Charitable Trust		10,000
Service Club of Chicago		15,500
Counseling services and programs		525,000
	$	593,598

Note 8: Endowment

The Society's governing body is subject to the State of Illinois *Uniform Prudent Management of Institutional Funds Act* (UPMIFA). As a result, the Society classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the governing body appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before being reclassified as net assets without donor restrictions.

Additionally, in accordance with UPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Society and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Society
7. Investment policies of the Society

The Society's endowment consists of two individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

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 Society to retain as a fund of perpetual duration. There were no deficiencies of this nature as of December 31, 2020.

The composition of net assets by type of endowment fund at December 31, 2020, was:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 13,149,619	$ -	$ 13,149,619
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	1,455,921	1,455,921
Accumulated investment gains	-	2,979,974	2,979,974
Total endowment funds	$ 13,149,619	$ 4,435,895	$ 17,585,514

Change in endowment net assets for the six month period ended December 31, 2020, was:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2020	$ 12,227,914	$ 4,086,564	$ 16,314,478
Investment return			
Investment income, net	49,627	18,825	68,452
Net appreciation (realized and unrealized)	2,457,199	855,506	3,312,705
	2,506,826	874,331	3,381,157
Other changes			
Amounts released for expenditure	(1,595,891)	(525,000)	(2,120,891)
Other	10,770	-	10,770
	(1,585,121)	(525,000)	(2,110,121)
Endowment net assets, December 31, 2020	$ 13,149,619	$ 4,435,895	$ 17,585,514

Investment and Spending Policies

The Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other expenses supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Society must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under the Society's policies, endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk.

To satisfy its long-term rate of return objectives, the Society relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Society targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Society has a spending policy of appropriating for expenditure each year 4.5% to 5.5% of its endowment fund's average fair value over the prior 12 quarters through the year-end preceding the year in which expenditure is planned. In establishing this policy, the Society considered the long-term expected return on its endowment. Accordingly, over the long term, the Society expects the current spending policy to allow its endowment to grow. This is consistent with the Society's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Note 9: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy comprises three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying consolidated statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall as of December 31, 2020:

		Fair Value Measurements Using		
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities				
Cash and money market funds in brokerage accounts	$ 2,381,459	$ 2,381,459	$ -	$ -
Common stocks	2,929,926	2,929,926	-	-
Mutual funds	10,664,279	10,664,279	-	-
U.S. government and agency issued bonds	398,280	-	398,280	-
Corporate bonds	3,123,416	-	3,123,416	-
Beneficial interest in perpetual trust funds	9,003,490	-	-	9,003,490
	$ 28,500,850	$ 15,975,664	$ 3,521,696	$ 9,003,490

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Beneficial Interest in Perpetual Trust

The fair value of the beneficial interest in trust assets represents the Society's proportionate interest in the value of three trust funds. Each trust fund includes a variety of investments, including equity securities, fixed income investments and mutual funds. The fair value of each trust was determined by management using information provided by the account's trustee. Due to the nature of the Society's proportionate interest in the trust funds as being a significant unobservable input, the interest is classified within Level 3 of the hierarchy.

Transfers Between Levels

The Society assesses the levels at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with the Society's accounting policy regarding the recognition of the transfer between levels of the fair value hierarchy. There were no such transfers as of December 31, 2020.

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated statements of financial position using significant unobservable (Level 3) inputs:

Balance, July 1, 2020	$ 8,085,978
Change in fair value	917,512
Balance, December 31, 2020	$ 9,003,490

Note 10: Operating Leases

On July 1, 2019, the Society entered into a three-year noncancelable lease agreement for an operating facility in South Holland, Illinois. The lease calls for monthly rent of $3,000. Rent expense under this lease for the six month period ended December 31, 2020, was $18,000. Future annual minimum rental commitments under this lease are $18,000 for the six month period ending June 30, 2021, and $36,000 for the year ended June 30, 2022.

In connection with the Society's purchase of the building at its South Shore location, the Society, as lessor, assumed a ten-year noncancelable lease with a commencement date of October 1, 2017. The lease calls for monthly rent beginning at $16,661 in the first year and increasing annually by two percent. Rent income under this lease for the six months ended December 31, 2020, was $113,653. Rent payments due to the Society under this lease are as follows:

Six months ending June 30, 2021	$ 104,484
Year ending June 30, 2022	211,320
Year ending June 30, 2023	214,502
Year ending June 30, 2024	217,748
Year ending June 30, 2025	221,059
Thereafter	509,503
	$ 1,478,616

Note 11: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2020, comprise the following:

Total financial assets	$ 30,452,402
Less amounts held for donor-imposed restrictions and endowments	13,713,685
Net financial assets after donor-imposed restrictions	16,738,717
Less board-designated endowments	13,149,619
Financial assets available to meet cash needs for general expenditures within one year	$ 3,589,098

The Society is substantially supported by grants and contributions without donor restrictions. The Society manages its liquidity following these guiding principles: operating within a prudent range of financial soundness and stability and maintaining adequate liquid assets to fund near-term operating needs. As part of the Society's liquidity management plan, the Society invests in cash and marketable securities. Another part of the plan is the approval of the annual budget in June every year. The Society forecasts its future cash flows and monitors its liquidity monthly and monitors its reserves quarterly. During the six months ended December 31, 2020, the level of liquidity and reserves was managed within the policy requirements. Although the Society does not intend to spend board-designated amounts for other than their designated uses, these amounts could be made available if necessary.

Note 12: Conditional Grant Commitments

The Society receives its grant support through periodic claims filed with the respective funding sources, not to exceed a limit specified in the funding agreement. Since the financial statements of the Society are prepared on the accrual basis, all earned portions of the grants not yet received as of December 31, 2020, have been recorded as receivables.

Following are the grant commitments that extend beyond December 31, 2020, and have not been recorded into income as of December 31, 2020, as the qualifying expenses have not been incurred:

Grant	Term	Grant Amount	Earned Through December 31, 2020	Funding Available
Conditional upon incurrence of allowable qualifying expenses				
Illinois State Board of Education Grant - Prevention Initiative	July 2020 - June 2021	$ 855,000	$ 170,336	$ 684,664
City of Chicago Department of Family and Support Services Grants	Various	3,760,385	797,513	2,962,872
Illinois Department of Children and Family Services	July 2020 - June 2021	400,000	50,344	349,656
		$ 5,015,385	$ 1,018,193	$ 3,997,192

Note 13: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Pension and Other Postretirement Benefit Obligations

The Society has a noncontributory defined benefit pension whereby it agrees to provide certain postretirement benefits to eligible employees. The benefit obligation is the actuarial present value of all benefits attributed to service rendered prior to the valuation date based on the Projected Unit Credit Actuarial Cost Method. It is reasonably possible that events could occur that would change the estimated amount of this liability materially in the near term.

Cash

The Society maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The Society has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents. As of December 31, 2020, the Society had funds in excess of federally insured limits of approximately $71,000.

Investments

The Society invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated statements of financial position.

Government Support

As disclosed in Note 10, the Society received significant funding from the City of Chicago Department of Family and Support Services, Illinois State Board of Education, and the Illinois Network of Child Care Resource and Referral Agencies accounting for approximately 58%, 13% and 11% of the Society's total revenue and support, respectively, during the six months ended December 31, 2020.

Note 14: Future Changes in Accounting Principles

Accounting for Leases

The FASB issued ASU No. 2016-02, *Leases,* the long-awaited standard on lease accounting. Under the new standard, lessees will now be required to recognize substantially all leases on the statement of financial position as both a right-of-use asset and a liability. The standard has two types of leases for statement of activities recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard is effective for annual periods beginning after December 15, 2021, and any interim periods within annual reporting periods that begin after December 15, 2022. The Society expects to first apply the ASU during its fiscal year ending June 30, 2023. The impact of applying the ASU has not yet been determined.

Note 15: Subsequent Events

On December 31, 2020, the Society entered into an agreement, in substance, a merger with another Illinois 501(c)(3) not-for-profit corporation whose mission is compatible with the Society's. The merger was effective as of January 1, 2021.

On June 4, 2021, the commercial term loan was refinanced in the amount of $1,870,333. The agreement bears interest at the specified index plus 1.85%, with monthly interest and principal payments of $9,961 and remaining principal and interest due June 4, 2026.

Subsequent events have been evaluated through January 31, 2023, which is the date the consolidated financial statements were available to be issued.

Supplementary Information

Chicago Child Care Society and Subsidiary

Schedule of Expenditures of Federal Awards

Six Months Ended December 31, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services				
Head Start Cluster				
Passed through City of Chicago				
Department of Family and Support Services				
Early Head Start Program *	93.600	124434 & 148567	$ -	$ 204,004
Head Start Program *	93.600	124582 & 148575	-	532,972
Early Head Start Program - Child Care Partnership *	93.600	124583 & 148323	-	79,420
			-	816,396
Passed through Ounce of Prevention				
Early Head Start Program *	93.600	25EHS	-	71,195
Head Start Program *	93.600	22HS	-	148,783
			-	219,978
Total Head Start Cluster			-	1,036,374
Total U.S. Department of Health and Human Services			-	1,036,374
U.S. Department of Agriculture				
Passed through Illinois State Board of Education				
Child and Adult Care Food Program	10.558	15016098P00	-	35,070
Total Expenditures of Federal Awards			$ -	$ 1,071,444

*Major Program

Chicago Child Care Society and Subsidiary
Notes to the Schedule of Expenditures of Federal Awards
Six Months Ended December 31, 2020

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Chicago Child Care Society and Subsidiary (Society) under programs of the federal government for the six months ended December 31, 2020. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of the Society, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Society.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3: Indirect Cost Rate

The Society has elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4: Other

The Society did not have any of the following: noncash assistance, federal insurance, or federal loans outstanding for the six months ended December 31, 2020.

FORV/S

1901 S. Meyers Road, Suite 500 / Oakbrook Terrace, IL 60181
P 630.282.9500 / **F** 630.282.9495
forvis.com

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*

Independent Auditor's Report

Board of Directors
Chicago Child Care Society
and Subsidiary
Chicago, Illinois

We have audited, 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, the consolidated financial statements of Chicago Child Care Society and Subsidiary (Society), which comprise the consolidated statement of financial position as of December 31, 2020, and the related consolidated statements of activities, functional expenses and cash flows for the six months then ended, and the related notes to the consolidated financial statements and have issued our report thereon, dated January 31, 2023.

Internal Control Over Financial Reporting

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

Board of Directors
Chicago Child Care Society
and Subsidiary

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Society'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 Society'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

FORVIS, LLP

Oakbrook Terrace, Illinois
January 31, 2023

FORV/S

1901 S. Meyers Road, Suite 500 / Oakbrook Terrace, IL 60181
P 630.282.9500 / **F** 630.282.9495
forvis.com

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

Board of Directors
Chicago Child Care Society
and Subsidiary
Chicago, Illinois

Report on Compliance for the Major Federal Program

We have audited Chicago Child Care Society and Subsidiary's (Society) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Society's major federal program for the six months ended December 31, 2020. The Society'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 federal statutes, regulations, contracts and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Society'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 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 Society'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 qualified opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Society's compliance.

Board of Directors
Chicago Child Care Society
and Subsidiary

Opinion on Each Major Federal Program

In our opinion, the Society 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 six months ended December 31, 2020.

Report on Internal Control Over Compliance

Management of the Society 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 Society'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 Society'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. 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.

FORVIS, LLP

Oakbrook Terrace, Illinois
January 31, 2023

Chicago Child Care Society and Subsidiary
Schedule of Findings and Questioned Costs
Six Months Ended December 31, 2020

Section I – Summary of Auditor's Results

Financial Statements

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

2. Internal control over financial reporting:

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

   Material weakness(es) identified? ☐ Yes ☒ No

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

Federal Awards

4. Internal control over major federal awards programs:

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

   Material weakness(es) identified? ☐ Yes ☒ No

5. Type of auditor's report issued on compliance for major federal program:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

Chicago Child Care Society and Subsidiary

Schedule of Findings and Questioned Costs

Six Months Ended December 31, 2020

6. Any audit findings disclosed that are required to be reported by 2 CFR 200.516(a)? ☐ Yes ☒ No

7. Identification of major federal program:

Assistance Listing Number	Name of Federal Program or Cluster
93.600	Early Head Start and Head Start Program

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

9. Auditee qualified as a low-risk auditee? ☐ Yes ☒ No

Section II – Financial Statement Findings

Reference Number	Finding

No matters are reportable.

Chicago Child Care Society and Subsidiary
Schedule of Findings and Questioned Costs
Six Months Ended December 31, 2020

Section III – Federal Award Findings and Questioned Costs

Reference Number	Finding

No matters are reportable.

Chicago Child Care Society and Subsidiary

Summary Schedule of Prior Audit Findings

Six Months Ended December 31, 2020

Reference Number	Summary of Finding	Status
2020-001	**Investment Reconciliation Process** The Society did not reconcile and adjust investment accounts on a consistent and timely basis throughout the fiscal year. The investment related adjustments resulted in a $241,000 increase to the investment balance and the change in net assets that was derived from an understatement in investment for $34,076, realized losses for $556,804 and operating expenses for $117,847, and an overstatement in unrealized losses for $881,575.	Corrective action was taken.
2020-002	**Limited Controls Over Financial Reporting** Year-end close out and reconciliations of various financial statement elements as of June 30, 2020, were not accurately prepared on a timely basis. Journal entries related to cash, receivables, property and equipment, accrued pension, grant revenue, investment income, operating expenses and beginning balance of net assets were proposed and recorded during the audit.	Corrective action was taken.
2020-003	**Limited Controls Over Segregation of Duties** During fiscal year 2020, the Society had outsourced multiple responsibilities encompassing the financial reporting and recordkeeping process to a third-party accounting firm. Limited review of such duties had been performed by the CFOO. In addition, the CFOO had limited supervisory oversight over her own work.	Corrective action was taken.
2020-004	**Limited Antifraud Programs and Controls** During fiscal year 2020, the Society had not yet implemented a process to assess and identify risks of material misstatements due to fraud as part of a properly designed internal control structure.	Corrective action was taken.
2020-005	**Special Test and Provision – Program Governance** 2 months of financial information being provided to the Board of Directors were selected for testing. 1 out of the 2 months of financial information did not include supporting monthly	Corrective action was taken.

Chicago Child Care Society and Subsidiary

Summary Schedule of Prior Audit Findings

Six Months Ended December 31, 2020

Reference Number	Summary of Finding	Status
	consolidated financial statements available for review by the governing body.	
2020-006	**Allowable Costs** 21 out of the 40 expenditures charged to the grant that were selected for testing within the months of November 2019 and May 2020 had amounts that were less than the actual amount expended per supporting documentation. For personnel-related expenditures, amounts charged to the grant had been computed without fully and properly reconciled substantiation behind such computation, resulting in certain allowable personnel-related deductions and benefits to be improperly excluded and inconsistent with source documentation.	Corrective action was taken.