Penfield Children's Center, Inc. and Affiliates

Consolidated Financial Statements and Supplementary Information

December 31, 2022 and 2021

Independent Auditors' Report

To the Board of Directors of
Penfield Children's Center, Inc. and Affiliates

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Penfield Children's Center, Inc. and Affiliates (the Organization), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the Organization has identified certain events and conditions that raise substantial doubt about the ability to continue as a going concern and announced its plans to close the operations of Penfield Montessori Academy, Inc., a wholly owned subsidiary. Management's evaluation of the events and conditions and management's plans to mitigate those matters are also described in Note 2. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 abilities to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 GAAS 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 consolidated financial statements.

In performing an audit in accordance with GAAS 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 consolidated 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 consolidated 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 consolidated 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal and state awards and the schedule of program revenues and expenses, birth to three identified in the table of contents, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* and the *State Single Audit Guidelines* are presented for purposes of additional analysis and are 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 GAAS. 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 July 31, 2023 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.

Baker Tilly US, LLP

Milwaukee, Wisconsin
July 31, 2023

Penfield Children's Center, Inc. and Affiliates

Consolidated Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents	$ 3,711,647	$ 5,464,850
Investments	5,157,749	6,236,247
Accounts receivable	95,768	178,042
Grants receivable	1,855,663	2,118,561
Contributions and pledges receivable, net	1,626,750	4,092,111
Prepaid expenses	159,393	32,036
Operating lease right of use assets	15,583	-
Property and equipment, net	4,554,883	5,565,828
Total assets	$ 17,177,436	$ 23,687,675
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 565,287	$ 565,742
Grant funds received in advance	97,272	100,291
Operating lease liabilities	15,583	-
Notes payable	167,509	397,574
Total liabilities	845,651	1,063,607
Net Assets		
Without donor restrictions	11,829,125	14,520,140
With donor restrictions	4,502,660	8,103,928
Total net assets	16,331,785	22,624,068
Total liabilities and net assets	$ 17,177,436	$ 23,687,675

See notes to consolidated financial statements

Penfield Children's Center, Inc. and Affiliates

Consolidated Statements of Activities
Years Ended December 31, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Public Support and Revenues						
Milwaukee County Department of Human Services	$ 1,936,944	$ -	$ 1,936,944	$ 1,666,695	$ -	$ 1,666,695
U.S.D.A. food program	133,112	-	133,112	131,923	-	131,923
United Way of Greater Milwaukee, Inc.	112,534	367,510	480,044	103,631	384,818	488,449
Service fees and child care	1,657,702	-	1,657,702	1,702,963	-	1,702,963
Contributions and other grants	450,494	1,485,640	1,936,134	2,041,844	5,649,561	7,691,405
School grants	1,528,996	-	1,528,996	2,079,734	-	2,079,734
In-kind contributions	125,768	-	125,768	122,725	-	122,725
Fundraising events	510,719	-	510,719	476,436	-	476,436
Cost of direct benefit to donors	(158,378)	-	(158,378)	(122,871)	-	(122,871)
Investment return, net	(748,316)	(157,596)	(905,912)	524,651	110,435	635,086
Loss on donor restricted contributions	-	(1,500,000)	(1,500,000)	-	-	-
Impairment loss on property	(1,536,526)	-	(1,536,526)	-	-	-
Other income	60,295	-	60,295	81,643	-	81,643
Net assets released from restrictions	3,796,822	(3,796,822)	-	3,641,647	(3,641,647)	-
Total public support and revenues	7,870,166	(3,601,268)	4,268,898	12,451,021	2,503,167	14,954,188
Expenses						
Program services	8,723,939	-	8,723,939	7,525,710	-	7,525,710
Management and general	1,458,753	-	1,458,753	1,281,969	-	1,281,969
Development and fundraising	378,489	-	378,489	302,172	-	302,172
Total expenses	10,561,181	-	10,561,181	9,109,851	-	9,109,851
Change in net assets	(2,691,015)	(3,601,268)	(6,292,283)	3,341,170	2,503,167	5,844,337
Net Assets, Beginning	14,520,140	8,103,928	22,624,068	11,178,970	5,600,761	16,779,731
Net Assets, Ending	$ 11,829,125	$ 4,502,660	$ 16,331,785	$ 14,520,140	$ 8,103,928	$ 22,624,068

See notes to consolidated financial statements

Penfield Children's Center, Inc. and Affiliates

Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows From Operating Activities		
Change in net assets	$ (6,292,283)	$ 5,844,337
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Net realized and unrealized (gain) loss on investments	1,023,434	(427,217)
Depreciation	373,465	278,898
Provision for doubtful accounts	6,000	3,700
Contributions and grants with donor restrictions for capital expenditures and endowment	-	(3,150,000)
Loss on donor restricted contributions	1,500,000	-
Impairment loss on property	1,536,526	-
Changes in assets and liabilities:		
Accounts receivable	76,274	(38,996)
Grants receivable	262,898	(909,344)
Contributions and pledges receivable	960,361	(1,254,979)
Prepaid expenses	(127,357)	127,708
Accounts payable and accrued expenses	(61,947)	35,499
Grant funds received in advance	(3,019)	4,975
Net cash flows from operating activities	(745,648)	514,581
Cash Flows From Investing Activities		
Proceeds from sale of investments	726,245	5,534,820
Purchases of investments	(671,181)	(5,780,026)
Payments for purchase of property and equipment	(837,554)	(1,418,075)
Net cash flows from investing activities	(782,490)	(1,663,281)
Cash Flows From Financing Activities		
Cash received for capital expenditures and endowment	5,000	586,591
Payments on notes payable	(230,065)	(21,221)
Net cash flows from financing activities	(225,065)	565,370
Net change in cash and cash equivalents	(1,753,203)	(583,330)
Cash and Cash Equivalents, Beginning	5,464,850	6,048,180
Cash and Cash Equivalents, Ending	$ 3,711,647	$ 5,464,850
Supplemental Cash Flow Disclosures		
Cash paid for interest	$ 9,435	$ 14,987
Capital additions included in accounts payable	$ 61,492	$ -

See notes to consolidated financial statements

Penfield Children's Center, Inc. and Affiliates

Consolidated Statement of Functional Expenses
Year Ended December 31, 2022

	Birth to Three	Penfield Montessori Academy	Other Programs	Total Programs	Management and General	Development and Fundraising	Total
Expenses							
Salaries	$ 1,609,006	$ 1,641,504	$ 2,120,666	$ 5,371,176	$ 819,105	$ 291,268	$ 6,481,549
Payroll taxes and benefits	364,424	346,787	379,296	1,090,507	148,183	53,335	1,292,025
Total salaries and related expenses	1,973,430	1,988,291	2,499,962	6,461,683	967,288	344,603	7,773,574
Advertising	-	-	-	-	112,080	-	112,080
Client transportation	-	44,508	3,863	48,371	-	-	48,371
Computer equipment	-	41,428	8,641	50,069	-	-	50,069
Conferences and meetings	6,558	64,996	58,943	130,497	16,338	280	147,115
Depreciation	23,257	98,048	224,569	345,874	24,056	3,535	373,465
Dues and subscriptions	6,418	25,178	31,421	63,017	34,477	3,121	100,615
Employee transportation	18,677	4,805	20,955	44,437	-	896	45,333
Equipment and parking lot rental	-	-	3,556	3,556	-	-	3,556
Food service	-	110,382	68,470	178,852	4,147	846	183,845
Insurance	12,209	41,573	68,091	121,873	39,560	1,852	163,285
Maintenance and repairs	14,535	91,063	102,308	207,906	-	-	207,906
Other supplies and expenses	9,615	15,748	284,883	310,246	23,727	-	333,973
Postage and office supplies	-	3,383	6,311	9,694	2,967	285	12,946
Printing and stationery	-	488	-	488	872	647	2,007
Professional services and consultant fees	9,904	408,946	124,491	543,341	227,698	13,603	784,642
Provision for bad debt	-	-	-	-	-	5,000	5,000
Telephone	24,115	12,454	21,653	58,222	5,543	3,821	67,586
Utilities	13,073	58,658	74,082	145,813	-	-	145,813
Cost of direct benefit to donors	-	-	-	-	-	158,378	158,378
Total	2,111,791	3,009,949	3,602,199	8,723,939	1,458,753	536,867	10,719,559
Less cost of direct benefit to donors	-	-	-	-	-	(158,378)	(158,378)
Total expenses	$ 2,111,791	$ 3,009,949	$ 3,602,199	$ 8,723,939	$ 1,458,753	$ 378,489	$ 10,561,181

See notes to consolidated financial statements

Penfield Children's Center, Inc. and Affiliates

Consolidated Statement of Functional Expenses
Year Ended December 31, 2021

	Birth to Three	Penfield Montessori Academy	Other Programs	Total Programs	Management and General	Development and Fundraising	Total
Expenses							
Salaries	$ 1,281,814	$ 1,461,578	$ 1,966,531	$ 4,709,923	$ 709,852	$ 224,899	$ 5,644,674
Payroll taxes and benefits	269,753	259,796	484,916	1,014,465	129,734	29,423	1,173,622
Total salaries and related expenses	1,551,567	1,721,374	2,451,447	5,724,388	839,586	254,322	6,818,296
Advertising	-	-	9,237	9,237	122,884	-	132,121
Client transportation	-	14,814	1,435	16,249	-	-	16,249
Computer equipment	-	58,329	119,931	178,260	17,821	-	196,081
Conferences and meetings	3,653	25,513	12,860	42,026	612	-	42,638
Depreciation	22,668	98,048	131,859	252,575	21,959	4,364	278,898
Dues and subscriptions	134	24,426	32,593	57,153	36,505	106	93,764
Employee transportation	3,921	237	4,810	8,968	-	-	8,968
Equipment and parking lot rental	-	-	1,763	1,763	-	-	1,763
Food service	-	74,384	47,110	121,494	3,537	99	125,130
Insurance	9,207	37,466	78,873	125,546	5,644	1,465	132,655
Maintenance and repairs	13,677	71,251	91,356	176,284	-	-	176,284
Other supplies and expenses	1,841	742	208,651	211,234	9,074	-	220,308
Postage and office supplies	-	2,220	5,920	8,140	2,501	-	10,641
Printing and stationery	-	273	8,451	8,724	160	-	8,884
Professional services and consultant fees	10,277	301,464	88,827	400,568	215,285	35,000	650,853
Provision for bad debt	-	-	-	-	-	3,700	3,700
Telephone	24,239	14,623	23,052	61,914	6,401	3,116	71,431
Utilities	11,070	45,234	64,883	121,187	-	-	121,187
Cost of direct benefit to donors	-	-	-	-	-	122,871	122,871
Total	1,652,254	2,490,398	3,383,058	7,525,710	1,281,969	425,043	9,232,722
Less cost of direct benefit to donors	-	-	-	-	-	(122,871)	(122,871)
Total expenses	$ 1,652,254	$ 2,490,398	$ 3,383,058	$ 7,525,710	$ 1,281,969	$ 302,172	$ 9,109,851

See notes to consolidated financial statements

1. Summary of Significant Accounting Policies

Basis of Statement Preparation

The consolidated financial statements include the accounts of Penfield Children's Center, Inc., Friends of Penfield Children's Center, Inc., VMMS Building Corp., Penfield Montessori Academy, Inc. (PMA), PMA Building, LLC and PCC Building, LLC (collectively, the Organization), after eliminating intercompany accounts and transactions. The consolidated financial statements have been prepared on the accrual basis of accounting. The significant accounting policies are described below to enhance the usefulness of the consolidated financial statements to the reader.

Nature of Activities

Penfield Children's Center, Inc. (Penfield) is an exempt organization under section 501(c)(3) of the Internal Revenue Code. Its sole purpose is to help infants and young children with and without disabilities reach their full potential through education, therapy services and family programs. Annually, Penfield serves on average more than 1,500 children and their families. Penfield provides Birth-to-3 services, child care, family services, a special care nursery, behavior clinic and outpatient therapy services.

Friends of Penfield Children's Center, Inc. (Friends) is an exempt organization under section 501(c)(3) of the Internal Revenue Code. Its sole purpose is to provide support for Penfield and Penfield Montessori Academy, Inc., through an annual fundraising event as well as other charitable solicitations throughout the year.

VMMS Building Corp. is an exempt organization under section 501(c)(2) of the Internal Revenue Code. Its sole purpose is to provide physical space for Penfield and Friends to carry out their missions.

Penfield Montessori Academy, Inc. (PMA) is an exempt organization under section 501(c)(3) of the Internal Revenue Code. PMA has a fiscal year end of June 30. PMA is a school for children of all abilities in a Montessori environment.

PMA Building, LLC is a limited liability company with one sole member, Penfield. Its sole purpose is to provide physical space for PMA to carry out its mission.

PCC Building, LLC is a limited liability company with one sole member, Penfield. Its sole purpose is to provide physical space for Penfield to carry out its mission.

Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments purchased with maturity of three months or less and any certificates of deposit that do not contain material early withdrawal penalties to be cash equivalents.

Investments

Investments in equity securities and mutual funds are reported at fair value, with realized and unrealized gains and losses included in the consolidated statements of activities. Investment return is presented net of investment fees.

Accounts Receivable

Contracts with patients and their caregivers that are considered exchange transactions are recorded at the amount management expects to receive from the net transaction price. Balances are recorded net of contractual adjustments for Medicaid and other third-party payors under terms of third-party reimbursement agreements in effect. The Organization also reports accounts receivable net of any implied discounts to determine the net transaction price.

Accounts receivable are uncollateralized patient obligations; most of whom are local residents and are stated at the amount management expects to collect from outstanding balances. The Organization follows up on past due amounts to reduce its exposure to potential uncollectible accounts.

Grants Receivable

Grants receivable represents the outstanding balance of government and other grants due to the Organization based upon costs incurred, services completed and terms identified in the contacts. Management determines the need for an allowance for doubtful accounts based on historical collection experience and a review of current grants receivable balances. No allowance for doubtful accounts is considered necessary as of December 31, 2022 and 2021.

Contributions and Pledges Receivable

Unconditional promises to give (contributions and pledges receivable) are recognized as revenue in the period the promise is received. Management considers all pledges fully collectible; accordingly, no allowance is considered necessary. Accounts written-off are charged against the allowance. Pledges are recorded as without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. The Organization applies a discount rate on long-term pledges receivable, which is based on treasury yield rates at the date of the gift.

Property and Equipment

Expenditures for land, equipment, building and improvements have been recorded at cost. Depreciation on the building and equipment is computed on the straight-line method over the estimated useful lives of the assets. Donations of land, building and equipment are recorded as contributions at their estimated fair values at the date of the donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire land, building and equipment are reported as contributions with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

The Organization follows a policy whereby items having a cost of less than $5,000 are charged to operations in the year of purchase.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets, including property and equipment for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset.

In 2022, management identified events and changes in circumstances that indicated the carrying amount of a building and its improvements which PMA operated may not be recoverable. The events and changes in circumstances include drawing the remainder of the beneficial interest in Friends during 2022 and the Board of Directors approved a plan to cease operations of the school for the 2023 - 2024 school year. Management obtained an appraised value of $2,375,000 which approximates the fair value of the property. The net book value at the time of impairment was $3,911,526. Management recorded an impairment loss of $1,536,526 during the year ended December 31, 2022.

Environmental Remediation Liability

The Organization purchased land in 2018 adjacent to its current building for future use. During 2018, site investigation activities were undertaken to determine if remedial action was required prior to further use of the land. As of the date of this report, no potential environmental remediation has been identified and the Organization continues to test the site until full clearance is provided.

Advertising Expense

It is the policy of the Organization to expense advertising as it is incurred. Advertising for the years ended December 31, 2022 and 2021 was $112,080 and $132,121, respectively.

Net Assets

The Organization presents its consolidated financial statements in accordance with current accounting guidance, under which the Organization is required to report information regarding its consolidated financial position and activities according to classes of net assets as follows:

Net Assets Without Donor Restrictions. Net assets that are not subject to donor-imposed stipulations or time restrictions. The Organization's Board of Directors has the ability to designate net assets without donor restrictions to be used by management for specific future projects or activities. These designations can be modified or removed by the Board of Directors at any time. There were no designations of net assets without donor restrictions as of December 31, 2022 and 2021.

Net Assets With Donor Restrictions. Net assets that are subject to donor-imposed stipulations that expire by passage of time, can be fulfilled and removed by actions of the Organization pursuant to those stipulations or that they be maintained in perpetuity by the Organization.

Contributions and Grants

Unconditional contributions or grants are recognized when cash, securities, other assets or promises to give are received. Conditional contributions or grants, 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. Most of the Organization's federal, state and other grants or contracts are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. As of December 31, 2022 and 2021 there was approximately $3,528,000 and $4,057,000 of conditional grant revenue, respectively, which is expected to be recognized in subsequent years when the conditions are met.

During 2022 and 2021, $97,272 and $100,291, respectively, had been received in advance and are included within grant funds received in advance on the consolidated statements of financial position. These amounts consist of cash received from state aid in advance of the upcoming semester at PMA and are recognized in the subsequent year when the semester is finished.

Contributions, including unconditional promises to give, are recorded in the period received. All contributions restricted for a specific purpose by a donor are recorded as contributions with donor restrictions. When a donor restriction is met or expires, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. All grants with government agencies are reported as without donor restrictions when the Organization satisfies any conditions.

Contracts With Customers

A portion of the Organization's revenues results from the sale of goods and services under contracts with customers. Revenue under contracts with customers is recognized when the customer obtains control of the good or service and is recognized to depict the transfer of promised goods or services in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services.

A performance obligation is a distinct good, service or a bundle of goods and services promised in a contract. The Organization identifies performance obligations at the inception of a contract and allocates the transaction price to individual performance obligations to appropriately depict the Organization's performance in transferring control of the promised goods or services to the customer. Contracts with customers do not include a significant financing component.

Service fees: Service fees revenue consist of revenues relating to the Organization's therapies and behavior clinic services. The performance obligation is to perform the indicated services for the customers under the contract. Revenues are recognized at a point in time as services are provided to the customer, which are then billed by the Organization to the customer or third party payor. Service fees revenue consist of contracts with individual patients and their caregivers that are mostly insured by Medicaid/Medicaid HMO. The other contracts within service fees are for commercially insured individuals and private pay individuals. The Organization reviewed contracts using a portfolio approach for individual patients due to similarities in contracts.

The Organization records service fees revenue from these contracts at an amount that reflects the consideration which it expects to be entitled to receive in exchange for the services provided. The transaction prices are generally listed in the contracts or individual client agreements. The Organization determines the net transaction price based on contractual adjustments under terms of third-party reimbursement agreements, a review of patient balances and the likelihood of payment based on historical experience as well as specific patient circumstances. The stated and implied discounts for service fees revenue is approximately 38.2% and 35.3% in 2022 and 2021, respectively, from the stated gross charges. Revenue recognized from service fees was $549,480 and $375,905 in 2022 and 2021, respectively.

Child Care: The Organization provides child care services and the related revenue for these services is included in service fees and child care on the consolidated statements of activities. The Organization and parents have agreements determining the service to be provided and fee. The parents make payments monthly in the form of cash or government voucher subsidies. The services are provided over time as children are cared for each day. Revenue is recognized as the services are provided. Revenue recognized from child care was $465,203 and $642,896 in 2022 and 2021, respectively.

Accounts receivable for service fees and child care consist of the following as of December 31:

	2022	2021	2020
Service fees	$ 54,610	$ 57,961	$ 79,663
Child Care	23,330	23,840	30,781
	$ 77,940	$ 81,801	$ 110,444

There are no expressed or implied warranties. There is no revenue recognized for services performed in prior periods. There are no contract assets or liabilities with these revenue sources.

Service fees and child care presented on the consolidated statements of activities also includes public support from other grants. These grants are recognized when the conditions on which they depend have been met. Revenue recognized from other grants within service fees and child care are $643,019 and $684,162 in 2022 and 2021, respectively.

Income Taxes

Penfield, Friends and PMA are exempt organizations for income tax purposes under Section 501(c)(3) of the Internal Revenue Code. VMMS Building Corp. is an exempt organization for income tax purposes under Section 501(c)(2) of the Internal Revenue Code. PMA Building, LLC and PCC Building, LLC are both single member LLC entities and considered disregarded entities and therefore take on the 501(c)(3) status of their sole member, Penfield. The Organization is generally exempt from federal and state income taxes.

The Organization files information returns in the U.S. Federal jurisdiction and the State of Wisconsin. None of the Organization's filed information returns are currently under examination by the Internal Revenue Service or the State of Wisconsin. The U.S. Federal information returns for 2018 and prior have passed the statute of limitations for audit by the Internal Revenue Service. The State of Wisconsin information returns for 2017 and prior have passed the statute of limitations for audit.

Accounting for Uncertainty in Income Taxes

The Organization follows current accounting guidance, which clarifies the accounting for uncertainty in income taxes recognized in the Organization's consolidated financial statements. The codification prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The codification also provides guidance on derecognition and measurement of a tax position taken or expected to be taken in a tax return.

The Organization did not have unrecognized tax benefits or obligations as of December 31, 2022 and 2021 and does not expect this to change significantly over the next 12 months. The Organization will recognize interest and penalties, if any, associated with the Organization's tax positions as a component of unrelated business income tax expense on the consolidated statements of activities. As of December 31, 2022 and 2021, the Organization has not accrued tax, interest or penalties related to uncertain tax positions.

Grant Funds Received in Advance

Grant funds received in advance at December 31, 2022 and 2021 consists of cash received from state aid in advance of the upcoming semester at PMA.

Volunteer Services

Donated services are reported as contributions when the services (a) create or enhance nonfinancial assets or (b) would be purchased if they had not been provided by contribution, require specialized skills and are provided by individuals possessing those skills. During 2022 and 2021, the Organization benefited from 1,937 and 1,629 volunteer hours, respectively, that do not meet the requirements for recognition in the consolidated financial statements.

Donated Materials

The Organization receives donated materials, which are primarily used for fundraising events or distributed to people in need of those materials. Items donated and used by the Organization are recorded at their estimated fair value.

Functional Allocation of Expenses

Directly identifiable expenses are charged to program services, management and general and development and fundraising. Expenses related to more than one function are charged to program services, management and general, and development and fundraising on the basis of full time equivalents, square footage, number of meals served and clinical records. Information technology and services expenses are allocated based on supported full time equivalents. Facility operation expenses are allocated based on square footage utilization. Kitchen staff and supplies are allocated based on meals served. Clinical records expenses are allocated based on number of documents administered per year. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Estimates

The preparation of the 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 and expenses during the reporting period. Actual results could differ from those estimates.

Liquidity and Availability of Resources

The following reflects the Organization's financial assets, reduced by amounts not available within one year for general use because of contractual or donor-imposed restrictions. Amounts not available include receivables collectible beyond one year and amounts set aside for long-term investing at Friends.

	2022	2021
Total assets, at year-end	$ 17,177,436	$ 23,687,675
Less nonfinancial assets:		
Property and equipment, net	(4,554,883)	(5,565,828)
Operating lease right of use asset	(15,583)	-
Prepaid expenses	(159,393)	(32,036)
Financial assets, at year-end	12,447,577	18,089,811
Less those unavailable for general expenditures within one year, due to:		
Restricted by donor with purpose restrictions	(900,000)	(2,718,440)
Contributions and pledges receivable subject to appropriation and satisfaction of donor's restriction	(111,925)	(1,777,925)
Contributions and pledges receivable collectible beyond one year without a purpose restriction	(25,000)	(2,050,000)
Long-term investments	(5,157,749)	(6,236,247)
Financial assets available to meet cash needs for general expenditures within one year	$ 6,252,903	$ 5,307,199

The Organization's practice is to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Organization has secured all major contracts through 2023; Milwaukee County Department of Human Services for $1,544,450; and year two of the SAMHSA four year grant for $1,100,000. A portion of long-term investments is available for operations, if needed. In addition, the Organization has a $500,000 line of credit available to be used, if needed. See Note 2 regarding PMA and management's plan.

Adopted Accounting Pronouncements

Effective January 1, 2022, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The purpose of the new standard is to increase the transparency about contributed nonfinancial assets of not-for-profit entities through enhancements to presentation and disclosure. The Organization has adjusted the presentation of these consolidated financial statements accordingly. ASU No. 2020-07 has been applied retrospectively to all periods presented. Disclosures regarding in-kind contributions are also expanded to meet the requirements of ASU No. 2020-07. There was no impact to net assets or change in net assets as a result of the adoption of ASU No. 2020-07.

Effective January 1, 2022, the Organization adopted FASB ASU No. 2016-02, *Leases (Topic 842)*, and all related amendments using the modified retrospective approach. The Organization's 2021 consolidated financial statements continued to be accounted for under the FASB's Topic 840 and have not been adjusted.

ASU No. 2016-02 requires lessees to recognize the assets and liabilities that arise from leases on the statement of financial position. At lease inception, leases are classified as either finance leases or operating leases with the associated right-of-use asset and lease liability measured at the net present value of future lease payments. Operating leases are expensed on a straight-line basis as lease expense over the noncanceleable lease term. Expenses for finance leases are comprised of the amortization of the right-of-use asset and interest expense recognized based on the effective interest method. At the date of adoption, the Organization recorded operating lease right-of-use assets and operating lease liabilities of $19,515. There were no finance leases.

The new standard provides for several optional practical expedients. Upon transition to Topic 842, the Organization elected:

- The package of practical expedients permitted under the transition guidance which does not require the Organization to reassess prior conclusions regarding whether contracts are or contain a lease, lease classification and initial direct lease costs.

- The practical expedient to use hindsight in determining the lease term (that is, when considering options to extend or terminate the lease or to purchase the underlying asset) and in assessing impairment of the Organization's right-of-use assets.

The new standard also provides for several accounting policy elections, as follows:

- When the rate implicit in the lease is not determinable, rather than use the Organization's incremental borrowing rate, the Organization elected to use a risk-free discount rate for the initial and subsequent measurement of lease liabilities for all asset classes.

- The Organization elected not to apply the recognition requirements to all leases with an original term of 12 months or less, for which the Organization is not likely to exercise a renewal option or purchase the asset at the end of the lease; rather, short-term leases will continue to be recorded on a straight-line basis over the lease term.

Subsequent Events

Management has evaluated subsequent events through July 31, 2023, the date which the consolidated financial statements were approved and available to be issued.

2. Penfield Montessori Academy and Management's Plan

Management evaluated the consolidated financial position of the Organization, as well as its its subsidiaries, and identified certain indicators that raise substantial doubt about the ability to continue as a going concern. PMA was operating at a deficit and required additional resources of the Organization. The indicators relating to PMA include:

- A deficit change in net assets in four of the previous five years and a projected deficit for the year ending June 30, 2023
- Limited liquid funds and no further beneficial interest in Friends
- Expected deficit cash flows over the remainder of the school year

Based on the indicators identified management announced its plans to close the school after completing the 2022-2023 school year. Penfield and the other subsidiaries have sufficient reserves to continue operations beyond one year from the issuance of the consolidated financial statements. The Organization recorded an impairment loss on the PMA building and building improvements of $1,536,526 and recorded a loss on pledges receivable that were for the operations of PMA of $1,500,000 during 2022. After the adjustments, the Organization has financial assets available for general expenditures of $6,252,903, which approximates one year of the Organization's expenses without PMA. Management's plans alleviate any concerns that raise substantial doubt about the ability of the Organization to continue as a going concern.

3. Cash and Credit Risk

The Organization uses financial institutions in which they maintain cash balances that, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts.

4. Investments

The Organization invests in equity securities and mutual funds which are reported at their aggregate fair value.

The Organization follows current accounting guidance, which clarifies how organizations are required to use a fair value measure for recognition and disclosure by establishing a common definition of fair value, creating a framework for measuring fair value and expanding disclosures about fair value measurements. Current accounting guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

As of December 31, 2022 and 2021, all investments are classified as Level 1 investments, for which fair value is measured based on quoted prices in active markets for identical assets. The fair value of investment securities by major security type and class of security as of December 31 is as follows:

	2022	2021
Classification type:		
Bond funds	$ 2,021,065	$ 2,026,395
Equity funds	3,043,493	4,209,852
Real asset funds	93,191	-
Total	$ 5,157,749	$ 6,236,247

5. Contributions and Pledges Receivable

Contributions and pledges receivable are expected to be realized in the following periods:

	2022	2021
Less than one year	$ 1,633,622	$ 1,197,425
One to five years	71,250	2,987,500
Subtotal	1,704,872	4,184,925
Less discount for present value	(78,122)	(92,814)
Total	$ 1,626,750	$ 4,092,111

The Organization wrote off an outstanding pledge balance in 2022 for a donor restricted pledge to support the school and is no longer expected to be collected. The loss is presented as a loss on donor restricted contributions on the consolidated statements of activities.

6. Property and Equipment and Depreciation

Depreciation is calculated on the straight-line method using the following useful lives:

Buildings and improvements	31-33 years
Parking lot and land improvements	10-20 years
Equipment, software and vehicles	4-10 years

Property and equipment are summarized as follows:

	2022	2021
Land	$ 318,440	$ 318,440
Building and improvements	9,099,762	9,085,895
Parking lot and land improvements	1,393,457	1,361,815
Office equipment	809,112	772,707
Software	354,863	354,863
Vehicles	112,553	112,553
Other	40,000	40,000
Construction in progress	57,274	-
Subtotal	12,185,461	12,046,273
Less accumulated depreciation	(7,630,578)	(6,480,445)
Total	$ 4,554,883	$ 5,565,828

Depreciation was $373,465 in 2022 and $278,898 in 2021.

7. Leases

The Organization leases certain office equipment and a parking lot under operating lease agreements with various expiration dates through 2026.

Leases, Prior to January 1, 2022

Rent expense on the operating leases was $20,418 for the year ended December 31, 2021.

Leases, January 1, 2022 and After

Operating lease right-of-use assets represent the Organization's right to use an underlying asset for the lease term, while operating lease liabilities represent the Organization's obligation to make lease payments arising from the leases. Operating right-of-use assets and operating lease liabilities are recognized at the commencement date of a lease based on the net present value of lease payments over the lease term.

In determining the discount rate used to measure the right-of-use assets and lease liabilities, the Organization uses the rate implicit in the lease, or if not readily available, the Organization uses a risk-free rate based on U.S. Treasury notes or bond rates for a similar term.

The Organization made significant assumptions and judgments in applying the requirements of Topic 842. In particular, the Organization:

- Evaluated whether a contract contains a lease, by considering factors such as whether the Organization obtained substantially all rights to control an identifiable underlying asset and whether the lessor has substantive substitution rights;
- Determined whether contracts contain embedded leases;
- Evaluated leases with similar commencement dates, lengths of term, renewal options or other contract terms, which therefore meet the definition of a portfolio of leases, whether to apply the portfolio approach to such leases;
- Allocated consideration in the contract between lease and nonlease components.

The Organization has several leases with related parties. PCC Building, LLC leases a parking lot to Penfield. VMMS Building Corp. leases a building to Penfield. PMA Building, LLC leases a building to PMA. The right-of-use assets, lease liabilities, rent revenue and rent expense associated with these leases are fully eliminated at consolidation.

Below is a summary of expenses incurred pertaining to leases during the year-ended December 31, 2022:

Operating lease expense	$ 3,922

The right-of-use assets and lease liabilities were calculated using a weighted-average discount rate of 1.37%. As of December 31, 2022, the weighted average remaining lease term was 4 years.

The table below summarized the Organization's scheduled future minimum lease payments for years ending after December 31, 2022:

Years ending December 31:		
2023	$	4,170
2024		4,170
2025		4,170
2026		3,476
Total lease payments		15,986
Less present value discount		(403)
Total leases liabilities	$	15,583

The following table includes supplemental cash flow and noncash information related to the leases for the year ended December 31, 2022:

Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$	(4,170)
Operating leases right-of-use assets obtained in exchange for lease liabilities	$	19,515

8. Net Assets With Donor Restrictions

At December 31, net assets with donor restrictions consisted of:

		2022		2021
Investment earnings on endowment	$	53,900	$	211,496
Purpose and time restricted contributions		3,631,160		7,069,832
Endowment Fund, principal to be invested in perpetuity, income to be used for general operating purposes		817,600		822,600
Total	$	4,502,660	$	8,103,928

9. Endowments

The Organization's endowment fund consists of a general donor endowment. General endowment funds have been received from a donor for endowment purposes and the earnings may or may not be restricted for a specific purpose.

The Board of Directors understands that the Uniform Prudent Management of Institutional Funds Act (UPMIFA) is the applicable state law governing their endowment funds. UPMIFA laws have been interpreted by the Board of Directors as allowing the appropriation for expenditure for the purposes for which an endowment is established as the net appreciation, realized and unrealized, in the fair value of an endowment fund over the historic dollar value of the fund as is prudent under ordinary business care considering the facts and circumstances prevailing at the time the action is taken.

The investment policy has been established by the Organization for endowment assets that attempts to provide a predictable stream of funding to the programs supported by its endowment while seeking to preserve the purchasing power of the endowment assets. The purpose of the Organization's investment policy, as approved by the Board of Directors, is to provide guidelines for investment and performance of investments, of endowment funds that protect principal, grow the aggregate portfolio value in excess of the inflation rate, reach an effective annual rate of return that is equal to or greater than the designated benchmarks for the various types of investment vehicles and to ensure that any risk assumed is in line with the given investment vehicle and the Organization's objectives.

The endowment assets are governed by a spending policy that seeks to distribute a specific payout rate from the endowment base to support the programs. Income from the fund will not be available for payout until the first day of the calendar quarter after the fund reaches a fair value documented in each fund agreement. The endowment base is defined as the rolling average of fair value for the most recent 20 quarters. The payout rate is 5% of the endowment base annually. The payout will not reduce the endowment principal below its original contributed value.

Endowment net asset composition by type of fund consists of the following at December 31:

	2022		
	Original Gift	Accumulated Gain	Total Endowment
Donor restricted	$ 817,600	$ 53,900	$ 871,500

	2021		
	Original Gift	Accumulated Gain	Total Endowment
Donor restricted	$ 812,600	$ 211,496	$ 1,024,096

Changes in endowment net assets for the years ended December 31, are as follows:

	With Donor Restrictions		
	Original Gift	Accumulated Gain	Total Endowment
Endowment net assets, as of January 1, 2021	$ 806,100	$ 101,061	$ 907,161
Contributions	6,500	-	6,500
Investment income, net of fees	-	110,435	110,435
Endowment net assets, as of December 31, 2021	$ 812,600	$ 211,496	$ 1,024,096
Endowment net assets, as of January 1, 2022	$ 812,600	$ 211,496	$ 1,024,096
Contributions	5,000	-	5,000
Investment loss, net of fees	-	(157,596)	(157,596)
Endowment net assets, as of December 31, 2022	$ 817,600	$ 53,900	$ 871,500

In addition, the endowment consists of pledges receivable of $0 and $10,000 at December 31, 2022 and 2021. The Organization wrote off an outstanding pledge balance in 2022 for a pledge donor restricted for the endowment and is no longer expected to be collected. The write-off is included in provision for bad debt on the consolidated statements of functional expenses.

10. Employee Retention Credit

The Employee Retention Credit (ERC), which was included as part of the Coronavirus Aid, Relief and Economic Security (CARES) Act and amended by the Consolidated Appropriations Act (CAA), the American Rescue Plan Act (ARPA) and the Infrastructure Investment and Jobs Act (IIJA), incentivizes employers severely impacted by the COVID-19 pandemic to retain their employees when they might otherwise find it difficult to do so. The fully refundable tax credit is allowed against the employer's share of employment taxes for qualified wages paid after March 12, 2020 and before October 1, 2021. Credits in excess of the tax amounts paid by an employer are treated as overpayments and are also refunded to the employer. The ERC is calculated as a percentage of qualified wages (as defined in the CARES Act, as amended) paid by an eligible employer. In 2021, the Organization qualified for the ERC as it experienced a significant decline in gross receipts (for 2021, defined as a 20% decline in gross receipts when compared to the same quarter in 2019). The Organization averaged more than 100 full-time employees (FTEs), but less than 500 FTEs during 2019, therefore, it was considered a small employer during 2021. As a small employer in 2021 all of the Organization's otherwise qualified wages were eligible. For 2021, the ERC equaled 70% of an employee's qualified wages up to $10,000 per employee per calendar quarter with a maximum annual credit of $21,000 for each employee.

The Organization accounts for this federal funding in accordance with FASB Accounting Standards Codification (ASC) 958-605 guidance for conditional contributions and, accordingly, revenues are measured and recognized when barriers are substantially met. The Organization claimed credits of $1,115,677 on amended forms 941 which are included in contributions and other grants in the consolidated statements of activities for the year ended December 31, 2021. As of December 31, 2022 and 2021, the Organization had an ERC receivable of $1,115,677 included in grants receivable on the consolidated statements of financial position.

11. Concentration of Risk

The Organization receives grants from various government agencies whose programs rely on the availability of funding from the United States government. Approximately 36% and 14%, of the Organization's total public support and revenues is from school grants for 2022 and 2021, respectively. The Milwaukee County contract accounts for 45% and 11% of total public support and revenues for 2022 and 2021, respectively.

Two donors account for 60% and 87% of the Organization's total outstanding contributions and pledges receivable at December 31, 2022 and 2021, respectively. In 2022 and 2021, the aforementioned donors accounted for 9% and 35% of total public support and revenues, respectively.

The Organization received a significant amount of contributions and other grants revenue in 2021 from various federal government coronavirus relief programs. See Note 10 for additional information.

12. Units of Service

Milwaukee County contracted to purchase 110,000 and 90,000 units of service from the Organization under the Work and Day - Children's Services program contract for 2022 and 2021, respectively. Additionally, the Organization received additional referrals during 2022 after the contract of another provider within the county ended, resulting in more units of service being provided than originally contracted. The Organization provided 114,029 and 88,622 units of service for clients in 2022 and 2021, respectively.

13. Donated Services, Materials and Equipment

The value of donated services, materials and equipment included as in-kind contributions in the consolidated statements of activities and the corresponding expenses for the years ended December 31, are as follows:

	2022	2021
Advertising	$ 41,598	$ 45,741
Fundraising events, supplies	72,615	58,977
Child care and technology, supplies	-	18,007
Consulting services	11,555	-
Total	$ 125,768	$ 122,725

Fundraising items donated and sold at the Pink Tower and Croquet Ball Auctions are recorded at their realized value, which approximates fair value, of $72,615 and $58,975 for 2022 and 2021, respectively, and included in-kind contributions on the consolidated statements of activities.

Contributed child care and technology - supplies are recorded at their estimated fair value based on the value of the supplies if the Organization were to purchase them directly from vendors in the area that the Organization operates.

Contributed advertising services consist of advertisements presented to the public at no cost to the Organization. Contributed advertising services are valued and are reported at the estimated fair value in the consolidated financial statements based on current market rates for similar advertising services.

Contributed consulting services consist of professional services from consultants advising the Organization on various matters. Contributed consulting services are valued and are reported at the estimated fair value in the consolidated financial statements based on current rates for similar services.

14. Employee Retirement Plan

The Organization has a 403(b) employee retirement plan for eligible employees. The Organization has discretion to match employee contributions up to 3% of the employee's gross wages. The Organization contributed $96,600 to the plan during 2022. The Organization did not contribute to the plan during 2021.

15. Notes Payable

In June 2016, the Organization entered into a demand line of credit agreement with a financial institution. The line of credit has a limit of $500,000. The line is secured by all business assets. The interest rate on the line is Wall Street Journal Prime Rate plus 0.05%. The line does not have an expiration date, however, the financial institution can notify the Organization to pay any outstanding balance within ninety days and terminate the line. The line has an outstanding balance of $0 at December 31, 2022 and 2021.

In 2019, a line of credit for construction for a parking lot was taken out by PCC Building, LLC with a financial institution. The line of credit was converted to an unsecured note payable on July 26, 2019. The note payable had an outstanding balance of $167,509 and $397,574 at December 31, 2022 and 2021, respectively. Interest expense was $9,435 and $14,987 in 2022 and 2021, respectively. The parking lot was placed into service in 2020. Monthly interest payments are due with an interest rate of LIBOR plus 1.25% for the first 12 months of the note. Beginning August 1, 2020, the interest rate changed to a fixed 3.95% for the remainder of the note, principal and interest is payable in 59 monthly installments of $3,292 with a final payment equal to all unpaid principal and accrued interest due July 1, 2025. During March 2022, the Organization prepaid $200,000 of principal on the notes payable. Future principal payments on the note payable for the years ending after December 31, 2022 are as follows:

Years ending December 31:	
2023	$ 24,997
2024	25,978
2025	116,534
Total	$ 167,509

16. Commitments and Contingencies

Financial awards from federal, state and local governments in the form of grants are subject to special audit. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this time.

The Organization is a defendant in lawsuits. The final results of such litigation cannot be determined at this time. In the opinion of management, any ultimate liability in the lawsuits would either be within insurance limits or would have no adverse effect on the consolidated financial statements.

The Organization received funds under the Paycheck Protection Program (PPP) of $1,276,700 that was recorded as grant revenue in prior years. The Organization has received notice from the Small Business Administration (SBA) that it has forgiven all of the PPP proceeds received by the Organization. The SBA reserves the right to audit any PPP loan, regardless of size. These audits may occur after forgiveness has been granted. In accordance with the CARES Act, all borrowers are required to maintain their PPP loan documentation for six years after the PPP loan was forgiven or repaid in full and to provide that documentation to the SBA upon request. The Organization does not believe the results of any audits or reviews by the SBA would have a material impact on the consolidated financial statements.

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 Auditors' Report

To the Board of Directors of
Penfield Children's Center, Inc. and Affiliates

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Penfield Children's Center, Inc. and Affiliates (the Organization), which comprise the Organization's consolidated statement of financial position as of December 31, 2022, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated July 31, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses 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 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 consolidated 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 entity'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.

Baker Tilly US, LLP

Milwaukee, Wisconsin
July 31, 2023

Report on Compliance for Each Major Federal and Major State Program and Report on Internal Control Over Compliance Required by the Uniform Guidance and the *State Single Audit Guidelines*

Independent Auditors' Report

To the Board of Directors of
Penfield Children's Center, Inc. and Affiliates

Report on Compliance for Each Major Federal and Major State Program

Opinion on Each Major Federal and Major State Program

We have audited Penfield Children's Center, Inc. and Affiliates' (the Organization) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* and the *State Single Audit Guidelines* (the *Guidelines*) that could have a direct and material effect on each of the Organization's major federal and major state programs for the year ended December 31, 2022. The Organization's major federal and major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal and major state programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal and Major State Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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); and the *Guidelines*. Our responsibilities under those standards, the Uniform Guidance, and the *Guidelines* are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal and major state program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Other Matter – Federal and State Expenditures Not Included in the Compliance Audit

The Organization's basic consolidated financial statements include the operations of the subsidiaries of the Organization, as identified in the notes to the schedule of expenditures of federal and state awards, which expended $347,603 in federal awards and $1,261,735 in state awards which are not included in the Organization's schedule of expenditures of federal and state awards during the year ended December 31, 2022. Our compliance audit, described in the "Opinion on Each Major Federal and Major State Program," does not include the operations of the subsidiaries of the Organization, as identified in the notes to the schedule of expenditures of federal and state awards because they have separate audits under the Uniform Guidance and the *Guidelines* or do not require an audit under Uniform Guidance and the *Guidelines*.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Organization's federal and state programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. 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 GAAS, *Government Auditing Standards*, the Uniform Guidance, and the *Guidelines* will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal and major state program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance, and the *Guidelines*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, 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 Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance and the *Guidelines*, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 or state 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 or state 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 or state 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as described above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 and the *Guidelines*. Accordingly, this report is not suitable for any other purpose.

Baker Tilly US, LLP

Milwaukee, Wisconsin
July 31, 2023

Penfield Children's Center, Inc. and Affiliates

Schedule of Expenditures of Federal and State Awards
Year Ended December 31, 2022

Federal Grantor/Pass-Through Entity/Program Title	Assistance Listing Number	Pass-Through Entity's Number	Federal Expenditures	Subrecipient Awards
Federal Awards				
U.S. Department of Agriculture:				
Passed through Wisconsin Department of Public Instruction:				
COVID-19 Child and Adult Care Food Program	10.558	Not available	$ 38,073	$ -
U.S. Department of Education:				
Passed through Milwaukee County - Department of Human Services:				
Special Education, Grants for Infants and Families	84.181	40-20898-100	743,589	-
U.S. Department of Health and Human Services:				
Direct award:				
Substance Abuse and Mental Health Services, Projects of Regional and National Significance	93.243	Not applicable	410,731	-
Passed through Acelero:				
Head Start	93.600	05H90032	218,478	-
Total Head Start Cluster			218,478	-
Passed through Milwaukee County - Department of Human Services:				
Medical Assistance Program	93.778	40-20898-100	374,783	-
Total Medicaid Cluster			374,783	-
Total U.S. Department of Health and Human Services			1,003,992	-
Total expenditures of federal awards			$ 1,785,654	$ -

State Grantor/Pass-Through Entity/Program Title	State ID Number	Pass-Through Entity's Number	State Expenditures	Subrecipient Awards
State Awards				
Wisconsin Department of Health Services:				
Passed through Milwaukee County - Department of Human Services:				
Birth to Three	435.550	40-20898-100	$ 818,572	$ -
Wisconsin Department of Children and Families:				
Direct award:				
Child Care Counts Payment Program	Unknown	Not applicable	223,275	-
Total expenditures of state awards			$ 1,041,847	$ -

See notes to schedule of expenditures of federal and state awards

Basis of Presentation

The accompanying schedule of expenditures of federal and state awards (the Schedule) includes the federal and state award activity of Penfield Children's Center, Inc. and Affiliates (the Organization) under programs of the federal and state government for the year ended December 31, 2022. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *State Single Audit Guidelines* (Guidelines). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

Management reviews the expenditures of federal and state awards for each entity that comprise the Organization and determines if a separate audit is required under the Uniform Guidance and the Guidelines. Expenditures for the following consolidated subsidiaries of Penfield Children's Center, Inc. are not included to meet the requirements of the Uniform Guidance and the Guidelines because they have separate audits under the Uniform Guidance and the Guidelines or do not require an audit under the Uniform Guidance and the Guidelines:

Friends of Penfield Children's Center, Inc.	VMMS Building Corp.	PCC Building, LLC
Penfield Montessori Academy, Inc.	PMA Building, LLC	

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 Uniform Guidance and the Guidelines, 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.

Indirect Cost Rate

The Organization has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Noncash Awards

The Organization did not receive any noncash federal awards.

State ID Numbers

The Organization received state funding and the funder did not provide the state identification number. The state amount is presented as "unknown" and is known to originate from the Wisconsin Department of Children and Families.

Section I: Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the consolidated financial statements audited were prepared in accordance with GAAP:	Unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?		yes	X	no
Significant deficiency(ies) identified?		yes	X	none reported
Noncompliance material to the consolidated financial statements noted?		yes	X	no

Federal and State Awards

Internal control over major federal and state programs:				
Material weakness(es) identified?		yes	X	no
Significant deficiency(ies) identified?		yes	X	none reported
Type of auditors' report issued on compliance for major programs:	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?		yes	X	no

Identification of major federal program:

Assistance Listing Number(s)	Name of Federal Program or Cluster
84.181	Special Education, Grants for Infants and Families

Identification of major state programs:

Assistance Listing / State ID Number(s)	Name of State Program or Cluster
84.181 / 435.550	Special Education, Grants for Infants and Families and Birth to Three

Dollar threshold used to distinguish between federal Type A and Type B programs	$750,000			
Dollar threshold used to distinguish between state Type A and Type B programs	$250,000			
Auditee qualified as low risk auditee?	X	yes		no

Section II: Financial Statement Findings

There were no findings.

Section III: Federal Findings and Questioned Costs

There were no findings or questioned costs.

Section IV: Other Issues

Does the auditor have substantial doubt as to the auditee's ability to continue as a going concern?		yes	X	no
Does the audit report show audit issues (i.e., material noncompliance, nonmaterial noncompliance, questioned costs, material weaknesses, significant deficiencies, management letter comment, excess revenue or excess reserve) related to grants/contracts with funding agencies that require audits to be in accordance with the *State Single Audit Guidelines*:				
Department of Health Services		yes	X	no
Department of Public Instruction		yes	X	no
Department of Children and Families		yes	X	no
Was a management letter or other document conveying audit comments issued as a result of this audit?		yes	X	no

Name and signature of partner — Ryan J Lay

Ryan Lay, CPA

Date of the report — July 31, 2023

Summary Schedule of Prior Audit Findings
December 31, 2022

The prior year audit disclosed no findings and, therefore, no uncorrected or unresolved findings exist from the prior year.

Penfield Children's Center, Inc. and Affiliates

Schedule of Program Revenues and Expenses, Birth to Three
December 31, 2022

	Actual	Approved Budget	Variance from Budget	Maximum	Disallowed
Public Support and Revenues					
Milwaukee County Department of Human Services, Birth to Three	$ 1,562,161	$ 1,382,394	$ 179,767		
Service fees and child care	686,461	439,347	247,114		
Contributions and other grants	148,852	767,395	(618,543)		
Total public support and revenues	2,397,474	2,589,136	(191,662)		
Expenses					
Salaries	1,609,006	1,536,918	72,088	$ 153,692	
Employee benefits	233,632	262,124	(28,492)	82,533	
Payroll taxes	130,792	130,883	(91)	82,533	
Professional fees	9,904	12,625	(2,721)	82,533	
Supplies	9,615	16,005	(6,390)	82,533	
Telephone	24,115	26,672	(2,557)	82,533	
Occupancy*	63,073	64,705	(1,632)	82,533	
Employee travel	18,677	35,363	(16,686)	82,533	
Conferences, conventions, meetings	6,558	29,522	(22,964)	82,533	
Membership dues	6,418	1,156	5,262	82,533	
Allocated costs*	646,550	635,127	11,423	82,533	
Total expenses	2,758,340	2,751,100	7,240		
Net deficit	$ (360,866)	$ (161,964)	$ (198,902)		

*Expenses reported on the Schedule of Program Revenues and Expenses, Birth to Three differs from the Consolidated Statement of Functional Expenses due to accounting guidance clarifying that certain allocated costs remain as management and general on the Consolidated Statements of Functional Expenses for audit purposes.