

**MINNESOTA CHILD CARE RESOURCE
AND REFERRAL NETWORK
(A Non-Profit Corporation)**

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
SEPTEMBER 30, 2010**

MINNESOTA CHILD CARE RESOURCE AND REFERRAL NETWORK

(A Non-Profit Corporation)

FINANCIAL STATEMENTS

For the Year Ended September 30, 2010
(With Comparative Totals for 2009)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Minnesota Child Care Resource and Referral Network
Saint Paul, Minnesota

We have audited the accompanying statement of financial position of Minnesota Child Care Resource and Referral Network (the Network) as of September 30, 2010, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Network's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Network's 2009 financial statements and, in our report dated January 7, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Minnesota Child Care Resource and Referral Network as of September 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2011, on our consideration of Minnesota Child Care Resource and Referral Network's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Minnesota Child Care Resource and Referral Network taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Saint Paul, Minnesota
January 7, 2011

*Mahoney Ulbrich
Christiansen Russ P.A.*

MINNESOTA CHILD CARE RESOURCE AND REFERRAL NETWORK

STATEMENT OF FINANCIAL POSITION

September 30, 2010
(With Comparative Totals for 2009)

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash	\$ 1,582,042	\$ 1,203,571
Certificates of deposit	-	310,317
Grants receivable	592,558	697,263
Contributions receivable	7,500	7,500
Prepaid expenses	15,964	16,775
Total current assets	<u>2,198,064</u>	<u>2,235,426</u>
Equipment	55,275	67,548
Less accumulated depreciation	(44,812)	(50,686)
Net equipment	<u>10,463</u>	<u>16,862</u>
Total assets	<u>\$ 2,208,527</u>	<u>\$ 2,252,288</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 47,213	\$ 28,821
R.E.E.T.A.I.N. scholarships payable	169,627	195,500
Accrued expenses	83,334	74,335
Refundable advances	1,380,820	1,361,378
Total current liabilities	<u>1,680,994</u>	<u>1,660,034</u>
Net assets:		
Unrestricted net assets	465,957	412,811
Temporarily restricted net assets	61,576	179,443
Total net assets	<u>527,533</u>	<u>592,254</u>
Total liabilities and net assets	<u>\$ 2,208,527</u>	<u>\$ 2,252,288</u>

See accompanying notes to financial statements.

MINNESOTA CHILD CARE RESOURCE AND REFERRAL NETWORK

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended September 30, 2010
(With Comparative Totals for 2009)

	2010			2009
	Unrestricted	Temporarily restricted	Total	
Support and revenue:				
Government contracts	\$ 2,300,692	\$ -	\$ 2,300,692	\$ 2,525,668
Contributions	103,405	30,000	133,405	57,000
Program income	88,451	-	88,451	91,124
Investment income	11,475	-	11,475	15,507
Miscellaneous income	5,612	-	5,612	157
Net assets released from restrictions upon satisfaction of program restrictions	147,867	(147,867)	-	-
Total support and revenue	2,657,502	(117,867)	2,539,635	2,689,456
Expenses:				
Program services:				
CCR&R System Support	942,621	-	942,621	924,460
T.E.A.C.H.	349,853	-	349,853	465,176
R.E.E.T.A.I.N.	317,424	-	317,424	324,978
Eager to Learn	237,778	-	237,778	224,876
Armed Services Support	90,754	-	90,754	90,219
Parent Aware	410,019	-	410,019	488,776
Other	122,638	-	122,638	157,757
Total program services	2,471,087	-	2,471,087	2,676,242
Management and general	121,065	-	121,065	142,801
Fundraising	12,204	-	12,204	8,429
Total expenses	2,604,356	-	2,604,356	2,827,472
Change in net assets	53,146	(117,867)	(64,721)	(138,016)
Net assets, beginning of year	412,811	179,443	592,254	730,270
Net assets, end of year	\$ 465,957	\$ 61,576	\$ 527,533	\$ 592,254

See accompanying notes to financial statements.

MINNESOTA CHILD CARE RESOURCE AND REFERRAL NETWORK

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2010
(With Comparative Totals for 2009)

	2009										Total	2009	
	Program Services												Total
	CCR&R System Support	T.E.A.C.H.	R.E.E.T.A.I.N.	Eager To Learn	Armed Services Support	Parent Aware	Other	Total program services	Management and general	Fundraising			
Salaries	\$ 399,914	\$ 88,768	\$ 44,258	\$ 85,505	\$ 45,054	\$ 242,404	\$ 48,724	\$ 954,627	\$ 47,693	\$ 7,793	\$ 1,010,113	\$ 949,594	
Payroll taxes	32,069	8,076	3,026	6,765	3,911	19,642	2,771	76,260	4,125	584	80,969	80,129	
Employee benefits	62,360	11,791	5,618	16,790	4,098	37,794	5,593	144,044	7,973	1,072	153,089	136,346	
Retirement plan	15,289	2,500	10	1,822	2,359	4,969	1,343	28,292	1,757	292	30,341	25,374	
Total employee compensation	509,632	111,135	52,912	110,882	55,422	304,809	58,431	1,203,223	61,548	9,741	1,274,512	1,191,443	
Insurance	2,822	616	269	-	309	1,392	110	5,518	295	-	5,813	5,539	
Scholarships and grants	-	217,918	246,370	-	-	-	-	464,288	-	-	464,288	712,061	
Evaluation	66,667	-	-	-	-	-	-	66,667	-	-	66,667	81,766	
Advertising	-	-	-	-	-	-	-	-	-	-	-	1,327	
Accounting and legal	6,017	-	-	5,000	900	5,840	-	17,757	27,603	-	45,360	54,258	
Office supplies	3,977	2,122	1,713	134	558	6,127	137	14,768	519	-	15,287	20,209	
Printing	9,156	539	91	37	287	1,635	285	12,030	1,201	10	13,241	17,635	
Telephone	10,359	2,145	920	3,639	872	5,915	696	24,546	567	63	25,176	36,356	
Postage	2,527	1,321	519	295	663	3,248	542	9,115	523	64	9,702	11,464	
Rent	39,643	11,064	10,451	-	4,666	9,799	975	76,598	6,089	827	83,514	82,712	
Equipment	17,318	-	-	6,193	1,350	2,821	1,789	29,471	1,756	-	31,227	27,988	
Database development	80,586	-	-	-	-	-	-	80,586	-	-	80,586	115,005	
Internet	502	-	-	-	-	81	-	583	-	-	583	1,017	
Publications, subscriptions and dues	1,168	-	480	-	-	1,553	-	3,201	3,155	-	6,356	6,525	
Public relations and marketing	16,364	226	1,813	4,651	8,604	22,682	11,923	66,263	6,354	-	72,617	94,719	
Staff travel and meals	15,622	453	386	1,113	3,826	11,623	6,234	39,257	4,102	-	43,359	36,295	
Committee meetings and conferences	37,651	612	-	274	5,753	-	13,214	57,504	(136)	-	57,368	48,389	
Staff development	1,591	309	-	45	-	765	-	2,710	1,026	-	3,736	7,424	
Training	550	-	-	67,271	6,976	31,729	102	106,628	-	-	106,628	90,700	
Pass-through payments to other agencies	-	-	-	3,800	568	-	10,200	14,568	-	-	14,568	45,247	
Depreciation	-	-	-	-	-	-	-	-	6,399	-	6,399	8,356	
Miscellaneous	-	-	-	2,671	-	-	-	2,676	63	-	2,739	3,178	
CCR&R System Resource Materials	68,646	-	-	-	-	-	-	68,646	-	-	68,646	-	
Consulting	51,823	1,388	1,500	31,773	-	-	18,000	104,484	-	1,500	105,984	127,859	
Total	\$ 942,621	\$ 349,853	\$ 317,424	\$ 237,778	\$ 90,754	\$ 410,019	\$ 122,638	\$ 2,471,087	\$ 121,065	\$ 12,204	\$ 2,604,356	\$ 2,827,472	

See accompanying notes to financial statements.

MINNESOTA CHILD CARE RESOURCE AND REFERRAL NETWORK

STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2010
(With Comparative Totals for 2009)

Increase (Decrease) in Cash

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ (64,721)	\$ (138,016)
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation	6,399	8,356
Interest income reinvested	(1,451)	(6,182)
Changes in operating assets and liabilities:		
Grants receivable	104,705	(31,840)
Contributions receivable	-	117,500
Prepaid expenses	811	3,153
Accounts payable	18,392	3,558
R.E.E.T.A.I.N. scholarships payable	(25,873)	(37,000)
Accrued expenses	8,999	8,792
Refundable advances	19,442	145,110
Net cash from operating activities	<u>66,703</u>	<u>73,431</u>
Cash flows from investing activities:		
Maturities of certificates of deposit	<u>311,768</u>	<u>-</u>
Net cash from investing activities	<u>311,768</u>	<u>-</u>
Net increase in cash	378,471	73,431
Cash, beginning of year	<u>1,203,571</u>	<u>1,130,140</u>
Cash, end of year	<u><u>\$ 1,582,042</u></u>	<u><u>\$ 1,203,571</u></u>

See accompanying notes to financial statements.

MINNESOTA CHILD CARE RESOURCE AND REFERRAL NETWORK

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2010
(With Comparative Totals for 2009)

1. ORGANIZATION

Minnesota Child Care Resource and Referral Network (the Network) is a not-for-profit corporation which provides statewide leadership in shaping collaborations that build a diverse, high quality child care system accessible to all Minnesota families. The Network's goal is to ensure a solid infrastructure for quality child care in the state. Approximately 87% and 90% of the Network's funding was provided from pass-through grants of money from the U.S. Department of Health and Human Services in 2010 and 2009, respectively. Other support is provided from contributions from foundations and individuals.

The Network has several programs to achieve its purpose which include:

Child Care Resource and Referral (CCR&R) System Support The Network provides coordination, training/technical assistance and infrastructure support to the 16 agencies that are contracted by the Minnesota Department of Human Services to provide community based activities, including child care referrals and consultation for parents, support for child care programs, training for early care and education providers, and community networking. The CCR&R system and duties are included in state statutes.

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

The R.E.E.T.A.I.N. workforce retention program (Retaining Early Educator's Through Attaining Incentives Now) provides grants to child care providers who have already graduated with at least a two-year associate degree or currently hold a CDA Credential. As in the T.E.A.C.H. program, these grants are available to providers who have been employed in their current licensed setting for at least one year, and who work at least 1,560 hours per year with the same group of children. The Program strives to both increase and reward quality, and decrease staff turn-over in the field of early care and education.

The Eager-to-Learn on-line learning program provides early care and education providers with high quality, affordable in-service training opportunities using electronic technologies. Through multi-week classes with weekly scheduled chat sessions, the program offers professional development opportunities that increase idea sharing, while reducing geographic, economic, and other barriers.

The program also features information and education about e-learning, links to other e-learning sites, and a virtual meeting site for professional early childhood and school-age groups—saving them money on travel and meeting costs.

(Continued)

MINNESOTA CHILD CARE RESOURCE AND REFERRAL NETWORK

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2010
(With Comparative Totals for 2009)

1. ORGANIZATION (Continued)

Armed Services Support is a program funded by the U.S. Army to provide respite child care for Army Reserve and National Guard families in Minnesota who have a family member that is deployed. The program also includes training opportunities for child care providers to help them in their support of military families and children, and stipends for those who care for these children on an ongoing basis.

Parent Aware is a pilot program to test a “quality rating system” for child care settings in four Minnesota communities, and to provide information to parents about the results of these ratings. The project also includes technical assistance and improvement support for providers who agree to participate in the rating process.

Other programs consist of statewide conference support, and additional funding for pilot projects, training, and support for the basic work of the CCR&R system.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

- Unrestricted net assets represent the portion of net assets that are not subject to donor restrictions.
- Temporarily restricted net assets arise from contributions that are restricted by donors for specific purposes or time periods.
- Permanently restricted net assets arise from contributions that the donor has stipulated must be maintained in perpetuity. At this time, the Network has no permanently restricted net assets.

Cash – For purposes of the Statement of Cash Flows, the Network considers all highly liquid instruments purchased with an original maturity of three months or less to be cash. Certificates of deposit are excluded from cash.

(Continued)

MINNESOTA CHILD CARE RESOURCE AND REFERRAL NETWORK

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2010
(With Comparative Totals for 2009)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Concentration of Credit Risk – The Network places its cash and owned certificates of deposit at one large banking institution. At September 30, 2010, these accounts exceeded the FDIC limit by \$1,041,592. The Network does not believe it is exposed to any significant credit risk on these funds.

Certificates of Deposit – Certificates of deposit are purchased with an original maturity of three to six months.

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

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

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

R.E.E.T.A.I.N. Scholarships Payable – R.E.E.T.A.I.N. scholarships are recorded when they are awarded to the individuals.

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

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

(Continued)

MINNESOTA CHILD CARE RESOURCE AND REFERRAL NETWORK

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2010
(With Comparative Totals for 2009)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Income Taxes – The Network is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and applicable Minnesota Statutes, except to the extent it has taxable income from businesses that are not related to its exempt purpose. Management believes the Network did not have any unrelated business income in 2010 or 2009.

The Network is not currently under examination by any taxing jurisdiction. Federal and state tax authorities have the right to examine the current and prior three years returns. Any interest or penalties associated with tax positions are reported as such within the management and general expenses category. For 2010 and 2009, there were no such interest or penalties recorded in the accompanying financial statements.

Comparative Total Column – The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Network's financial statements for the year ended September 30, 2009, from which the summarized information was derived.

3. **CONTRIBUTIONS RECEIVABLE**

Contributions receivable are due in 2011.

4. **REFUNDABLE ADVANCES**

Refundable advances are for the following programs:

	2010	2009
CCR&R System Support	\$ 1,034,144	\$ 999,836
T.E.A.C.H.	230,242	244,536
Parent Aware	116,434	110,732
Other	-	6,274
	\$ 1,380,820	\$ 1,361,378

(Continued)

MINNESOTA CHILD CARE RESOURCE AND REFERRAL NETWORK

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2010
(With Comparative Totals for 2009)

5. **TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are restricted for the following purposes:

	<u>2010</u>	<u>2009</u>
T.E.A.C.H.	\$ 50,332	\$ 69,725
Service Delivery	-	97,307
Parent Outreach	11,243	11,411
Eager to Learn	-	1,000
	<u>\$ 61,576</u>	<u>\$ 179,443</u>

Temporarily restricted net assets consist of the following:

	<u>2010</u>	<u>2009</u>
Cash	\$ 54,076	\$ 171,943
Contributions receivable	<u>7,500</u>	<u>7,500</u>
	<u>\$ 61,576</u>	<u>\$ 179,443</u>

6. **ECONOMIC DEPENDENCY**

The Network received approximately 87% of its support from federal and state governments. If there is a significant reduction in this level of support, the Network could be adversely affected.

7. **RETIREMENT PLAN**

The Network has a retirement savings plan which is intended to satisfy the requirements of Section 403(b) of the Internal Revenue Code. Subject to certain plan requirements, employees of the Network are eligible to participate in this plan. As of July 1, 2006, the plan changed to a matched plan under which voluntary employee contributions are matched by the employer. Matching contributions are made by the Network at a maximum rate to be determined annually and based on the availability of funds. The Network's retirement plan expense was \$30,341 and \$25,375 in 2010 and 2009, respectively.

(Continued)

MINNESOTA CHILD CARE RESOURCE AND REFERRAL NETWORK

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2010
(With Comparative Totals for 2009)

8. **LEASES**

The Network leases its office space under the terms of an operating lease agreement that expires on December 31, 2015. In addition to base rent for operating space, the Network pays its share of operating costs. Total rental expense was \$83,514 and \$82,712 for the years ended September 30, 2010 and 2009, respectively.

Future minimum rental payments are as follows:

2011	\$ 76,072
2012	76,179
2013	77,217
2014	78,255
2015	79,293
2016	<u>19,888</u>
	<u>\$ 406,904</u>

The Network also leases certain office equipment under leases which expire in 2013 and 2015. Lease expense was \$5,704 and \$3,036 for the years ended September 30, 2010 and 2009, respectively.

Future minimum rental payments are as follows:

2011	\$ 10,143
2012	10,143
2013	10,143
2014	4,774
2015	<u>3,665</u>
	<u>\$ 38,868</u>

9. **RELATED PARTY TRANSACTIONS**

The Executive Director became a member of the National Association of Child Care Resource and Referral Agencies (NACCRA) board of directors in 2007 and served on the board until March 2010. The Network has a contract with NACCRA to provide surge support child care services to deployed Army National Guard and Reserve Families. In April 2010, the Network entered into a new contract with NACCRA to continue to provide services through March 31, 2011. The total value of the new contract is \$105,000. The Network was paid \$90,727 and \$95,622 for the years ended September 30, 2010 and 2009, respectively.

(Continued)

MINNESOTA CHILD CARE RESOURCE AND REFERRAL NETWORK

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2010
(With Comparative Totals for 2009)

10. **SUBSEQUENT EVENTS**

Management has evaluated subsequent events through January 7, 2011, the date on which the financial statements were available for issue, and identified no further significant events or transactions to disclose.

SUPPLEMENTAL INFORMATION

MINNESOTA CHILD CARE RESOURCE AND REFERRAL NETWORK

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2010

Federal Grantor/ Pass-through Grantor/ Program Title	CFDA Number	Pass-through Grantor Identifying Number	Federal Expenditures
Department of Health and Human Services, Administration for Children and Families:			
Passed through State of Minnesota Department of Human Services			
Child Care and Development Block Grant	93.575	441394 & 441306	\$ 1,241,376
ARRA – Child Care and Development Block Grant	93.713	441394 & 441306	<u>788,646</u>
Total Child Care and Development Fund Cluster			<u>\$ 2,030,022</u>

Note 1. This schedule includes the federal grant activity of Minnesota Child Care Resource and Referral Network and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



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

To the Board of Directors
Minnesota Child Care Resource and Referral Network
Saint Paul, Minnesota

We have audited the financial statements of Minnesota Child Care Resource and Referral Network as of and for the year ended September 30, 2010, and have issued our report thereon dated January 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered Minnesota Child Care Resource and Referral Network's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Minnesota Child Care Resource and Referral Network's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Minnesota Child Care Resource and Referral Network's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters - As part of obtaining reasonable assurance about whether Minnesota Child Care Resource and Referral Network's financial statements are free of 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*.

This report is intended solely for the information and use of the Board, management, others within Minnesota Child Care Resource and Referral Network, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Saint Paul, Minnesota
January 7, 2011

*Mahoney Ulbrich
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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
Minnesota Child Care Resource and Referral Network
Saint Paul, Minnesota

Compliance - We have audited Minnesota Child Care Resource and Referral Network's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010. Minnesota Child Care Resource and Referral Network's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Minnesota Child Care Resource and Referral Network's management. Our responsibility is to express an opinion on Minnesota Child Care Resource and Referral Network's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Minnesota Child Care Resource and Referral Network's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Minnesota Child Care Resource and Referral Network's compliance with those requirements.

In our opinion, Minnesota Child Care Resource and Referral Network 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 programs for the year ended September 30, 2010.

Internal Control Over Compliance - Management of Minnesota Child Care Resource and Referral Network is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Minnesota Child Care Resource and Referral Network's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over

compliance. Accordingly, we do not express an opinion on the effectiveness of Minnesota Child Care Resource and Referral Network's internal control over compliance.

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

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board, management, others within Minnesota Child Care Resource and Referral Network, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Saint Paul, Minnesota
January 7, 2011

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Christiansen Russ P.A.*

