

ALL KIDS ACADEMY HEAD START, INC.

**INDEPENDENT AUDITORS' REPORT AND
FINANCIAL STATEMENTS**

For the Years Ended June 30, 2021 and 2020

ALL KIDS ACADEMY HEAD START, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
All Kids Academy Head Start, Inc.
El Cajon, California

Report on the Financial Statements

We have audited the accompanying financial statements of All Kids Academy Head Start, Inc. (a nonprofit corporation), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of All Kids Academy Head Start, Inc. as of June 30, 2021 and 2020, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2021, on our consideration of All Kids Academy Head Start, Inc.'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 for the year ended June 30, 2021. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering All Kids Academy Head Start, Inc.'s internal control over financial reporting and compliance.

Lavine, Lofgren, Morris & Engelberg, LLP

La Jolla, California
November 15, 2021

ALL KIDS ACADEMY HEAD START, INC.

Statements of Financial Position As of June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash	\$ 768,791	\$ 825,563
Restricted cash	141,944	141,944
Grant receivable - claims to NHA for reimbursement	895,766	186,500
Security deposits	21,778	23,278
Property and equipment, net	909,191	358,597
	<hr/>	<hr/>
Total assets	\$ 2,737,470	\$ 1,535,882
	<hr/>	<hr/>
LIABILITIES AND NET ASSETS WITHOUT DONOR RESTRICTION		
Accounts payable and accrued expenses	\$ 703,009	\$ 452,147
Accrued payroll and related liabilities	305,648	105,357
Accrued annual leave	589,635	440,604
Deferred rent liability	85,277	63,563
Advances from and amounts due to funding agencies	168,958	165,222
	<hr/>	<hr/>
Total liabilities	1,852,527	1,226,893
Commitments and contingencies		
Net assets without donor restriction	884,943	308,989
	<hr/>	<hr/>
Total liabilities and net assets without donor restriction	\$ 2,737,470	\$ 1,535,882
	<hr/>	<hr/>

See accompanying notes to financial statements
and independent auditors' report.

ALL KIDS ACADEMY HEAD START, INC.

Statements of Activities For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenue and support:		
Grant revenue:		
Head Start Program	\$ 14,218,668	\$ 12,725,301
California Department of Education - State Preschool Program	1,147,770	968,285
Child and Adult Care Food Program	7,567	515,732
San Diego County - QPI	<u>55,704</u>	<u>369,900</u>
Total grant revenue	15,429,709	14,579,218
Contributions	1,102	5,597
Other income	<u>45,970</u>	<u>-</u>
Total revenue and support	<u>15,476,781</u>	<u>14,584,815</u>
Expenses:		
Child care services	12,583,645	12,477,119
Management and general	<u>2,317,182</u>	<u>2,222,114</u>
Total expenses	<u>14,900,827</u>	<u>14,699,233</u>
Increase (decrease) in net assets without donor restriction	575,954	(114,418)
Net assets without donor restriction:		
Beginning of the year	<u>308,989</u>	<u>423,407</u>
End of the year	<u>\$ 884,943</u>	<u>\$ 308,989</u>

See accompanying notes to financial statements
and independent auditors' report.

ALL KIDS ACADEMY HEAD START, INC.

Statements of Cash Flows For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Increase (decrease) in net assets without donor restriction	\$ 575,954	\$ (114,418)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation expense	91,695	93,389
Deferred rent expense	21,714	24,186
Changes in operating assets and liabilities:		
Grant receivable	(709,266)	236,412
Food reimbursement receivables	-	121,210
San Diego County - QPI receivables	-	58,496
Other assets and receivables	-	3,429
Security deposits	1,500	-
Accounts payable and accrued expenses	26,955	31,242
Accrued payroll and related liabilities	200,291	(71,376)
Accrued annual leave	149,031	80,551
Advances from and amounts due to funding agencies	3,736	141,944
Net cash provided by operating activities	<u>361,610</u>	<u>605,065</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(418,382)</u>	<u>-</u>
Net cash used in investing activities	<u>(418,382)</u>	<u>-</u>
Net increase / (decrease) in cash	(56,772)	605,065
Cash and restricted cash, beginning of year	<u>967,507</u>	<u>362,442</u>
Cash and restricted cash, end of year	<u>\$ 910,735</u>	<u>\$ 967,507</u>
Noncash investing and financing activities:		
Fixed asset purchases financed via short-term trade accounts payable	<u>\$ 223,907</u>	<u>\$ -</u>

See accompanying notes to financial statements
and independent auditors' report.

ALL KIDS ACADEMY HEAD START, INC.

Statement of Functional Expenses For the Year Ended June 30, 2021

	<u>Child Care Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries	\$ 7,287,869	\$ 1,470,384	\$ 8,758,253
Payroll taxes and fringe benefits	2,478,143	497,806	2,975,949
Occupancy	984,257	47,308	1,031,565
Special assistance	46,967	-	46,967
Contracted services	89,735	188,852	278,587
Supplies	819,931	37,307	857,238
Facilities and equipment	502,787	43,465	546,252
Conferences and meetings	119,832	12,730	132,562
Utilities	74,089	3,785	77,874
Commercial insurance	60,400	6,617	67,017
Telephone	92,871	5,139	98,010
Travel	225	25	250
Other	26,539	3,764	30,303
Total expenses	<u>\$ 12,583,645</u>	<u>\$ 2,317,182</u>	<u>\$ 14,900,827</u>

See accompanying notes to financial statements
and independent auditors' report.

ALL KIDS ACADEMY HEAD START, INC.

Statement of Functional Expenses For the Year Ended June 30, 2020

	<u>Child Care Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries	\$ 7,148,424	\$ 1,425,521	\$ 8,573,945
Payroll taxes and fringe benefits	2,240,899	439,362	2,680,261
Occupancy	930,150	45,071	975,221
Special assistance	640,587	-	640,587
Contracted services	376,239	178,512	554,751
Supplies	503,067	24,072	527,139
Facilities and equipment	285,125	35,178	320,303
Conferences and meetings	106,975	51,963	158,938
Utilities	100,878	5,177	106,055
Commercial insurance	58,618	7,271	65,889
Telephone	50,431	2,790	53,221
Travel	8,503	1,055	9,558
Other	27,223	6,142	33,365
Total expenses	<u>\$ 12,477,119</u>	<u>\$ 2,222,114</u>	<u>\$ 14,699,233</u>

See accompanying notes to financial statements
and independent auditors' report.

ALL KIDS ACADEMY HEAD START, INC.

Notes to Financial Statements For the Years Ended June 30, 2021 and 2020

NOTE 1. ORGANIZATION

All Kids Academy Head Start, Inc. (the "Organization") is a non-profit organization incorporated in 1970 under the laws of the State of California. The Organization's specific and primary purpose is to engage in a comprehensive child development program for low-income families and their infant/toddler and preschool-aged children in its community under the Economic Opportunity Act of 1964. The Organization is a subrecipient (delegate agency) of Neighborhood House Association ("NHA").

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents and Restricted Cash

For the purposes of the statements of cash flows, the Organization considers investments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents as of June 30, 2021 or 2020. As further described in Note 8, the Organization has restricted cash in the amount of \$141,944 for the California Department of Education ("CDE") as of June 30, 2021 and 2020. For the purposes of the statements of cash flows, cash includes cash and restricted cash on the accompanying statements of financial position, as follows as of June 30:

	<u>2021</u>	<u>2020</u>
Cash	\$ 768,791	\$ 825,563
Restricted Cash	<u>141,944</u>	<u>141,944</u>
Total cash and restricted cash per the statements of cash flows	<u>\$ 910,735</u>	<u>\$ 967,507</u>

The Organization maintains its cash and cash equivalents and restricted cash in checking and money market accounts, which at times may exceed federally insured limits. The Organization has not experienced any losses in the aforementioned accounts. The Organization believes it is not exposed to any significant credit risk in regard to its cash and cash equivalents accounts.

ALL KIDS ACADEMY HEAD START, INC.

Notes to Financial Statements For the Years Ended June 30, 2021 and 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Contributions received are recorded as (i) increases in net assets without donor restriction, or (ii) increases in net assets with donor restriction, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restriction if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restriction are reclassified to net assets without donor restriction and reported in the statements of activities as net assets released from restrictions. No amounts are restricted as of June 30, 2021 or 2020.

Functional Allocation of Expenses

The costs of providing the Organization's programs and other activities have been summarized on a functional basis in the statements of functional expenses. Where costs can be specifically identified with a particular program or activity, they are categorized accordingly. Where costs are common to more than one function, they have been allocated thereto based on relative square footage, time spent, and other estimates made by the Organization's management.

Property and Equipment

The Organization capitalizes property and equipment over \$5,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost and is depreciated using the straight-line method over following useful lives:

<u>Description</u>	<u>Useful Life</u>
Vehicles	Five years
Furniture & Equipment	Five years
Leasehold improvements	Shorter of useful life or related lease term

Title to property acquired with NHA grant funds is generally vested with NHA while used for authorized purposes in accordance with the grant fund requirements. In the event NHA should discontinue the delegate agency agreement with the Organization, NHA would have the right to take possession of all property and equipment acquired with NHA grant funds. The Organization believes that its delegate agency agreement will continue for the foreseeable future and that in the event NHA took possession of certain of its property, there would not be a significant effect on its financial statements.

Impairment of Long-Lived Assets

The Organization reviews its long-lived assets including property and equipment for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the excess of the asset's carrying value over the fair value of the asset. There was no impairment of the Organization's long-lived assets during years ended June 30, 2021 and 2020.

ALL KIDS ACADEMY HEAD START, INC.

Notes to Financial Statements For the Years Ended June 30, 2021 and 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Services

The Organization receives a substantial amount of services donated by volunteers and others interested in the Organization's programs throughout the year. Such contributed services are not recognized in the financial statements unless the services create or enhance nonfinancial assets or require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

The donated services by volunteers for the years ended June 30, 2021 and 2020 did not meet the aforementioned requirements, and management has determined that the value of discounted professional services received was not significant to the financial statements for the years ended June 30, 2021 and 2020. As such, no amounts were recognized in the financial statements for volunteer or donated time.

Revenue Recognition and Deferred Revenue

The Organization has analyzed its grant agreements and has determined that they represent nonreciprocal (rather than exchange) transactions, and applies the accounting guidance applicable to contribution (nonexchange) transactions. More specifically, management has determined its grant agreements contain donor-imposed conditions, and accordingly, the Organization recognizes grant revenue when those conditions are met. Due to the cost reimbursement nature of the grant agreements, those conditions are substantially met as the Organization incurs expenses by providing the services for which the grants are awarded.

Amounts due to funding agencies include amounts received from funding agencies for which services have not yet been delivered and for which conditions of the grants have not yet been met as of the reporting date.

Contributions without restriction are reported as unrestricted revenue and support in the year in which payments are received and/or unconditional promises to give are made. Any donor-restricted contributions that were initially conditional contributions whose restrictions are met in the same reporting period are reported within net assets without donor restrictions.

Income Taxes

Under section 501(c)(3) of the Internal Revenue Code and section 23701(d) of the California Revenue and Taxation Code, the Organization is exempt from the payment of taxes on income other than unrelated business income. For the years ended June 30, 2021 and 2020, no provision for income taxes is included in the accompanying financial statements as the Organization had no significant unrelated business income.

Management believes that it has not taken any significant uncertain tax positions. There are currently no examinations in process and management believes that the Organization is no longer subject to income tax examinations for fiscal years prior to the fiscal year ended June 30, 2017.

ALL KIDS ACADEMY HEAD START, INC.

Notes to Financial Statements For the Years Ended June 30, 2021 and 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board issued guidance codified in Accounting Standards Codification (“ASC”) 842, *Leases*, which amends the guidance in ASC 840, *Leases*. The core principle of the standard is to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet for most leases. Expenses associated with leases will continue to be recognized in a manner similar to current accounting guidance. The Organization is required to adopt this standard effective July 1, 2022, with early adoption permitted. The Organization is currently evaluating the impact of the new accounting pronouncement, including the enhanced disclosure requirements.

Receivables

The Organization considers its receivables, including grants, accounts, and food reimbursement receivables, to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If amounts become uncollectible, they will be charged to operations when that determination is made.

Subsequent Events

The Organization has evaluated subsequent events through the date of the independent auditors’ report, which is the date these financial statements were available to be issued.

NOTE 3. RETIREMENT PLAN

The Organization sponsors a defined contribution 403(b) Tax Sheltered Annuity retirement plan covering eligible employees of the Organization. Participants may voluntarily elect to defer a portion of their compensation into the plan. Employer contributions charged to operations for the years ended June 30, 2021 and 2020 were \$456,252 and \$398,538, respectively.

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2021</u>	<u>2020</u>
Leasehold improvements	\$ 991,025	\$ 736,479
Furniture and equipment	485,870	98,128
Vehicles	91,566	91,566
Software	<u>25,807</u>	<u>25,807</u>
Total property and equipment at cost	1,594,268	951,980
Less: accumulated depreciation and amortization	<u>(685,077)</u>	<u>(593,383)</u>
Property and equipment, net	<u>\$ 909,191</u>	<u>\$ 358,597</u>

Depreciation expense, included in facilities and equipment expense on the statements of functional expenses, was \$91,695 and \$93,389 For the years ended June 30, 2021 and 2020, respectively.

ALL KIDS ACADEMY HEAD START, INC.

Notes to Financial Statements For the Years Ended June 30, 2021 and 2020

NOTE 5. FINANCIAL ASSETS AVAILABLE WITHIN ONE YEAR

The Organization has \$1,664,557 of financial assets available within one year of June 30, 2021 consisting of cash of \$768,791 and receivables of \$895,766 to meet cash needs for general expenditures. The Organization received an advance in the amount of \$141,944 from the CDE for the State Preschool Program, for which the Organization has recorded an equal and offsetting liability as of June 30, 2021, which is included in advances from and amounts due to funding agencies. This amount was repaid to the CDE subsequent to fiscal year end. The receivables are subject to implied time restrictions and have been collected subsequent to June 30, 2021. The Organization intends for its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization's primary sources of support are cost reimbursement grants.

The Organization expects that, together with the aforementioned cash and receivable balances, these sources will provide adequate funding for its near-term operating needs.

NOTE 6. CONCENTRATION OF GRANT REVENUE

During the years ended June 30, 2021 and 2020, the Organization received 100% of its grant revenue from the following sources:

	<u>2021</u>	<u>2020</u>
Neighborhood House Association for Head Start Program	\$ 14,218,668	\$ 12,725,301
California Department of Education - State Preschool Program	\$ 1,147,770	\$ 968,285
California Department of Education for Child and Adult Care Food Program	\$ 7,567	\$ 515,732
San Diego County - Quality Preschool Initiative	\$ 55,704	\$ 369,900

The California Department of Education – State Preschool Program, California Department of Education for Child and Adult Care Food Program, and San Diego County – Quality Preschool Initiative funds are for enhancing the established Head Start preschool program.

NOTE 7. COMMITMENTS AND CONTINGENCIES

Lease Commitments

As of June 30, 2021, the Organization occupies facilities in various locations under operating lease agreements that expire at various dates through 2038. Total facilities rent expense (including storage rent) for the years ended June 30, 2021 and 2020 was \$1,031,565 and \$975,221, respectively.

ALL KIDS ACADEMY HEAD START, INC.

Notes to Financial Statements For the Years Ended June 30, 2021 and 2020

NOTE 7. COMMITMENTS AND CONTNGENCIES (Continued)

Future minimum lease payments including estimated common area maintenance fees, are approximately as follows for the fiscal years ending June 30:

<u>Fiscal Year Ending</u>	<u>Total</u>
2022	\$ 877,000
2023	599,000
2024	341,000
2025	346,000
2026	256,000
Thereafter	<u>2,288,000</u>
Total future minimum lease payments	<u>\$ 4,707,000</u>

Compliance Audits

The Organization receives federal and state grants that are subject to review, audit, and adjustment by various federal and state agencies for qualified expenses charged to the grants. Any such audits could lead to requests for reimbursement to the federal and state agencies for any expenditures or claims disallowed under the terms of the agreements. Although the Organization expects such amounts, if any, to be insignificant, the result of any audits which may be performed by federal or state agencies is unable to be determined at this time.

Contingencies

The Organization is involved in various claims arising from the normal course of operating its programs and activities. Management does not believe their outcome will have a material adverse effect on the financial position or results of operations of the Organization.

NOTE 8. ADVANCES FROM AND AMOUNTS DUE TO FUNDING AGENCIES

As of June 30, 2021 and 2020, advances from and amounts due to funding agencies consists of the following:

	<u>2021</u>	<u>2020</u>
Due to CDE	\$ 141,944	\$ -
Operating advance - CDE	5,236	141,944
Rental deposits - NHA	<u>21,778</u>	<u>23,278</u>
	<u>\$ 168,958</u>	<u>\$ 165,222</u>

As of June 30, 2020, amounts not spent from that year's CDE contract were permitted to be carried forward for expenditure to the fiscal year ended June 30, 2021. As the amounts were not expended for the CDE program during the year ended June 30, 2021, the amounts were returned to the CDE in July 2021.

ALL KIDS ACADEMY HEAD START, INC.

Notes to Financial Statements

For the Years Ended June 30, 2021 and 2020

NOTE 9. RECONCILIATION OF EXPENSES PER FINANCIAL STATEMENTS TO EXPENDITURES OF FEDERAL AWARDS FOR HEAD START

The Organization's delegate agency agreement with NHA requires that the cost of acquisition of property and equipment be treated as an expenditure in the period incurred, while U.S. GAAP requires such assets to be capitalized at cost and depreciated over their estimated useful lives. The following reconciles total expenses per the statements of activities to total expenditures as reported to NHA for the years ended June 30:

	<u>2021</u>	<u>2020</u>
Total expenses per statements of activities	\$ 14,900,827	\$ 14,699,233
Property and equipment purchased with grant funds	642,289	-
Depreciation of property and equipment purchased with grant funds	(91,695)	(93,389)
Deferred rent expense	<u>(21,714)</u>	<u>(24,186)</u>
Total expenditures claimed	15,429,707	14,581,658
Total expenditures funded by San Diego County - Quality Preschool Initiative	(55,704)	(369,900)
Total expenditures funded by California Department of Education for Child and Adult Care Food Program	(7,567)	(515,732)
Total expenditures funded by California Department of Education for the State Preschool Program	(1,147,770)	(968,285)
Other miscellaneous expenses	<u>2</u>	<u>(2,440)</u>
Total Head Start program expenditures reported on the schedule of expenditures of federal awards	<u>\$ 14,218,668</u>	<u>\$ 12,725,301</u>

NOTE 10. COVID-19

In December 2019, a novel strain of coronavirus was reported to have surfaced in China. On March 11, 2020, the World Health Organization declared COVID-19, the illness caused by the coronavirus, a pandemic. The spread of this virus beyond China and within the United States of America ("U.S.") has caused economic and business disruption during the fiscal years ended June 30, 2021 and 2020 as a result of mandated closings of businesses designated as non-essential and certain other social distancing measures across the U.S, and much of the Organization's services had to be provided on a remote basis. In acknowledgment of the difficulties posed by the pandemic, during the 2020 and 2021 fiscal years, the Department of Health and Human Services eased certain of the Head Start Program's enrollment and attendance requirements without a reduction in funding. In addition, for the 2021 fiscal year, the Organization received an additional \$929,250 in Covid-19-specific funding for its Head Start Program. However, the effects of the pandemic are ongoing, and there is considerable uncertainty around the duration of restrictions and the long-term effectiveness of vaccines. As such, management is unable to estimate the impacts of the pandemic on the Organization's future operations. The financial statements contain no adjustments relating to the potential future effects of the pandemic.

In addition, effective June 28, 2021, the Organization and NHA amended their grant agreement for the year ended June 30, 2021 to include an additional \$600,000 in funding to be used by September 2021. None of this amount was expended or recorded as grant revenue through June 30, 2021.