

**ALL KIDS ACADEMY HEAD START, INC.**

**INDEPENDENT AUDITORS' REPORT AND  
FINANCIAL STATEMENTS**

**For the Years Ended June 30, 2023 and 2022**

# ALL KIDS ACADEMY HEAD START, INC.

## Table of Contents

---

INDEPENDENT AUDITORS' REPORT .....	1 – 2
FINANCIAL STATEMENTS:	
Statements of Financial Position as of June 30, 2023 and 2022.....	3
Statements of Activities for the Years Ended June 30, 2023 and 2022 .....	4
Statements of Cash Flows for the Years Ended June 30, 2023 and 2022.....	5
Statement of Functional Expenses for the Year Ended June 30, 2023.....	6
Statement of Functional Expenses for the Year Ended June 30, 2022.....	7
Notes to Financial Statements .....	8 – 16



**LAVINE, LOFGREN, MORRIS  
& ENGELBERG, LLP**

**CERTIFIED  
PUBLIC  
ACCOUNTANTS**

4180	PHONE
LA JOLLA VILLAGE DRIVE	(858) 455-1200
SUITE 300	FAX
LA JOLLA	(858) 455-0898
CALIFORNIA	WEB SITE
92037	<a href="http://www.llme.com">www.llme.com</a>

An Independent Member of  
B K R International

## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

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, 2023 and 2022, and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of All Kids Academy Head Start, Inc. as of June 30, 2023 and 2022, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of All Kids Academy Head Start, Inc. 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.

#### ***Responsibilities of Management for the Financial Statements***

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

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

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of All Kids Academy Head Start, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about All Kids Academy Head Start, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2023, 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, 2023. 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 All Kids Academy Head Start, Inc.'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 All Kids Academy Head Start, Inc.'s internal control over financial reporting and compliance.

*Lavine, Lofgren, Morris & Engberg LLP*

La Jolla, California  
December 15, 2023

# ALL KIDS ACADEMY HEAD START, INC.

## Statements of Financial Position As of June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>ASSETS</b>		
Cash	\$ 1,441,411	\$ 696,534
Restricted cash	-	5,237
Grant receivable - claims to NHA for reimbursement	364,200	609,369
Food reimbursement receivable	116,305	101,799
California State Preschool Program receivable	-	34,037
Prepaid expenses	10,479	3,168
Security deposits	33,003	23,306
Property and equipment, net	711,951	875,090
Operating lease right-of-use assets	6,777,461	-
<b>Total assets</b>	<b><u>\$ 9,454,810</u></b>	<b><u>\$ 2,348,540</u></b>
<b>LIABILITIES AND NET ASSETS WITHOUT DONOR RESTRICTION</b>		
Accounts payable and accrued expenses	\$ 344,609	\$ 454,910
Line of credit	500,000	-
Accrued payroll and related liabilities	59,815	80,769
Accrued annual leave	632,161	630,051
Deferred rent	-	127,512
Advances from and amounts due to funding agencies	340,509	199,485
Operating lease liability	6,928,757	-
<b>Total liabilities</b>	<b>8,805,851</b>	<b>1,492,727</b>
Commitments and contingencies		
Net assets without donor restriction	<u>648,959</u>	<u>855,813</u>
<b>Total liabilities and net assets without donor restriction</b>	<b><u>\$ 9,454,810</u></b>	<b><u>\$ 2,348,540</u></b>

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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Revenue and support:		
Grant revenue:		
Head Start Program	\$ 14,355,367	\$ 15,032,983
California State Preschool Program	1,291,561	1,149,496
Child and Adult Care Food Program	529,512	335,802
San Diego County - Quality Preschool Initiative	62,195	65,131
COVID-19—Child Care Stabilization Stipend	-	69,500
California Department of Education Stipend	10,800	-
	<hr/>	<hr/>
Total grant revenue	16,249,435	16,652,912
Contributions	15,932	3,128
Other income	23,218	-
	<hr/>	<hr/>
<b>Total revenue and support</b>	<b>16,288,585</b>	<b>16,656,040</b>
	<hr/>	<hr/>
Expenses:		
Child care services	14,269,126	14,498,915
Management and general	2,226,313	2,186,255
	<hr/>	<hr/>
<b>Total expenses</b>	<b>16,495,439</b>	<b>16,685,170</b>
	<hr/>	<hr/>
<b>Decrease in net assets         without donor restriction</b>	<b>(206,854)</b>	<b>(29,130)</b>
Net assets without donor restriction:		
Beginning of the year	855,813	884,943
	<hr/>	<hr/>
End of the year	<u>\$ 648,959</u>	<u>\$ 855,813</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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Decrease in net assets without donor restriction	\$ (206,854)	\$ (29,130)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation expense	230,218	164,894
Deferred rent expense	-	42,235
Amortization of operating lease right-of-use assets	778,887	-
Changes in operating assets and liabilities:		
Grant receivable - claims to NHA for reimbursement	245,169	286,397
Food reimbursement receivable	(14,506)	(101,799)
California State Preschool Program receivable	34,037	(34,037)
Prepaid expenses	(7,311)	(3,168)
Security deposits	(9,697)	(1,528)
Accounts payable and accrued expenses	(94,722)	(39,771)
Accrued payroll and related liabilities	(20,954)	(224,879)
Accrued annual leave	2,110	40,416
Advances from and amounts due to funding agencies	141,024	30,527
Operating lease liability	(755,103)	-
<b>Net cash provided by operating activities</b>	<u>322,298</u>	<u>130,157</u>
Cash flows from investing activities:		
Payment of short-term trade accounts payable used to finance equipment acquisition	(15,579)	(223,907)
Purchase of property and equipment	(67,079)	(115,214)
<b>Net cash used in investing activities</b>	<u>(82,658)</u>	<u>(339,121)</u>
Cash flows from financing activities - net proceeds from line of credit	500,000	-
<b>Net cash provided by financing activities</b>	<u>500,000</u>	<u>-</u>
<b>Net increase (decrease) in cash</b>	739,640	(208,964)
Cash and restricted cash, beginning of year	701,771	910,735
Cash and restricted cash, end of year	<u>\$ 1,441,411</u>	<u>\$ 701,771</u>
Noncash investing and financing activities:		
Property and equipment purchases financed via short-term trade accounts payable	<u>\$ -</u>	<u>\$ 15,579</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, 2023

---

	<u>Child Care Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries	\$ 7,768,628	\$ 1,421,780	\$ 9,190,408
Payroll taxes and fringe benefits	2,446,748	452,610	2,899,358
Occupancy	1,116,498	45,555	1,162,053
Special assistance	673,989	-	673,989
Contracted services	549,612	201,943	751,555
Supplies	516,543	19,873	536,416
Facilities and equipment	626,559	34,711	661,270
Conferences and meetings	158,891	23,636	182,527
Utilities	121,481	5,126	126,607
Commercial insurance	94,586	8,737	103,323
Telephone	145,777	7,053	152,830
Travel	8,805	813	9,618
Other	41,009	4,476	45,485
<b>Total expenses</b>	<u><u>\$ 14,269,126</u></u>	<u><u>\$ 2,226,313</u></u>	<u><u>\$ 16,495,439</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, 2022

---

	<u>Child Care Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries	\$ 7,679,851	\$ 1,394,995	\$ 9,074,846
Payroll taxes and fringe benefits	2,497,828	454,079	2,951,907
Occupancy	1,051,487	43,820	1,095,307
Special assistance	554,236	-	554,236
Contracted services	557,283	213,638	770,921
Supplies	1,131,122	16,829	1,147,951
Facilities and equipment	600,291	31,494	631,785
Conferences and meetings	144,245	11,778	156,023
Utilities	97,100	4,187	101,287
Commercial insurance	80,020	7,792	87,812
Telephone	69,231	3,358	72,589
Travel	3,833	373	4,206
Other	32,388	3,912	36,300
<b>Total expenses</b>	<u><u>\$ 14,498,915</u></u>	<u><u>\$ 2,186,255</u></u>	<u><u>\$ 16,685,170</u></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, 2023 and 2022

---

### 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, 2023 or 2022. As further described in Note 9, the Organization has restricted cash in the amount of \$5,237 for the California Department of Education ("CDE") as of June 30, 2022. There was no restricted cash as of June 30, 2023. 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>2023</u>	<u>2022</u>
Cash	\$ 1,441,411	\$ 696,534
Restricted cash	-	5,237
Total cash and restricted cash per the statements of cash flows	<u>\$ 1,441,411</u>	<u>\$ 701,771</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, 2023 and 2022

---

### 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, 2023 or 2022.

#### 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 the 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 the years ended June 30, 2023 and 2022.

# **ALL KIDS ACADEMY HEAD START, INC.**

## **Notes to Financial Statements**

**For the Years Ended June 30, 2023 and 2022**

---

### **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, 2023 and 2022 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, 2023 and 2022. 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, 2023 and 2022, 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, 2019.

# ALL KIDS ACADEMY HEAD START, INC.

## Notes to Financial Statements

For the Years Ended June 30, 2023 and 2022

---

### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Recent Adopted Accounting Standard – Leases

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Codification (“ASC”) 842, *Leases*, to increase transparency and comparability among entities by requiring the recognition of right-of-use (“ROU”) assets and lease liabilities on the balance sheet (statement of financial position). Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Organization leases office space and determines if an arrangement is a lease at inception. Operating leases are included in operating lease ROU assets, as well as operating lease liabilities on the accompanying statement of financial position as of June 30, 2023. ROU assets represent the Organization’s right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date (or upon adoption of ASC 842, *Leases*) based on the present value of lease payments over the lease term. As the Organization’s operating leases do not have an implicit rate, the Organization uses a risk-free rate based on the information available at commencement date (or adoption date) in determining the present value of lease payments. For calculation purposes, the Organization’s risk-free rate is the rate of a zero-coupon U.S. Treasury instrument for the same period of time as the lease term. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Organization’s lease agreements do not contain any material restrictive covenants, and its operating leases do not contain any material residual value guarantees.

The Organization adopted the standard effective July 1, 2022, and recognized and measured leases existing at or entered into after July 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available.

The Organization elected the available practical expedients to account for its existing operating leases as operating leases under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification as operating leases or capital leases would be different in accordance with the new guidance, or (c) whether any unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of ASC 842, the Organization recognized a lease liability of \$4,234,195 on July 1, 2022, which represents the present value of the remaining operating lease payments of \$4,652,205, discounted using the risk-free rates associated with the remaining lease terms as of July 1, 2022. Included in the lease liability amount referred to above is a reclassification of the Organization’s existing deferred rent liability in the amount of \$127,512. In addition, also on July 1, 2022, the Organization recognized ROU assets in the amount of \$4,106,683.

The adoption of ASC 842 had a material impact on the Organization’s statement of financial position, but did not have a material impact on the Organization’s operations or cash flows. The most significant impact was the recognition of the ROU assets and lease liabilities for operating leases.

# ALL KIDS ACADEMY HEAD START, INC.

## Notes to Financial Statements

For the Years Ended June 30, 2023 and 2022

---

### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 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, 2023 and 2022 were \$493,040 and \$451,978, respectively.

### NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2023</u>	<u>2022</u>
Leasehold improvements	\$ 983,174	\$ 1,003,510
Furniture and equipment	604,178	604,178
Vehicles	91,566	91,566
Software	25,807	25,807
	<u>1,704,725</u>	<u>1,725,061</u>
Total property and equipment at cost		
Less: accumulated depreciation and amortization	<u>(992,774)</u>	<u>(849,971)</u>
Property and equipment, net	<u>\$ 711,951</u>	<u>\$ 875,090</u>

Depreciation expense, included in facilities and equipment expense on the statements of functional expenses, was \$230,218 and \$164,894 For the years ended June 30, 2023 and 2022, respectively.

### NOTE 5. FINANCIAL ASSETS AVAILABLE WITHIN ONE YEAR

The Organization has \$1,921,916 of financial assets available within one year of June 30, 2023 consisting of cash of \$1,441,411 and receivables of \$480,505 to meet cash needs for general expenditures. 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.

# ALL KIDS ACADEMY HEAD START, INC.

## Notes to Financial Statements For the Years Ended June 30, 2023 and 2022

---

### NOTE 5. FINANCIAL ASSETS AVAILABLE WITHIN ONE YEAR (Continued)

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, 2023 and 2022, the Organization received 100% of its grant revenue from the following sources:

	<u>2023</u>	<u>2022</u>
Neighborhood House Association for Head Start Program	\$ 14,355,367	\$ 15,032,983
California Department of Education - State Preschool Program	\$ 1,302,361	\$ 1,149,496
California Department of Social Services for Child and Adult Care Food Program	\$ 529,512	\$ 335,802
San Diego County - Quality Preschool Initiative	\$ 62,195	\$ 65,131
California Department of Social Services Child Care Licensed Facility Stabilization Stipend	\$ -	\$ 69,500

The California Department of Education – State Preschool Program, California Department of Social Services for Child and Adult Care Food Program, San Diego County – Quality Preschool Initiative, and California Department of Social Services Child Care Licensed Facility Stabilization Stipend funds are for enhancing the established Head Start preschool program. For the years ended June 30, 2023 and 2022, the Child and Adult Care Food Program funds were passed through from the federal government to the Organization by the California Department of Social Services.

### NOTE 7. COMMITMENTS AND CONTINGENCIES

#### Operating Leases

As of June 30, 2023, the Organization leases facility space in various locations throughout San Diego County under noncancelable operating leases that expire on various dates through 2038, as well as under short-term leases. For the year ended June 30, 2023, operating lease cost was \$756,124 and short-term lease cost was \$405,929. Total facilities lease expense (including storage rent) for the years ended June 30, 2023 and 2022 was \$1,162,053 and \$1,095,307, respectively. Certain of the Organization's leases include options to renew, which are not included in right-of-use assets and lease liabilities as of June 30, 2023.

# ALL KIDS ACADEMY HEAD START, INC.

## Notes to Financial Statements For the Years Ended June 30, 2023 and 2022

---

### NOTE 7. COMMITMENTS AND CONTINGENCIES (Continued)

Other information related to leases was as follows:

Weighted averages as of June 30, 2023:

Remaining lease term	108 months
Discount rate	3.40%

As of June 30, 2023, future minimum lease payments are as follows for the fiscal years ending June 30:

<u>Fiscal Year Ending</u>	<u>Total</u>
2024	\$ 1,047,479
2025	1,077,770
2026	981,500
2027	842,486
2028	836,437
Thereafter	<u>3,363,281</u>
Total operating lease payments	8,148,953
Less: present value discount	<u>(1,220,196)</u>
Total operating lease liability	<u>\$ 6,928,757</u>

Additionally, the Organization entered into operating leases subsequent to June 30, 2023 for warehouse space commencing in November and December 2023 with expiration dates through June 2033. Total future minimum payments related to these leases are \$272,396 and are excluded from the above lease schedule.

### 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.



# ALL KIDS ACADEMY HEAD START, INC.

## Notes to Financial Statements For the Years Ended June 30, 2023 and 2022

---

### NOTE 8. LINE OF CREDIT

In April 2023, the Organization entered into a revolving line of credit agreement with a bank for borrowings up to \$500,000.

Borrowings under the line of credit bear interest at the prime rate, as defined, plus 0.939% (9.189% at June 30, 2023). Borrowings are secured by substantially all assets of the Organization, and the line of credit contains certain financial covenants, as defined. The bank's obligation to make revolving advances terminates as of the 5<sup>th</sup> anniversary date of the note, at which time the outstanding balance on the line of credit will convert to a term note. The bank may, at its sole discretion and for any reason, terminate its obligation to make advances on the line upon written notice to the Organization. As of June 30, 2023, the Organization has received no such notice. The outstanding balance on the line of credit as of June 30, 2023 was \$500,000, which was repaid by the Organization in August 2023.

### NOTE 9. ADVANCES FROM AND AMOUNTS DUE TO FUNDING AGENCIES

As of June 30, 2023 and 2022, advances from and amounts due to funding agencies consists of the following:

	<u>2023</u>	<u>2022</u>
Operating advance - CDE	\$ 307,506	\$ 5,237
Rental deposits - NHA	33,003	23,306
Operating advance - CDSS	-	104,700
Operating advance - NHA	-	66,242
	<u>\$ 340,509</u>	<u>\$ 199,485</u>

As of June 30, 2022, the Organization considered the \$5,237 operating advance – CDE part of a CDE reserve account and is restricted cash (Note 2). There was no balance in the reserve account as of June 30, 2023.

As of June 30, 2023, operating advance – CDE is comprised of \$15,748 related to excess payments received by the Organization under the California State Preschool Program contract, along with \$291,758 related to American Rescue Plan Act funding received from CDE under California State Assembly Bill 185 during the fiscal year ended June 30, 2023. These amounts shall be recognized as revenue upon being spent on allowable expenses as defined by applicable state and federal regulations, until which time these amounts are considered operating advances from CDE.

# ALL KIDS ACADEMY HEAD START, INC.

## Notes to Financial Statements

For the Years Ended June 30, 2023 and 2022

### NOTE 10. RECONCILIATION OF EXPENSES PER FINANCIAL STATEMENTS TO EXPENDITURES OF FEDERAL AWARDS FOR HEAD START

The following reconciles total expenses per the statements of activities to total expenditures as reported to NHA for the years ended June 30:

	<u>2023</u>	<u>2022</u>
Total expenses per statements of activities	\$ 16,495,439	\$ 16,685,170
Property and equipment purchased with grant funds	67,079	130,793
Depreciation of property and equipment purchased with grant funds	(230,218)	(164,894)
Deferred rent expense	(23,784)	(42,235)
Total expenditures claimed	16,308,516	16,608,834
Total expenditures funded by San Diego County - Quality Preschool Initiative	(62,195)	(65,131)
Total expenditures funded by California Department of Social Services for Child and Adult Care Food Program	(529,512)	(335,802)
Total expenditures funded by California Department of Education for the State Preschool Program	(1,291,561)	(1,149,496)
Total expenditures funded by California Department of Education for the State Preschool Program Child Development: American Rescue Plan One-Time Stipend	(10,800)	(9,923)
Total expenditures funded by California Department of Social Services Child Care Licensed Facility Stabilization Stipend	(58,000)	(11,500)
Other miscellaneous expenses	(1,081)	(3,999)
Total Head Start program expenditures reported on the schedule of expenditures of federal awards	<u>\$ 14,355,367</u>	<u>\$ 15,032,983</u>

### NOTE 11. 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.") caused economic and business disruption during the fiscal years ended June 30, 2022 and 2021 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 fiscal years ended 2020 – 2023, 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 2023 and 2022 fiscal years, the Organization received an additional \$677,217 and \$1,086,097, respectively, in COVID-19-specific funding for its Head Start Program. While the pandemic currently appears to be waning, its effects are ongoing, and considerable uncertainty remains regarding any continued need for AKA 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.