

ALL KIDS ACADEMY HEAD START, INC.

**INDEPENDENT AUDITORS' REPORT AND
FINANCIAL STATEMENTS**

For the Years Ended June 30, 2024 and 2023

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 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, 2024 and 2023, 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, 2024 and 2023, 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 14, 2024, 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, 2024. 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 14, 2024

ALL KIDS ACADEMY HEAD START, INC.

Statements of Financial Position As of June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
Cash	\$ 978,118	\$ 1,441,411
Grant receivable - claims to NHA for reimbursement	387,649	364,200
Food reimbursement receivable	108,553	116,305
Prepaid expenses	22,386	10,479
Security deposits	64,484	33,003
Property and equipment, net	885,363	711,951
Operating lease right-of-use assets	11,543,470	6,777,461
Total assets	<u>\$ 13,990,023</u>	<u>\$ 9,454,810</u>
LIABILITIES AND NET ASSETS WITHOUT DONOR RESTRICTION		
Accounts payable and accrued expenses	\$ 313,846	\$ 344,609
Line of credit	-	500,000
Accrued payroll and related liabilities	105,279	59,815
Accrued annual leave	705,960	632,161
Advances from and amounts due to funding agencies	338,611	340,509
Operating lease liability	11,822,471	6,928,757
Total liabilities	13,286,167	8,805,851
Commitments and contingencies		
Net assets without donor restriction	<u>703,856</u>	<u>648,959</u>
Total liabilities and net assets without donor restriction	<u>\$ 13,990,023</u>	<u>\$ 9,454,810</u>

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, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Revenue and support:		
Grant revenue:		
Head Start Program	\$ 15,280,093	\$ 14,355,367
California State Preschool Program	2,862,461	1,291,561
Child and Adult Care Food Program	574,218	529,512
San Diego County - Quality Preschool Initiative	54,000	62,195
California Department of Education Stipend	-	10,800
	<u>18,770,772</u>	<u>16,249,435</u>
Total grant revenue		
Contributions	31,832	15,932
Other income	-	23,218
	<u>18,802,604</u>	<u>16,288,585</u>
Total revenue and support	<u>18,802,604</u>	<u>16,288,585</u>
Expenses:		
Child care services	16,057,635	14,269,126
Management and general	2,690,072	2,226,313
	<u>18,747,707</u>	<u>16,495,439</u>
Total expenses	<u>18,747,707</u>	<u>16,495,439</u>
Increase (decrease) in net assets without donor restriction	54,897	(206,854)
Net assets without donor restriction:		
Beginning of the year	<u>648,959</u>	<u>855,813</u>
End of the year	<u><u>\$ 703,856</u></u>	<u><u>\$ 648,959</u></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, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Increase (decrease) in net assets without donor restriction	\$ 54,897	\$ (206,854)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation expense	192,311	230,218
Amortization of operating lease right-of-use assets	936,678	778,887
Changes in operating assets and liabilities:		
Grant receivable - claims to NHA for reimbursement	(23,449)	245,169
Food reimbursement receivable	7,752	(14,506)
California State Preschool Program receivable	-	34,037
Prepaid expenses	(11,907)	(7,311)
Security deposits	(31,481)	(9,697)
Accounts payable and accrued expenses	(30,763)	(94,722)
Accrued payroll and related liabilities	45,464	(20,954)
Accrued annual leave	73,799	2,110
Advances from and amounts due to funding agencies	(1,898)	141,024
Operating lease liability	(808,973)	(755,103)
Net cash provided by operating activities	<u>402,430</u>	<u>322,298</u>
Cash flows from investing activities:		
Payment of short-term trade accounts payable used to finance equipment acquisition	-	(15,579)
Purchase of property and equipment	(365,723)	(67,079)
Net cash used in investing activities	<u>(365,723)</u>	<u>(82,658)</u>
Cash flows from financing activities:		
Net proceeds from (repayments of) line of credit	(500,000)	500,000
Net cash provided by (used in) financing activities	<u>(500,000)</u>	<u>500,000</u>
Net increase (decrease) in cash	(463,293)	739,640
Cash, beginning of year	1,441,411	701,771
Cash, end of year	<u>\$ 978,118</u>	<u>\$ 1,441,411</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 8,527</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, 2024

	<u>Child Care Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries	\$ 9,349,692	\$ 1,684,292	\$ 11,033,984
Payroll taxes and fringe benefits	2,708,929	479,691	3,188,620
Occupancy	1,311,524	54,594	1,366,118
Special assistance	878,773	-	878,773
Contracted services	458,964	386,995	845,959
Supplies	320,408	1,463	321,871
Facilities and equipment	497,340	27,902	525,242
Conferences and meetings	168,948	17,869	186,817
Utilities	111,343	5,220	116,563
Commercial insurance	88,396	6,903	95,299
Telephone	86,053	4,511	90,564
Travel	6,510	702	7,212
Interest	-	8,527	8,527
Other	70,755	11,403	82,158
Total expenses	<u><u>\$ 16,057,635</u></u>	<u><u>\$ 2,690,072</u></u>	<u><u>\$ 18,747,707</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, 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	665,365	-	665,365
Contracted services	558,236	201,943	760,179
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
Total expenses	<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.

Notes to Financial Statements For the Years Ended June 30, 2024 and 2023

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

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, 2024 or 2023.

The Organization maintains its cash and cash equivalents 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.

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, 2024 or 2023.

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.

ALL KIDS ACADEMY HEAD START, INC.

Notes to Financial Statements

For the Years Ended June 30, 2024 and 2023

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2024 and 2023.

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, 2024 and 2023 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, 2024 and 2023. 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.

ALL KIDS ACADEMY HEAD START, INC.

Notes to Financial Statements

For the Years Ended June 30, 2024 and 2023

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2024 and 2023, 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, 2020.

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 statements of financial position as of June 30, 2024 and 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.

ALL KIDS ACADEMY HEAD START, INC.

Notes to Financial Statements For the Years Ended June 30, 2024 and 2023

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Adopted Accounting Standard – Leases (Continued)

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.

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.

Reclassifications

Certain reclassifications were made to the prior period financial statements to conform to the current period presentation. Such reclassifications had no effect on results of operations or net assets.

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, 2024 and 2023 were \$560,325 and \$493,040, respectively.

ALL KIDS ACADEMY HEAD START, INC.

Notes to Financial Statements For the Years Ended June 30, 2024 and 2023

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2024</u>	<u>2023</u>
Leasehold improvements	\$ 1,001,374	\$ 1,001,374
Furniture and equipment	596,252	585,978
Vehicles	355,449	91,566
Software	25,807	25,807
Total property and equipment at cost	1,978,882	1,704,725
Less: accumulated depreciation and amortization	<u>(1,093,519)</u>	<u>(992,774)</u>
Property and equipment, net	<u>\$ 885,363</u>	<u>\$ 711,951</u>

Depreciation expense, included in facilities and equipment expense on the statements of functional expenses, was \$192,311 and \$230,218 For the years ended June 30, 2024 and 2023, respectively.

NOTE 5. FINANCIAL ASSETS AVAILABLE WITHIN ONE YEAR

The Organization has \$1,474,320 of financial assets available within one year of June 30, 2024 consisting of cash of \$978,118 and receivables of \$496,202 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.

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, 2024 and 2023, the Organization received 100% of its grant revenue from the following sources:

	<u>2024</u>	<u>2023</u>
Neighborhood House Association for Head Start Program	\$ 15,280,093	\$ 14,355,367
California Department of Education - State Preschool Program	\$ 2,862,461	\$ 1,302,361
California Department of Social Services for Child and Adult Care Food Program	\$ 574,218	\$ 529,512
San Diego County - Quality Preschool Initiative	\$ 54,000	\$ 62,195

ALL KIDS ACADEMY HEAD START, INC.

Notes to Financial Statements

For the Years Ended June 30, 2024 and 2023

NOTE 6. CONCENTRATION OF GRANT REVENUES (Continued)

The California Department of Education – State Preschool Program, California Department of Social Services 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

Operating Leases

As of June 30, 2024, the Organization leases facility space used for program services, administration, and storage in various locations throughout San Diego County under noncancelable operating leases that expire on various dates through 2044, as well as under short-term leases. For the years ended June 30, 2024 and 2023, operating lease cost was \$1,290,030 and \$828,937, respectively, and short-term lease cost was \$76,088 and \$333,116, respectively. Total facilities lease expense (including storage rent) for the years ended June 30, 2024 and 2023 was \$1,366,118 and \$1,162,053, 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, 2024 and 2023.

Other information related to leases was as follows:

Weighted averages as of June 30, 2024:

Remaining lease term	185 months
Discount rate	4.25%

In addition, during the year ended June 30, 2024, the amount of operating lease liabilities which arose from the Organization capitalizing operating lease ROU assets totaled \$5,702,687.

As of June 30, 2024, future minimum lease payments are as follows for the fiscal years ending June 30:

<u>Fiscal Year Ending</u>	<u>Total</u>
2025	\$ 1,255,852
2026	1,241,438
2027	1,112,511
2028	1,117,016
2029	864,693
Thereafter	<u>11,737,710</u>
Total operating lease payments	17,329,219
Less: present value discount	<u>(5,506,748)</u>
Total operating lease liability	<u>\$ 11,822,471</u>

ALL KIDS ACADEMY HEAD START, INC.

Notes to Financial Statements

For the Years Ended June 30, 2024 and 2023

NOTE 7. COMMITMENTS AND CONTINGENCIES (Continued)

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. 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% (9.439% and 9.189% at June 30, 2024 and 2023, respectively). 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 5th anniversary date of the note, at which time the outstanding balance on the line of credit will convert to a term note maturing April 6, 2033. 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, 2024, the Organization has received no such notice. The outstanding balance on the line of credit was \$500,000 as of June 30, 2023. There was no outstanding balance on the line of credit as of June 30, 2024.

NOTE 9. ADVANCES FROM AND AMOUNTS DUE TO FUNDING AGENCIES

As of June 30, 2024 and 2023, advances from and amounts due to funding agencies consists of the following:

	<u>2024</u>	<u>2023</u>
Operating advance - CDE	\$ 274,127	\$ 307,506
Rental deposits - NHA	64,484	33,003
	<u>\$ 338,611</u>	<u>\$ 340,509</u>

ALL KIDS ACADEMY HEAD START, INC.

Notes to Financial Statements

For the Years Ended June 30, 2024 and 2023

NOTE 9. ADVANCES FROM AND AMOUNTS DUE TO FUNDING AGENCIES (Continued)

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. As of June 30, 2024, operating advance – CDE is comprised of \$36,527 of the unspent portion of American Rescue Plan Act funding received from CDE under California State Assembly Bill 185 during the year ended June 30, 2023, along with \$237,600 of funding received from CDE under California State Senate Bill 140 during the fiscal year ended June 30, 2024. 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.

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>2024</u>	<u>2023</u>
Total expenses per statements of activities	\$ 18,747,707	\$ 16,495,439
Property and equipment purchased with grant funds	365,723	67,079
Depreciation of property and equipment purchased with grant funds	(192,311)	(230,218)
Deferred rent expense	(127,705)	(23,784)
Expenses paid with private donations	(22,642)	-
Total expenditures claimed	18,770,772	16,308,516
Total expenditures funded by San Diego County - Quality Preschool Initiative	(54,000)	(62,195)
Total expenditures funded by California Department of Social Services for Child and Adult Care Food Program	(574,218)	(529,512)
Total expenditures funded by California Department of Education for the State Preschool Program	(2,862,461)	(1,291,561)
Total expenditures funded by California Department of Education for the State Preschool Program Child Development: American Rescue Plan One-Time Stipend	-	(10,800)
Total expenditures funded by California Department of Social Services Child Care Licensed Facility Stabilization Stipend	-	(58,000)
Other miscellaneous expenses	-	(1,081)
Total Head Start program expenditures reported on the schedule of expenditures of federal awards	<u>\$ 15,280,093</u>	<u>\$ 14,355,367</u>

ALL KIDS ACADEMY HEAD START, INC.

Notes to Financial Statements

For the Years Ended June 30, 2024 and 2023

NOTE 11. COVID-19 FUNDING

In acknowledgment of the difficulties posed by the COVID-19 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. Included in grant revenue for the years ended June 30, 2024 and 2023, is \$255,231 and \$677,217, respectively, in COVID-19-specific funding.