ALL KIDS ACADEMY HEAD START, INC.

INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016, 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 January 9, 2018, 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, 2017. 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
January 9, 2018

ALL KIDS ACADEMY HEAD START, INC.

Statements of Financial Position
As of June 30, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	$ 387,574	$ 62,255
Grant receivables	250,060	288,909
Food reimbursement receivables	111,987	173,612
San Diego County - Quality Preschool Initiative (QPI) receivables	90,470	18,750
Other assets and receivables	12,208	38,166
Security deposits	23,278	23,278
Property and equipment, net	133,330	138,009
Total assets	$ 1,008,907	$ 742,979
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	$ 406,746	$ 181,508
Accrued payroll and related liabilities	162,165	164,951
Accrued annual leave	276,117	228,968
Amount due to funding agency - NHA	23,278	23,278
Total liabilities	868,306	598,705
Commitments and contingencies		
Unrestricted net assets	140,601	144,274
Total liabilities and net assets	$ 1,008,907	$ 742,979

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, 2017 and 2016

	2017	2016
Revenue and support:		
Head Start Program	$ 10,827,470	$ 10,636,346
Child and Adult Care Food Program	597,178	570,020
San Diego County - QPI	419,100	911,629
Contributions	2,197	1,427
Total unrestricted revenue and support	11,845,945	12,119,422
Expenses:		
Program services	10,078,804	10,358,187
Supporting services - management and general	1,770,814	1,716,222
Total expenses	11,849,618	12,074,409
Change in unrestricted net assets	(3,673)	45,013
Unrestricted net assets:		
Beginning of the year	144,274	99,261
End of the year	$ 140,601	$ 144,274

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, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ (3,673)	$ 45,013
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	59,500	57,362
Changes in operating assets and liabilities:		
Grant receivables	38,849	66,113
Food reimbursement receivables	61,625	(80,528)
San Diego County - QPI receivables	(71,720)	(18,750)
Other assets and receivables	25,958	(1,293)
Security deposits	-	(4,357)
Accounts payable and accrued expenses	225,238	10,837
Accrued payroll and related liabilities	(2,786)	21,608
Accrued annual leave	47,149	52,937
Amount due to funding agency - NHA	-	4,357
Net cash provided by operating activities	380,140	153,299
Cash flows from investing activities:		
Purchase of property and equipment	(54,821)	(102,308)
Net cash used in investing activities	(54,821)	(102,308)
Net increase in cash and cash equivalents	325,319	50,991
Cash and cash equivalents, at beginning of year	62,255	11,264
Cash and cash equivalents, at end of year	$ 387,574	$ 62,255

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, 2017

	Child Care Services	Management and General	Total
Salaries	$ 5,734,054	$ 1,147,462	$ 6,881,516
Payroll taxes and fringe benefits	1,693,151	339,852	2,033,003
Special assistance	738,435	-	738,435
Occupancy	659,094	33,840	692,934
Contracted services	339,636	188,832	528,468
Supplies	372,319	14,526	386,845
Facilities and equipment	247,459	15,338	262,797
Utilities	98,134	5,039	103,173
Commercial insurance	57,908	7,223	65,131
Telephone	58,405	2,999	61,404
Conferences and meetings	36,987	9,127	46,114
Travel	21,267	2,623	23,890
Other	21,955	3,953	25,908
Total expenses	$ 10,078,804	$ 1,770,814	$ 11,849,618

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, 2016

	Child Care Services	Management and General	Total
Salaries	$ 5,449,247	$ 1,119,485	$ 6,568,732
Payroll taxes and fringe benefits	1,647,931	339,329	1,987,260
Special assistance	720,006	-	720,006
Contracted services	514,857	165,902	680,759
Occupancy	641,284	33,805	675,089
Facilities and equipment	585,254	12,356	597,610
Supplies	535,559	13,655	549,214
Utilities	91,848	4,842	96,690
Commercial insurance	55,737	7,119	62,856
Conferences and meetings	34,339	10,585	44,924
Travel	34,031	4,211	38,242
Telephone	29,552	1,558	31,110
Other	18,542	3,375	21,917
Total expenses	$ 10,358,187	$ 1,716,222	$ 12,074,409

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

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 statement of cash flows, the Organization considers investments purchased with a maturity of three months or less to be cash equivalents.

Concentrations of Credit Risk

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 unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets 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 temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. No amounts are restricted as of June 30, 2017 or 2016.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

Description	Useful Life
Vehicles	Five years
Leasehold improvements	Shorter of useful life or related lease term

Title to property acquired with NHA grant funds is 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, 2017 and 2016.

Revenue Recognition and Deferred Revenue

Grant award revenues are recognized as services are provided in accordance with the terms of the related agreements. Any deferred revenue is included in amounts due to funding agencies and represents amounts received from funding agencies for which services have not yet been delivered.

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, 2017 and 2016 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, 2017 and 2016. As such, no amounts were recognized in the financial statements for volunteer or donated time.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Organization qualifies as a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code, and section 23701(d) of the California Revenue and Taxation Code. Therefore, no provision for Federal or California income taxes is included in the accompanying financial statements. Management believes that it has not taken any significant uncertain tax positions and that the Organization is no longer subject to income tax examinations for fiscal years prior to the fiscal year ended June 30, 2013.

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. GRANT RECEIVABLES

The grant receivables at June 30, 2017 and 2016 consist of amounts due from NHA for reimbursement of the following:

	2017	2016
Accrued annual leave	$ -	$ 176,031
Claims to NHA for reimbursement	250,060	112,878
	$ 250,060	$ 288,909

NOTE 4. IN-KIND DONATIONS – E-RATE PROGRAM

The Organization was awarded certain discounts on its telecommunication expenses (e.g., telephone and internet services) through its participation in the Schools and Libraries Program (commonly known as the E-Rate Program) administered by the Universal Service Administrative Company under the direction of the Federal Communications Commission. During the years ended June 30, 2017 and 2016, the total discounts approved were approximately $39,000 and $34,000, respectively, and these amounts were recorded as offsets to telephone expense in the period when approved. During the year ended June 30, 2017, the credits applied to offset invoices included the unused amount of approximately $18,000 (as of June 30, 2016) and an additional $27,000 included in the fiscal year 2017 award. As of June 30, 2017 and 2016, approximately $12,000 and $18,000 of unused credits were included in other assets and receivables, representing remaining credits to apply toward future invoices.

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2017	2016
Leasehold improvements	$ 429,543	$ 374,722
Vehicles	51,566	51,566
	481,109	426,288
Less: accumulated depreciation and amortization	(347,779)	(288,279)
Property and equipment, net	$ 133,330	$ 138,009

Depreciation expense was $59,500 and $57,362 for the years ended June 30, 2017 and 2016, respectively.

NOTE 6. RETIREMENT PLANS

Historically, the Organization has provided two defined contribution retirement plans covering eligible employees of the Organization. Employer matching contributions were made to the Alpha Kappa Alpha Head Start Program Pension Plan (the “Pension Plan”) and were calculated based on participants’ contributions to the AKA Head Start, Inc. Tax Sheltered Annuity (formerly known as Alpha Kappa Alpha Head Start Program Tax Sheltered Annuity) (the “TSA Plan”). Effective January 1, 2015, employer matching contributions to the Pension Plan were equal to 200% of the participant elective deferral contributions to the TSA Plan up to 3% of their eligible compensation. Contributions are subject to limitations imposed by the Internal Revenue Code.

On January 5, 2016, the Organization elected to terminate the Pension Plan. Effective February 29, 2016, the Pension Plan did not accept further contributions and the accrued benefits of all participants in the Pension Plan were 100% vested and non-forfeitable. By September 30, 2016, all assets of the Pension Plan were distributed and as such the Pension Plan effectively terminated on such date.

Effective March 1, 2016, the TSA Plan was amended such that the Organization would make employer matching contributions to the TSA Plan equal to 200% of participant elective deferral contributions up to 3% of their eligible compensation. In addition, the TSA Plan was amended to institute a vesting schedule for employer contributions whereby participants will vest in employer matching contributions as follows: 35% after one year of service; 65% after two years of service; and 100% after three years of service.

Employer contributions charged to operations for the years ended June 30, 2017 and 2016 were $262,919 and $232,385, respectively.

NOTE 7. RECONCILIATION TO EXPENDITURES OF FEDERAL AWARDS FOR HEAD START

The delegate agency agreement with NHA requires that the cost of acquisition of property and equipment be expensed in the period incurred while U.S. GAAP requires such assets 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:

	2017	2016
Total expenses per statements of activities	$ 11,849,618	$ 12,074,409
Property and equipment purchased with grant funds	54,821	102,308
Depreciation of property and equipment purchased with grant funds	(59,500)	(57,362)
Total expenditures claimed	11,844,939	12,119,355
Total expenditures funded by San Diego County - Quality Preschool Initiative	(419,100)	(911,629)
Total expenditures funded by California State Department of Education for Child and Adult Care Food Program	(597,178)	(570,020)
Other miscellaneous expenses	(1,191)	(1,360)
Total Head Start program expenditures reported on the schedule of expenditures of federal awards	$ 10,827,470	$ 10,636,346

NOTE 8. CONCENTRATION OF GRANT REVENUE

During years ended June 30, 2017 and 2016, the Organization received 100% of its grant revenue from three sources as follows:

	2017	2016
Neighborhood House Association for Head Start Program	$ 10,827,470	$ 10,636,346
San Diego County - Quality Preschool Initiative	$ 419,100	$ 911,629
California State Department of Education for Child and Adult Care Food Program	$ 597,178	$ 570,020

The San Diego County grants were issued by the San Diego Superintendent of Schools and the First 5 San Diego Quality Preschool Initiative. The funds are for enhancing the established preschool program.

NOTE 9. AMOUNT DUE TO FUNDING AGENCY – NHA

As of June 30, 2017 and 2016, the amount due to funding agency – NHA represent rental deposits.

NOTE 10. COMMITMENTS AND CONTINGENCIES

Lease Commitments

As of June 30, 2017, the Organization occupies facilities in various locations under operating lease agreements that expire at various dates through December 2021. Total rent expense for the years ended June 30, 2017 and 2016 was $684,415 and $665,395, respectively. Subsequent to year end, the Organization renewed a lease at an existing location through November 2022 and, in connection with a new location, entered into a new lease which extends through January 2038. Future minimum lease payments, including with respect to those entered into subsequent to June 30, 2017, are approximately as follows for the fiscal years ending June 30:

Fiscal Year Ending	Total
2018	$ 689,000
2019	381,000
2020	378,000
2021	334,000
2022	208,000
Thereafter	2,100,000
Total minimum lease payments	$ 4,090,000

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.