

ALL KIDS ACADEMY HEAD START, INC.

**INDEPENDENT AUDITORS' REPORT AND
FINANCIAL STATEMENTS**

For the Years Ended June 30, 2018 and 2017

ALL KIDS ACADEMY HEAD START, INC.

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**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	www.llme.com

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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, 2018 and 2017, 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, 2018 and 2017, 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 March 26, 2019, 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, 2018. 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
March 26, 2019

ALL KIDS ACADEMY HEAD START, INC.

Statements of Financial Position As of June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 291,136	\$ 387,574
Grant receivables - claims to NHA for reimbursement	514,660	250,060
Food reimbursement receivables	35,336	111,987
San Diego County - Quality Preschool Initiative (QPI) receivables	125,857	90,470
Other assets and receivables	2,421	12,208
Security deposits	23,278	23,278
Property and equipment, net	505,159	133,330
	<u>505,159</u>	<u>133,330</u>
Total assets	<u>\$ 1,497,847</u>	<u>\$ 1,008,907</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 469,104	\$ 406,746
Accrued payroll and related liabilities	196,904	162,165
Accrued annual leave	293,834	276,117
Amount due to funding agency - NHA	23,278	23,278
	<u>23,278</u>	<u>23,278</u>
Total liabilities	983,120	868,306
Commitments and contingencies		
Unrestricted net assets	<u>514,727</u>	<u>140,601</u>
Total liabilities and net assets	<u>\$ 1,497,847</u>	<u>\$ 1,008,907</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Unrestricted revenue and support:		
Head Start Program	\$ 12,883,132	\$ 10,827,470
Child and Adult Care Food Program	604,789	597,178
San Diego County - QPI	318,600	419,100
Contributions	2,297	2,197
	<hr/>	<hr/>
Total unrestricted revenue and support	13,808,818	11,845,945
	<hr/>	<hr/>
Expenses:		
Program services	11,472,028	10,078,804
Supporting services - management and general	1,962,664	1,770,814
	<hr/>	<hr/>
Total expenses	13,434,692	11,849,618
	<hr/>	<hr/>
Change in unrestricted net assets	374,126	(3,673)
Unrestricted net assets:		
Beginning of the year	140,601	144,274
	<hr/>	<hr/>
End of the year	\$ 514,727	\$ 140,601
	<hr/> <hr/>	<hr/> <hr/>

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 374,126	\$ (3,673)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	55,595	59,500
Changes in operating assets and liabilities:		
Grant receivables	(264,600)	38,849
Food reimbursement receivables	76,651	61,625
San Diego County - QPI receivables	(35,387)	(71,720)
Other assets and receivables	9,787	25,958
Accounts payable and accrued expenses	62,358	225,238
Accrued payroll and related liabilities	34,739	(2,786)
Accrued annual leave	17,717	47,149
	<u>330,986</u>	<u>380,140</u>
Net cash provided by operating activities	330,986	380,140
Cash flows from investing activities:		
Purchase of property and equipment	(427,424)	(54,821)
	<u>(427,424)</u>	<u>(54,821)</u>
Net cash used in investing activities	(427,424)	(54,821)
	<u>(96,438)</u>	<u>325,319</u>
Net increase/(decrease) in cash and cash equivalents	(96,438)	325,319
Cash and cash equivalents, at beginning of year	<u>387,574</u>	<u>62,255</u>
Cash and cash equivalents, at end of year	<u>\$ 291,136</u>	<u>\$ 387,574</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, 2018

	<u>Child Care Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries	\$ 6,386,764	\$ 1,153,375	\$ 7,540,139
Payroll taxes and fringe benefits	1,927,435	342,738	2,270,173
Special assistance	861,936	1,000	862,936
Occupancy	739,900	37,672	777,572
Supplies	593,504	23,147	616,651
Contracted services	263,861	293,132	556,993
Facilities and equipment	344,608	56,402	401,010
Conferences and meetings	93,410	32,958	126,368
Utilities	102,055	5,196	107,251
Commercial insurance	56,205	7,321	63,526
Telephone	54,650	2,783	57,433
Travel	25,724	3,351	29,075
Other	21,976	3,589	25,565
Total expenses	<u>\$ 11,472,028</u>	<u>\$ 1,962,664</u>	<u>\$ 13,434,692</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, 2017

	<u>Child Care Services</u>	<u>Management and General</u>	<u>Total</u>
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
Supplies	372,319	14,526	386,845
Contracted services	339,636	188,832	528,468
Facilities and equipment	247,459	15,338	262,797
Conferences and meetings	36,987	9,127	46,114
Utilities	98,134	5,039	103,173
Commercial insurance	57,908	7,223	65,131
Telephone	58,405	2,999	61,404
Travel	21,267	2,623	23,890
Other	21,955	3,953	25,908
Total expenses	<u>\$ 10,078,804</u>	<u>\$ 1,770,814</u>	<u>\$ 11,849,618</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, 2018 and 2017

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, 2018 or 2017.

ALL KIDS ACADEMY HEAD START, INC.

Notes to Financial Statements

For the Years Ended June 30, 2018 and 2017

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:

<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 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, 2018 and 2017.

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, 2018 and 2017 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, 2018 and 2017. As such, no amounts were recognized in the financial statements for volunteer or donated time.

ALL KIDS ACADEMY HEAD START, INC.

Notes to Financial Statements

For the Years Ended June 30, 2018 and 2017

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, 2014.

Recent Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) No. 2016-14, Presentation of Financial Statements of Not-For-Profit Entities. ASU No. 2016-14 changes how a not-for-profit organization classifies its net assets, as well as the information it presents in the financial statements and notes regarding its liquidity, financial performance, and cash flows. ASU 2016-14 amends required disclosures to provide more relevant information about an organization’s resources, and the changes therein, to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: (i) net asset classes, (ii) investment returns, (iii) expenses, (iv) liquidity and availability of resources, and (v) presentation of operating cash flows. ASU 2016-14 is effective for annual financial statements beginning after December 15, 2017, with early adoption permitted. The Organization has not yet assessed the potential impact of this guidance on its financial statements.

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. 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, 2018 and 2017, the total discounts approved were approximately \$18,000 and \$39,000, respectively, and these amounts were recorded as offsets to telephone expense in the period when approved. During the year ended June 30, 2018, the credits applied to offset invoices included the unused amount of approximately \$12,000 (as of June 30, 2017) and the \$18,000 included in the fiscal year 2018 award. 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, \$12,000 of unused credits were included in other assets and receivables, representing remaining credits to apply toward future invoices. As of June 30, 2018, no unused credits remained.

ALL KIDS ACADEMY HEAD START, INC.

Notes to Financial Statements For the Years Ended June 30, 2018 and 2017

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Leasehold improvements	\$ 736,479	\$ 429,543
Vehicles	91,566	51,566
Furniture and equipment	80,488	-
	908,533	481,109
Less: accumulated depreciation and amortization	<u>(403,374)</u>	<u>(347,779)</u>
Property and equipment, net	<u>\$ 505,159</u>	<u>\$ 133,330</u>

Depreciation expense, which is included in facilities and equipment expense on the statements of functional expenses, was \$55,595 and \$59,500 for the years ended June 30, 2018 and 2017, respectively.

NOTE 5. RETIREMENT PLANS

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, 2018 and 2017 were \$320,453 and \$262,919, respectively.

NOTE 6. CONCENTRATION OF GRANT REVENUE

During the years ended June 30, 2018 and 2017, the Organization received 100% of its grant revenue from three sources as follows:

	<u>2018</u>	<u>2017</u>
Neighborhood House Association for Head Start Program	\$ 12,883,132	\$ 10,827,470
California State Department of Education for Child and Adult Care Food Program	\$ 604,789	\$ 597,178
San Diego County - Quality Preschool Initiative	\$ 318,600	\$ 419,100

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.

ALL KIDS ACADEMY HEAD START, INC.

Notes to Financial Statements

For the Years Ended June 30, 2018 and 2017

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:

	<u>2018</u>	<u>2017</u>
Total expenses per statements of activities	\$ 13,434,692	\$ 11,849,618
Property and equipment purchased with grant funds	427,424	54,821
Depreciation of property and equipment purchased with grant funds	<u>(55,595)</u>	<u>(59,500)</u>
Total expenditures claimed	13,806,521	11,844,939
Total expenditures funded by San Diego County - Quality Preschool Initiative	(318,600)	(419,100)
Total expenditures funded by California State Department of Education for Child and Adult Care Food Program	(604,789)	(597,178)
Other miscellaneous expenses	<u>-</u>	<u>(1,191)</u>
Total Head Start program expenditures reported on the schedule of expenditures of federal awards	<u>\$ 12,883,132</u>	<u>\$ 10,827,470</u>

NOTE 8. COMMITMENTS AND CONTINGENCIES

Lease Commitments

As of June 30, 2018, the Organization occupies facilities in various locations under operating lease agreements that expire at various dates through December 2023. Total facilities rent expense for the years ended June 30, 2018 and 2017 was \$766,225 and \$684,415, respectively. Subsequent to year end, the Organization renewed four leases at existing locations through June 30, 2019. Future minimum lease payments, including with respect to those entered into subsequent to June 30, 2018, are approximately as follows for the fiscal years ending June 30:

<u>Fiscal Year Ending</u>	<u>Total</u>
2019	\$ 802,000
2020	712,000
2021	674,000
2022	478,000
2023	478,000
Thereafter	<u>2,517,000</u>
Total future minimum lease payments	<u>\$ 5,661,000</u>

ALL KIDS ACADEMY HEAD START, INC.

Notes to Financial Statements

For the Years Ended June 30, 2018 and 2017

NOTE 8. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 9. AMOUNT DUE TO FUNDING AGENCY – NHA

As of June 30, 2018 and 2017, the amounts due to funding agency – NHA represent rental deposits.