

KIDS CENTRAL, INC.

AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

May 31, 2023

KIDS CENTRAL, INC.
FINANCIAL REPORT
YEAR ENDED MAY 31, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Kids Central, Inc.

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of Kids Central, Inc. (a nonprofit organization), which comprise the statement of financial position as of May 31, 2023, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Kids Central, Inc. as of May 31, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 Kids Central, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Kids Central, 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 the Kids Central'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 Kids Central'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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and

other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 15, 2024, on our consideration of the Kids Central, 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. 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 Kids Central, 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 Kids Central, Inc.'s internal control over financial reporting and compliance.



HBC Certified Public Accountants

Abingdon, Virginia

August 15, 2024

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INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Kids Central, Inc.
Norton, Virginia

We have audited, in accordance with the 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, the financial statements of Kids Central, Inc. (a nonprofit organization), which comprise the statement of financial position as of May 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 15, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kids Central, Inc.’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kids Central Inc.’s internal control. Accordingly, we do not express an opinion on the effectiveness of Kids Central, Inc.’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2023-001 that we consider to be a significant deficiency.

Report Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kids Central, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Kids Central, Inc.'s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Kids Central, Inc.'s response was not subjected to the other auditing procedures applied in the audit of financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



HBC Certified Public Accountants
Abingdon, Virginia
August 15, 2024

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of
Kids Central, Inc.

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Kids Central, Inc.'s compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of Kids Central, Inc.'s major federal programs for the year ended May 31, 2023. Kids Central, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Kids Central, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended May 31, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Kids Central, Inc. and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Kids Central, Inc.'s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Kids Central, Inc.'s federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Kids Central, Inc.'s compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Kids Central, Inc.'s compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Kids Central, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Kids Central, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Kids Central, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of

compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



HBC Certified Public Accountants

Abingdon, Virginia

August 15, 2024

Kids Central, Inc.
Norton, Virginia
Statement of Financial Position
May 31, 2023

	<u>TOTAL</u>
<u>ASSETS</u>	
Current Assets:	
Cash and cash equivalents - unrestricted	\$ 155,411
Cash and cash equivalents - restricted	89,508
Grants receivable	245,193
Prepaid expenses	<u>58,252</u>
Total Current Assets	<u>548,364</u>
Long-term Assets:	
Property & equipment	3,596,143
Accumulated depreciation	(2,042,529)
Operating right of use assets, net	149,934
Financing right of use assets, net	<u>31,699</u>
Total Long-term Assets	<u>1,735,247</u>
 Total Assets	 \$ <u><u>2,283,611</u></u>
<u>LIABILITIES & NET ASSETS</u>	
<u>Liabilities</u>	
Current Liabilities:	
Current portion of notes payable	\$ 33,674
Current portion of operating leases payable	
Current portion of financing leases payable	
Accounts payable and accrued expenses	179,308
Accrued payroll	<u>174,224</u>
Total Current Liabilities	<u>387,206</u>
Long-term Liabilities:	
Long-term portion of notes payable	570,193
Long-term portion of operating leases payable	149,934
Long-term portion of financing leases payable	<u>31,913</u>
Total Long-term Liabilities	<u>752,040</u>
 Total Liabilities	 \$ <u><u>1,139,246</u></u>

The Notes to Financial Statements are an integral part of this statement.

Kids Central, Inc.
Norton, Virginia
Statement of Financial Position
May 31, 2023

	<u>TOTAL</u>
<u>Net Assets</u>	
Net Assets:	
Without donor restrictions	\$ -
With donor restrictions	1,144,365
Total Net Assets	<u>1,144,365</u>
Total Liabilities & Net Assets	<u>\$ 2,283,611</u>

The Notes to Financial Statements are an integral part of this statement.

Kids Central, Inc.
Norton, Virginia
Statement of Activities
For the Year Ended May 31, 2023

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL AGENCY</u>
SUPPORT & REVENUE:			
Grant income	\$ -	\$ 5,008,559	\$ 5,008,559
Interest	-	396	396
Other income (expense)	-	4,463	4,463
In-kind	-	96,572	96,572
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>4,902,051</u>	<u>(4,902,051)</u>	<u>-</u>
TOTAL SUPPORT & REVENUE	<u>4,902,051</u>	<u>207,939</u>	<u>5,109,990</u>
EXPENSES:			
Program expenses	4,383,779	-	4,383,779
General and administrative	518,272	-	518,272
Fundraising	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENSES	<u>4,902,051</u>	<u>-</u>	<u>4,902,051</u>
CHANGE IN NET ASSETS	-	207,939	207,939
NET ASSETS AT BEGINNING OF YEAR	<u>-</u>	<u>936,426</u>	<u>936,426</u>
NET ASSETS AT END OF YEAR	<u>\$ -</u>	<u>\$ 1,144,365</u>	<u>\$ 1,144,365</u>

The Notes to Financial Statements are an integral part of this statement.

Kids Central, Inc.
Norton, Virginia
Statement of Functional Expenses
For the Year Ended May 31, 2023

<u>Expense Classification</u>	<u>Program Expenses</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Totals</u>
Advertising	\$ 11,835	\$ 1,940	\$ -	\$ 13,775
Amortization - right of use assets	9,753	-	-	9,753
Contract services	46,713	76,361	-	123,074
Cost of food and material	240,291	-	-	240,291
Depreciation	216,768	-	-	216,768
Fringe benefits	374,944	44,702	-	419,646
In-kind expenses	96,572	-	-	96,572
Insurance	1,929	83,313	-	85,242
Interest expense	-	26,614	-	26,614
Miscellaneous	4,516	259	-	4,775
Payroll taxes	234,322	14,552	-	248,874
Postage	14,817	-	-	14,817
Repairs and maintenance	97,265	11,804	-	109,069
Rent - space	46,200	-	-	46,200
Salaries and wages	2,547,496	248,100	-	2,795,596
Supplies and equipment	185,134	4,610	-	189,744
Support and parent services	1,331	-	-	1,331
Telephone	22,130	1,753	-	23,883
Transportation	28,694	-	-	28,694
Training and testing	58,565	-	-	58,565
Travel and meetings	19,963	430	-	20,393
Utilities	124,540	3,835	-	128,375
	<u>\$ 4,383,779</u>	<u>\$ 518,272</u>	<u>\$ -</u>	<u>\$ 4,902,051</u>

The Notes to Financial Statements are an integral part of this statement.

Kids Central, Inc.
Norton, Virginia
Statement of Cash Flows
For the Year Ended May 31, 2023

	<u>AMOUNT</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 207,939
Adjustment to reconcile changes in net cash used in operating activities:	
Depreciation	216,768
(Increase) decrease	
Grants receivable	7,718
Prepaid expenses	(11,820)
Increase (decrease)	
Accounts payable and accrued expenses	(68,696)
Due to head start	(80,996)
Accrued payroll	<u>9,130</u>
NET CASH PROVIDED (USED) IN OPERATING ACTIVITIES	<u>280,043</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of fixed assets	<u>(325,358)</u>
NET CASH PROVIDED (USED) IN INVESTING ACTIVITIES	<u>(325,358)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from debt	-
Issuance of lease liabilities, net	112
Debt repayment	<u>(33,633)</u>
NET CASH PROVIDED (USED) IN FINANCING ACTIVITIES	<u>(33,521)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(78,836)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>323,755</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ <u>244,919</u></u>
SUPPLEMENTAL DISCLOSURES	
Cash paid for interest	<u>\$ 26,308</u>

The Notes to Financial Statements are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Kids Central, Inc. (“the Organization”) is a nonprofit corporation operating Head Start Programs within various localities of Southwest Virginia. The Head Start program provides comprehensive early development for approximately 340 disadvantaged preschool children and their families.

Basis of Accounting

Kids Central, Inc. uses the accrual method of accounting for financial reporting. Under this method, revenues and expenses are reflected in the accounts in the period in which they are considered to have been earned or incurred.

Cash & Cash Equivalents

Cash equivalents consist of highly liquid investments with an initial maturity of three months or less.

USDA requires one year of debt payments to be held in reserve, totaling \$61,176 for current debt amounts held by USDA. The Organization is conservative and has \$89,508 held in cash and cash equivalents – restricted to comply with this requirement.

Accounts Receivable

Accounts receivables are stated at unpaid balances. The Organization provides for losses on accounts receivable using the allowance method. It is the Organization’s policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. As of May 31, 2023, management determined the allowance to be \$0.

Grants Receivable

Receivables in the amount of \$245,193 represent revenue from governmental agencies for funds applicable to the year ended May 31, 2023, which had not been received as of the balance sheet date.

Receivables at May 31, 2023 are as follows:

Head Start	\$ 226,000
USDA	<u>19,193</u>
TOTAL	<u>\$ 245,193</u>

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

It is the Organization's policy to capitalize property and equipment with a single item cost over \$5,000. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as contributions without donor restrictions unless the donor has restricted the donated asset to a specific purpose.

Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long these donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Donated Assets

The Organization recorded donations of items at the estimated fair market value of the items on the date received.

Advertising Costs

The advertising costs of the Organization are expensed as incurred.

Income Taxes

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code, and accordingly no provision for income taxes has been included in these financial statements.

Classification of Net Assets

Net assets of the Organization are reported based on the existence of donor or grantor-imposed restrictions. The following classifications are used to report the net assets of Kids Central, Inc.

Net Assets With Donor Restrictions – The part of the net assets of the Organization resulting (a) from inflows of assets whose use by the Organization is limited by donor or grantor imposed stipulations that either expires by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations, and from reclassification to, or (c) from other classes of net assets as a consequence of donor or grantor imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the Organization pursuant to those stipulations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of Net Assets (continued)

Net Assets Without Donor Restrictions – The part of net assets of the Organization that is not restricted by donor or grantor-imposed stipulations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management of the Organization to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment and intangibles; valuation allowances for receivables; and assets and obligations related to employee benefits. Accordingly, actual results could differ from those estimates.

Functional Expense Allocation

The Organization allocates costs among program and support functions based on natural classification and budget allocations. The Organization bases its budget allocations on prior years' experience and future expectations.

Recent Accounting Pronouncements

In February 2016, the FASB issued Accounting Standard Update 2016-02, Leases, which requires recognition of lease assets and lease liabilities. The ASU is effective for the Organization for annual periods beginning after December 15, 2021 and was implemented for the current year-ended. It did not have a significant impact on the Organization's financial statements.

NOTE 2 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization meets cash needs for expenditures with grants received throughout the year. The following table reflects the Organization's financial assets as of May 31, 2023, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations. Amounts not available include a debt reserve fund that is to be used to pay current notes payable amounts and an additional board-designated reserve fund. In the event the need arises to utilize the board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution.

NOTE 2 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (CONTINUED)

Cash and cash equivalents	\$ 244,919
Grants receivable	<u>245,193</u>
Total financial assets	490,112
Cash and cash equivalents with donor imposed restrictions	(61,176)
Board-designated reserve fund	<u>(28,332)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 400,604</u></u>

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

	Balance June 1, 2022	Additions	Deletions	Balance May 31, 2023
Vehicles	\$ 1,191,371	\$ 47,590	\$ -	\$ 1,238,961
Furniture & equipment	938,360	44,923	-	983,283
Building	893,750	71,828	-	965,578
Land	222,304	-	-	222,304
Construction in Process	25,000	161,017	-	186,017
TOTAL	<u>\$ 3,270,785</u>	<u>\$ 325,358</u>	<u>\$ -</u>	<u>\$ 3,596,143</u>

Equipment, furniture, and fixtures have lives of 2-10 years. Buildings have lives of 39 years.

Depreciation for fixed assets has been provided over the estimated useful lives listed above using the straight-line method. For purchased fixed assets, the cost is used as the basis for depreciation. Donated fixed assets are depreciated using net book value as the basis and remaining useful life for the life of the asset. Depreciation and amortization for the period ended May 31, 2023 amounted to \$216,768.

Included in furniture and equipment are right of use assets under financing leases totaling \$48,767 with accumulated amortization of \$17,068 as of May 31, 2023 and right of use assets under buildings totaling \$244,593 with accumulated amortization of \$94,659. See Note 5 for more details.

NOTE 5 – LEASES

The Organization adopted ASC 842, Leases as of June 1, 2022 with no financial statement impact upon adoption. In accordance with ASC 842, the Organization recognizes right of use assets and lease liabilities on its Statement of Financial Position for all leases with a term longer than 12 months. For leases with a term of 12 months or less, no right of use assets or liabilities are recognized on the Statement of Financial Position and the Organization recognizes lease expense on a straight-line basis over the lease term. A lease may include both lease and non-lease components which are accounted for as a single lease component as the Organization elected the practical expedient to combine these components for all leases. The Organization recognizes variable lease payments as an expense in the period incurred. The discount rates used to determine the present value of the lease assets and liabilities are based on the Organization’s incremental secured borrowing rate at the lease commencement date, as the rates implicit in most leases are not readily determinable.

At May 31, 2023, the cost and net book value of financing leased assets is \$293,360 and \$181,849, respectively. Amortization for the year ended May 31, 2023 was \$9,753.

Leased liabilities consist of the following:

Description	Date	Payment Terms	Monthly Payment Amount	Interest Rate	Initial Lease Liability	Balance May 31, 2023
Copier	9/1/2021	5 years	829	0.78%	48,767	31,914
Clintwood Building	1/1/2020	10 years	1,000	1.88%	109,317	74,244
Big Stone Gap Building	9/1/2018	10 years	1,300	2.90%	135,276	75,691
					<u>\$ 293,360</u>	<u>\$ 181,849</u>

Annual requirements to amortize long-term lease obligations and related interest are as follows:

Year Ended May 31,	Principal	Interest
2024	33,967	3581
2025	34,653	2895
2026	35,347	2201
2027	28,576	1511
2028	26,739	861
2029	15,610	290
2030	6,957	45
Total	<u>\$ 181,849</u>	<u>\$ 11,384</u>

NOTE 4 – NOTES PAYABLE

For the year ended May 31, 2023 the Organization’s long-term debt consisted of the following:

The principal balance of a 4.75% note payable to USDA, Rural Development, due in monthly installments of principal and interest of \$3,883. This note matures on August 12, 2041.	\$ 565,647
The principal balance of a 2.125% note payable to USDA, Rural Development, due in monthly installments of principal and interest of \$1,197. This note matures on February 23, 2026.	<u>38,220</u>
Total notes payable	<u>603,867</u>
Less: Current maturities	<u>(33,674)</u>
Long-term debt	<u>\$ 570,193</u>

Future scheduled maturities of long-term debt are as follows:

Year Ended	Amount
<u>May 31,</u>	
2024	33,674
2025	34,939
2026-2030	131,683
2031-2035	153,484
2036-2040	194,537
2041-2042	<u>55,550</u>
Total	<u>\$ 603,867</u>

NOTE 5 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purpose:

	<u>Amount</u>
Time or purpose restricted for period after May 31, 2023	\$ <u>1,144,365</u>
TOTAL	\$ <u>1,144,365</u>

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of financial instruments under FASB Codification 825-10, *Disclosures About Fair Value of Financial Instruments*, as amended by FASB Codification 820-10, are determined based on relevant market information. These estimates involve uncertainty and cannot be determined with precision. The following methods and assumptions are used to estimate the fair value of each class of financial instrument:

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The carrying amounts of cash, receivables, prepaids, payables, and accrued expenses on the statement of financial position approximate fair value due to the short-term nature of these items.

The carrying amounts of debt on the statement of financial position approximate fair value, which is estimated on current market rates offered to or by the Organization for similar instruments.

FASB Codification 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB Codification 820-10 also establishes a fair value hierarchy which requires the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1 Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly or indirectly through corroboration with observable market data. Level 2 inputs include (a) quoted prices for similar assets or liabilities in active markets, (b) quoted prices for identical or similar assets or liabilities in markets that are not active, (c) inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates), and (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 Unobservable inputs used to measure fair value to the extent that observable inputs are not available and that are supported by little or no market activity for the asset or liability at the measurement date.

NOTE 7 – IN-KIND

Kids Central, Inc. is required by funding sources to contribute a percent of the cost of the program through cash or in-kind contributions. The contributions for the year ended May 31, 2023 for matching requirements are as follows:

NOTE 7 – IN-KIND (CONTINUED)

<u>Funding Source</u>	<u>Matching Requirement</u>
Department of Health and Human Services:	
Head Start	\$ 546,739
Early head start	<u>590,104</u>
Total actual match	<u>\$ 1,136,843</u>

For financial statement reporting, only in-kind income for property, rent, and professional services is reflected. Total in-kind for financial statement reporting is \$96,572. Total in-kind contributions for the year were \$1,136,843.

NOTE 8 – RETIREMENT PLAN

The Organization contributes to a 401-K retirement plan. Under this plan, qualifying employees contribute designated amounts toward the plan. The Organization will contribute matching amounts up to 3% of participating employee’s wages. During the year, the Organization’s required and actual contributions amounted to \$47,723.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

It was noted that in February 2018, the Organization was notified of a \$56,393 disallowance decision from the Department of Health and Human Services board regarding grant monies disbursed outside of the grant year for unsubstantiated incentive compensation relating to fiscal year 2015. After several unsuccessful appeals, the decision from the Department of Health and Human Services was ultimately upheld on September 20, 2018 and no further appeal would be successful. The Organization filed a claim with them to cover this liability; however, the claim was denied. A liability for this amount has been recorded.

The Organization received a notice during FY23 that also assessed an interest charge on the above-mentioned penalty totaling \$24,603. The amount was offset from the FY23 award, and thus reflected in the amount received from Head Start for fiscal year ending May 31, 2023.

NOTE 10 – CONTINGENCIES, RISKS, AND UNCERTAINTIES

As a result of the continued spread of COVID-19 during 2023, economic uncertainties have arisen, which may negatively impact grant, donor, and other revenues of the Organization. Other financial impacts could occur, though such potential impact is unknown at this time.

Kids Central, Inc.
Norton, Virginia
Notes to Financial Statements
May 31, 2023

NOTE 11 – SUBSEQUENT EVENTS

Subsequent events have been evaluated as of August 15, 2024, which is the date the financial statements were available to be issued. There were no events that would have an effect on these financial statements.

SUPPLEMENTARY INFORMATION

Kids Central, Inc.
Norton, Virginia
Schedule of Expenditures of Federal Awards
For the Year Ended May 31, 2023

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>Federal Assistance Listing Number</u>	<u>Total Federal Expenditures</u>
Department of Health and Human Services:		
Direct Payments:		
<i>Head Start Cluster:</i>		
Administration for Children, Youth, and Families Head Start	93.600*	\$ 4,618,256
Cares Act – Head Start	93.600*	<u>185,716</u>
<i>Total Head Start Cluster</i>		4,803,972
 Total Department of Health and Human Services		 <u>4,803,972</u>
 Department of Agriculture:		
Direct Payments:		
Child and Adult Care Food Program	10.558	204,587
 Total Department of Agriculture		 <u>204,587</u>
 Total Expenditures of Federal Awards		 <u>\$ 5,008,559</u>

*Denotes Major Program

Notes to the Schedule of Expenditures of Federal Awards

Note A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Kids Central, Inc. under programs of the federal government for the year ended May 31, 2023. The information in this Schedule is presented in accordance with the requirements of Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Because the Schedule presents only a selected portion of the operations of Kids Central, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Kids Central, Inc.

Note B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- 1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- 2) Pass-through entity identifying numbers are presented where available.
- 3) Kids Central, Inc. has elected not to use the 10% de minimus indirect cost rate allowed under Uniform Guidance.

Note C - SUBRECIPIENTS

No subrecipients for the year ended May 31, 2023.

Kids Central, Inc.
 Norton, Virginia
 Schedule of Findings, Responses and Questioned Costs
 For the Year Ended May 31, 2023

I. SUMMARY OF AUDIT RESULTS

FINANCIAL STATEMENTS

Type of Auditor's report issued:	Unmodified
Prepared in accordance with GAAP	Yes
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(es) identified?	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(es) identified?	No
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?	None
Dollar threshold used to distinguish between Type A and Type B programs?	\$750,000
Auditee qualified as low-risk auditee?	No
Identification of Federal Programs:	

<u>PROGRAM</u>	<u>CATALOG NUMBER</u>	<u>FINDINGS</u>	<u>QUESTIONED COST</u>
Head Start	93.600	None	No

Kids Central, Inc.
Norton, Virginia
Schedule of Findings, Responses and Questioned Costs
For the Year Ended May 31, 2023

II. FINANCIAL STATEMENT FINDINGS

2023-001	Timeliness of Financial Reporting
FINDING TYPE	Significant Deficiency
CRITERIA	Per auditing standards, an auditee should have sufficient controls in place to produce financial statements timely after the end of the fiscal year.
CONDITION	The audited financial statements were not ready in a timely fashion after the end of the fiscal year.
CAUSE	The prior Comptroller left prior to the completion of the audit and before the fiscal year was complete closed.
EFFECT	There is a reasonable possibility that a misstatement of the financial statements will not be prevented or detected in a timely fashion.
RECOMMENDATION	Management should create a process to close the financial statements within 90 days of the end of the fiscal year to provide adequate and timely reporting to the auditors. If this is not possible with staffing, then Management should consider hiring a financial consultant to assist with the fiscal year close.
MANAGEMENT'S RESPONSE	The Organization's prior Comptroller left prior to the audit being completed. It took several months to find a qualified replacement. Now that the new CFO has been with Organization and is familiar with the financial reporting, financial reports should be ready to be audited in a timely fashion.

Kids Central, Inc.
Norton, Virginia
Schedule of Findings, Responses and Questioned Costs
For the Year Ended May 31, 2023

IV. STATUS OF PRIOR AUDIT FINDINGS

2023-001	Timeliness of Financial Reporting
FINDING TYPE	Significant Deficiency
CONDITION	The audited financial statements were not ready in a timely fashion after the end of the fiscal year.
RECOMMENDATION	Management should create a process to close the financial statements within 90 days of the end of the fiscal year to provide adequate and timely reporting to the auditors. If this is not possible with staffing, then Management should consider hiring a financial consultant to assist with the fiscal year close.
CURRENT STATUS	Implemented.

III. FEDERAL AWARD FINDINGS

None