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April 18, 2019

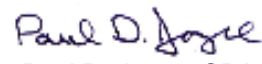
Board of Directors  
1<sup>st</sup> Kids, Inc.  
11045 Broadway  
Crown Point, IN 46307

We have reviewed the audit report of 1<sup>st</sup> Kids, Inc. which was opined upon by Swartz, Retson & Co., PC, Independent Public Accountants, for the period April 1, 2017 to March 31, 2018. Per the *Independent Auditor's Report* the financial statements included in the report present fairly the financial condition of 1<sup>st</sup> Kids, Inc. as of March 31, 2018 and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the findings in the report on pages 23 through 28. Please see the Schedule of Findings and Questioned Costs for complete details related to the finding.

In our opinion, Swartz, Retson & Co., PC prepared the audit report in accordance with guidelines established by the State Board of Accounts.

The report is filed with this letter in our office as a matter of public record.

  
Paul D. Joyce, CPA  
State Examiner

FINANCIAL STATEMENT AND  
INDEPENDENT AUDITORS' REPORT

**1ST KIDS, INC.**

MARCH 31, 2018

SWARTZ, RETSON & CO., P.C.  
CERTIFIED PUBLIC ACCOUNTANTS  
235 E. 86TH AVENUE  
MERRILLVILLE, INDIANA 46410

1ST KIDS, INC.

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
1st Kids, Inc.  
11045 Broadway, Suite F  
Crown Point, IN 46307

### **Report on the Financial Statements**

We have audited the accompanying financial statements of 1st Kids, Inc., (a non-profit organization), which comprise the statement of financial position as of March 31, 2018, and the related statement of activities, functional expenses, and cash flows for the year 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 audit. 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 audit 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 presents fairly, in all material respects, the financial position of 1st Kids, Inc. as of March 31, 2018, 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.

## Other Matters

### *Other 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 statement. 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 statement. 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 information 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 December 22, 2018 on our consideration of 1st Kids, 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 1st Kids, 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 1st Kids, Inc.'s internal control over financial reporting and compliance.

*Swartz, Peterson & Co., P.C.*  
Merrillville, IN  
December 22, 2018



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INDEPENDENT AUDITORS' 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  
1st Kids, Inc.

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 1st Kids, Inc. (a nonprofit organization), which comprise the statement of financial position as of March 31, 2018, and the related statement of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 22, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered 1st Kids, 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 1st Kids, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of 1st Kids, 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. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 1st Kids, 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*.

**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.

*Schwartz, Retson & Co., P.C.*

Merrillville, IN  
December 22, 2018



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

To the Board of Directors  
1st Kids, Inc.

**Report on Compliance for Each Major Federal Program**

We have audited 1st Kids, 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 1st Kids, Inc.'s major federal programs for the year ended March 31, 2018. 1st Kids, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of 1st Kids, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 1st Kids, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified opinion on compliance for the major federal program. However, our audit does not provide a legal determination of 1st Kids, Inc.'s compliance.

**Basis for Qualified Opinion on Special Education - Grants for Infants and Families with Disabilities**

As described in the accompanying schedule of findings and questioned costs, 1st Kids, Inc. did not comply with the requirements regarding CFDA 84.181 Special Education - Grants for Infants and Families with Disabilities as described in Condition 2018-01 for Cash Management, Condition 2018-03 for Procurement, Suspension and Debarment, Condition 2018-04 for Equipment Management and Condition 2018-05 for Period of Performance. Compliance with such requirements is necessary, in our opinion, for 1st Kids, Inc. to comply with the requirements applicable to that program.

### **Qualified Opinion on Special Education – Grants for Infants and Families with Disabilities**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 1st Kids, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Special Education – Grants for Infants and Families with Disabilities for the year ended March 31, 2018.

### **Other Matters**

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Condition 2018-02.

1st Kids, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 1st Kids, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control over Compliance**

Management of 1st Kids, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered 1st Kids, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 1st Kids, Inc.'s 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, non-compliance 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Conditions 2018-01, 2018-02, 2018-03, 2018-04 and 2018-05 to be material weaknesses.

*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.

1st Kids, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 1st Kids, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

*Swartz, Betson & Co., P.C.*

Merrillville, IN  
December 22, 2018

1ST KIDS, INC.

STATEMENT OF FINANCIAL POSITION  
MARCH 31, 2018

ASSETS

CURRENT ASSETS

Cash	\$1,054,172	
Grants Receivable	1,162,843	
Eligibility Determination Receivable	32,275	
Prepaid Expenses	<u>57,251</u>	
Total Current Assets		<u>\$2,306,541</u>

PROPERTY AND EQUIPMENT

Land, Buildings, and Equipment	300,481	
Less: Accumulated Depreciation	<u>151,684</u>	
Total Property and Equipment		<u>148,797</u>

TOTAL ASSETS

\$2,455,338

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts Payable	\$ 157,584	
Accrued Payroll Expenses	<u>566,999</u>	
Total Liabilities		\$ 724,583

NET ASSETS

Unrestricted		<u>1,730,755</u>
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TOTAL LIABILITIES AND NET ASSETS

\$2,455,338

The accompanying notes are an integral part of the financial statements.

1ST KIDS, INC.

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MARCH 31, 2018

	<u>Unrestricted</u>	
REVENUES, GAINS, AND OTHER SUPPORT		
System Point of Entry Grant	\$5,275,805	
Eligibility Determination	1,707,963	
Donations	500	
In-Kind Revenue	46,473	
Other Revenue	<u>10,956</u>	
Total Revenues, Gains, and Other Support		\$7,041,697
EXPENSES AND LOSSES		
Program Services		<u>7,012,263</u>
CHANGE IN NET ASSETS		29,434
NET ASSETS - Beginning of Year		<u>1,701,321</u>
NET ASSETS - End of Year		<u>\$1,730,755</u>

The accompanying notes are an integral part of the financial statements.

1ST KIDS, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED MARCH 31, 2018

	Program <u>Services</u>	Management <u>&amp; General</u>	Total <u>Expenses</u>
SALARIES AND RELATED EXPENSES			
Salaries	\$3,598,649	\$122,014	\$3,720,663
Payroll Taxes	265,910	9,075	274,985
Payroll Benefits	<u>416,289</u>	<u>14,206</u>	<u>430,495</u>
Total Salaries and Related Expenses	4,280,848	145,295	4,426,143
EXPENSES			
Professional Fees	1,774,582	12,651	1,787,233
Insurance	33,765	1,937	35,702
Travel	198,492	10,375	208,867
Occupancy	221,000	9,446	230,446
Eligibility Team Scheduling	71,175	00	71,175
Supplies	94,521	5,842	100,363
Postage, Phone, and Shipping	123,124	6,479	129,603
Depreciation	<u>22,731</u>	<u>00</u>	<u>22,731</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$6,820,238</u>	<u>\$192,025</u>	<u>\$7,012,263</u>

The accompanying notes are an integral part of the financial statements.

1ST KIDS, INC.

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED MARCH 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ 29,434
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Depreciation	22,731
(Increase) Decrease in:	
Grants Receivable	2,270
Eligibility Determination Receivable	(2,157)
Prepaid Expenses	91,494
Increase (Decrease) in:	
Accounts Payable	(675)
Accrued Payroll Expenses	<u>155,896</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 298,993
CASH FLOWS FROM INVESTMENT ACTIVITIES	
Purchase of Property and Equipment	<u>(119,289)</u>
NET INCREASE IN CASH	179,704
CASH- Beginning of Year	<u>874,468</u>
CASH- End of Year	<u>\$1,054,172</u>

The accompanying notes are in integral part of the financial statements.

# 1ST KIDS, INC.

## NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2018

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Operations

1<sup>st</sup> Kids, Inc. ("the Organization") is the point of entry for the State of Indiana's ("State") First Steps program. First Steps is the State's early intervention system. The program serves families with infants and toddlers from birth to age three who are experiencing developmental delays or have a diagnosed condition that has a high probability of resulting in a development delay.

The Organization serves 35 counties in Northern Indiana through four geographically based clusters. The Cluster A office is located in Crown Point and serves seven counties. The Cluster B office is located in Elkhart and serves ten counties. The Cluster C office is located in Fort Wayne and serves seven counties. The Cluster D office is located in Lafayette and serves eleven counties.

The Organization provides sixteen direct services and therapy through the First Steps program. It also administers eligibility determination for the program which is performed by independent providers.

The Organization's primary source of revenue is government grants provided by the U.S. Department of Education through its pass-through, the Indiana Family and Social Services Administration.

#### Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting, which is used for both income tax and financial reporting purposes.

#### Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

#### Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions whose restrictions are met in the same period as the recognition of the contribution are considered unrestricted for reporting purposes.

#### Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

# 1ST KIDS, INC.

## NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2018

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

#### Cash

Cash, as presented on the accompanying balance sheets and statements of cash flows, includes cash on hand and deposits in interest bearing and non-interest bearing accounts in financial institutions.

#### Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management considers receivables to be past due after being outstanding for more than 30 days. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The valuation allowance and bad debt expense was \$0 and \$0 for the year ended, March 31, 2018.

#### Property and Equipment

Property, equipment and improvements are carried at cost. Depreciation expense is computed using straight-line and accelerated methods over the estimated useful life of the assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss resulting from the transactions is recognized as income for the period. The cost of repairs and maintenance is charged to income as incurred; significant renewals and betterments are capitalized. The depreciation expense for the year ended March 31, 2018 was \$22,731.

#### Financial Instruments and Credit Risk

The Organization is a non-for-profit housing agency operating primarily in Northern Indiana. As such, the Organization's accounts receivable are from organizations within the same geographic region. The receivables are unsecured, as is common industry practice. Unsecured accounts receivable was \$1,195,118 for the year ended March 31, 2018.

Noninterest-bearing transaction accounts are not fully insured by the Federal Deposit Insurance Corporation (FDIC). At March 31, 2018, the Organization had \$574,385 in interest and noninterest-bearing accounts at financial institutions in excess of the FDIC insured level of \$250,000. The amount of potential exposure is computed based on the bank statement balance at March 31, 2018, and is not adjusted for outstanding checks and other in-transit items reflected in the Organization's records.

#### Income Taxes

1st Kids, Inc. is a not-for-profit corporation organized under the laws of the State of Indiana. The Internal Revenue Service has ruled that the Organization qualifies under Section 501(c)(3) of the Internal Revenue Code and is therefore not subject to tax under present income tax laws. The Organization is not considered to be a private foundation.

1ST KIDS, INC.

NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Uncertain Income Tax Positions

The Organization adopted the provisions of standards relating to uncertain tax positions. When applicable, changes in benefits arising from current and prior tax positions taken by the Organization are recognized in the period in which the change occurs. Changes resulting from settlements with taxing authorities are recognized in the period that settlement occurs. Reductions in unrecognized tax benefits as a result of a lapse of the applicable statute of limitations are recognized in the period the statute lapses. Projected penalties and interest recognized on tax positions where it is reasonably possible that the Organization's tax position will not prevail in a review by taxing authorities is recognized as part of current period income tax expense. Management believes that the current and three prior tax periods remain subject to examination by taxing jurisdictions.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at March 31, 2018:

	<u>Amount</u>
Computers	\$149,924
Computer Software	25,407
Furniture and Fixtures	103,986
Office Equipment	<u>21,164</u>
	300,481
Less: Accumulated Depreciation	<u>151,684</u>
Total Property and Equipment	<u>\$148,797</u>

NOTE 3 - LINE OF CREDIT

The Organization has a \$75,000 available line of credit with Centier Bank, variable interest based on the prime rate plus 1.00% (currently the index is 4.5% as of March 31, 2018), secured by all business assets and matures on January 4, 2019. The outstanding obligation was \$0 at March 31, 2018. The Organization did not draw on the line of credit in fiscal 2018. Interest expense was \$0 for the year ended March 31, 2018.

# 1ST KIDS, INC.

## NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2018

### NOTE 4 - BUILDING LEASES

The Organization rents office space in Crown Point, Indiana from an unrelated party through June 30, 2027. In fiscal 2018, monthly rent was \$2,700 through July 1, 2017 when it increased to \$3,000 for the remainder of the fiscal year. Each July 1st, the Organization is required to pay \$45,000 upfront plus a monthly rental amount. In subsequent years, monthly rent increases by \$200 annually until July 2022 when monthly rent will be \$4,000. The monthly rental rate will remain at that amount until the lease terminates on June 30, 2027. Rent expense was \$80,100 for the year ended March 31, 2018.

The Organization rents office space in Elkhart, Indiana from an unrelated party. The lease is month to month and monthly rent was \$4,394. Rent expense was \$52,380 for the year ended March 31, 2018.

The Organization rents office space in Fort Wayne, Indiana from an unrelated party. The lease runs through December 31, 2025 and monthly rent was \$4,947. Monthly rent will be \$4,947 through January 1, 2022. Beginning January 1, 2022, rent will increase to \$5,034 and the monthly rate will remain at that amount until the lease terminates on December 31, 2025. Rent expense was \$14,841 for the year ended March 31, 2018.

The Organization rents office space in Lafayette, Indiana from an unrelated party. The lease is month to month and monthly rent was \$2,631. Rent expense was \$35,518 for the year ended March 31, 2018.

Future minimum rental payments for the remainder of the leases are as follows:

<u>Year Ending</u>	<u>Amount</u>
March 31, 2019	\$142,166
March 31, 2020	\$144,566
March 31, 2021	\$146,966
March 31, 2022	\$149,626
March 31, 2023	\$152,807

### NOTE 5 - CONTRIBUTED FACILITY USAGE

The Organization uses office space in Fort Wayne and Marion, Indiana. The State of Indiana is leasing the space and allows the Organization to use it at no charge. In return for not charging rent, the State of Indiana reduced the System Point of Entry grant by a fair market rental factor for the space being used. The Organization records the fair market rental factor as in-kind revenue and occupancy expense. In fiscal 2018, the Organization used the Fort Wayne office space from April 1, 2017 through December 31, 2017. The monthly fair market rent was \$2,694. In fiscal 2018, the Organization used the Marion office space from April 1, 2017 through March 31, 2018. The monthly fair market rent was \$1,852. During the year ended March 31, 2018, the Organization recorded \$46,473 as in-kind revenue and in-kind occupancy expense.

1ST KIDS, INC.

NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2018

NOTE 6 - COPIER LEASE

The Organization is leasing copiers on a month to month basis. The base amount is \$3,476 per month, plus overages and personal property taxes. The total expense was \$52,134 for the year ended March 31, 2018.

NOTE 7 - CONCENTRATION OF REVENUE

During the year ended March 31, 2018, the Organization received 75% of its revenue from its System Point of Entry grant which is from the Indiana Family and Social Services Administration. No determination as to the effect on the financial statements should funding cease.

NOTE 8 - RETIREMENT PLAN

The Organization maintains a 403(b) Tax Deferred Annuity Plan covering all employees that have completed one year of service and have attained age 21. Employees may elect to defer compensation up to current federal limits. Employer contributions to the Plan are made at the discretion of the Board of Directors. Employer contribution expense for the year ended March 31, 2018 was \$60,198.

NOTE 9 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 22, 2018, the date the financial statements were available for issuance.

**SUPPLEMENTARY SCHEDULES**

1ST KIDS, INC.

SCHEDULE OF GOVERNMENTAL FUNDING  
MARCH 31, 2018

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Program or Award Receipts	Total Program Assistance
<u>FEDERAL AWARDS</u>			
U.S. Department of Education			
Indiana Family and Social Services Administration			
Special Education – Grants for Infants and Families			
With Disabilities (System Point of Entry Grant)	84.181	Reimbursed	<u>\$5,322,278</u>
TOTAL FEDERAL AWARDS			<u>\$5,322,278</u>

1ST KIDS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
MARCH 31, 2018

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
<u>FEDERAL AWARDS</u>		
U.S. Department of Education		
Indiana Family and Social Services Administration		
Special Education - Grants for Infants and Families with Disabilities (System Point of Entry Grant)		
Contract #19794	84.181	\$1,432,650
Contract #21508	84.181	<u>3,889,628</u>
Total Special Education - Grants for Infants and Families with Disabilities	84.181	<u>5,322,278</u>
 TOTAL FEDERAL AWARDS		 <u>\$5,322,278</u>

# 1ST KIDS, INC.

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS MARCH 31, 2018

### NOTE 1 - BASIS OF PRESENTATION

- a. The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of 1st Kids, Inc. under programs of the federal government for the year ended March 31, 2018. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of 1st Kids, Inc., it is not intended to be and does not present the financial position, changes in net assets, or cash flows of 1st Kids, Inc.
- b. Uniform Guidance requires an annual audit of organizations expending a total amount of federal awards equal to or in excess of \$750,000 in any fiscal year unless by constitution or statute a less frequent audit is required.
- c. Pass-through entity identifying numbers are presented where available.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. 1st Kids, Inc. has not elected to use the 10 percent de-minimus indirect cost rate as allowed under the Uniform Guidance.

### MAJOR PROGRAM

### NOTE 3 - SPECIAL EDUCATION - GRANTS FOR INFANTS AND FAMILIES WITH DISABILITIES

The Organization receives reimbursements of claims from the U.S. Department of Education as a sub-grantee from the Indiana Family and Social Services Administration. The Organization is the System Point of Entry for the First Steps program in 35 counties in the State of Indiana.

# 1ST KIDS, INC.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED MARCH 31, 2018

### A. SUMMARY OF AUDITORS' RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of 1st Kids, Inc. were prepared in accordance with GAAP.
2. No significant deficiencies were disclosed during the audit of the financial statements of 1st Kids, Inc. in the 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*.
3. No instances of noncompliance material to the financial statements of 1st Kids, Inc. which would be required to be reported in accordance with *Government Auditing Standards* were disclosed during the audit.
4. Five significant deficiencies in internal control over major federal award programs disclosed during the audit are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by Uniform Guidance. Conditions 2018-1 through 2018-5 are reported as material weaknesses.
5. The auditor's report on compliance for the major federal award program for 1st Kids, Inc. expresses a qualified opinion.
6. Audit findings that are required to be reported in accordance with 2CFR Section 200.516(a) are reported in this schedule.
7. The program tested as a major program was U.S. Department of Education Special Education - Grants for Infants and Families with Disabilities, CFDA #84.181.
8. The threshold used for distinguishing between Type A and B programs was \$750,000
9. 1st Kids, Inc. was determined to be a low-risk auditee.

### B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None.

1ST KIDS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
MARCH 31, 2018

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

Material Weakness

Questioned Costs

Special Education - Grants for Infants and Family with Disabilities  
CFDA #84.181

Condition 2018-01

We noted in a sample of twenty five reimbursements that three vendor payments were made three or more days after the reimbursement request was made. In one instance, the Organization requested reimbursement for the entire year in advance and paid the vendor on a monthly basis. In another instance, the Organization requested and paid the vendor for the entire year even though the most recent lease required only monthly payments.

Criteria

According to 2CFR Section 200.305(b), "For non-Federal entities...payments methods must minimize the time elapsing between the transfer of funds from the United States Treasury... and the disbursement by the non-Federal entity...". Further, 2CFR Section 200.305(3) states, "Reimbursement is the preferred method when the requirements in paragraph (b) cannot be met...".

Effect

The Organization was not in compliance with federal cash management.

Cause

The Organization had no internal control structure in place to ensure that reimbursement requests were made after vendors had been paid.

Recommendation

The Organization should create an internal control structure that ensures that reimbursement requests are made after vendors have been paid.

Views of Responsible Officials

This practice has been followed by this organization for many years. It was established with the permission of previous State staff. This practice has not been noted as a finding in prior private or state initiated audit reports. Going forward the Organization will terminate this practice.

1ST KIDS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
MARCH 31, 2018

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

Material Weakness

Questioned Costs

Special Education - Grants for Infants and Family with Disabilities  
CFDA #84.181

Condition 2018-02

The Organization did not have written procedures regarding federal cash management and allowability of costs pertaining to federal funds.

Criteria

In accordance with 2CFR Section 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, the Organization must have written procedures regarding federal cash management (Section 200.302(b)(6)) and allowability of costs pertaining to federal funds (Section 200.302(b)(7)).

Effect

The Organization was not in compliance with federal financial management.

Cause

The Organization had no internal control structure in place to ensure that it had the required written policies.

Recommendation

The Organization should create an internal control structure to ensure that written policies required by 2CFR Section 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are in place.

Views of Responsible Officials

Policy has been provided. This will be reviewed and updated on an as needed basis and not less than annually.

1ST KIDS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
MARCH 31, 2018

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

Material Weakness

Questioned Costs

Special Education - Grants for Infants and Family with Disabilities  
CFDA #84.181

Condition 2018-03

The Organization did not follow its written procurement guidelines for small purchases by not obtaining price or rate quotations from an adequate number of qualified sources.

Criteria

According to 2CFR Section 200.318(a), "the non-Federal entity must use its own documented procurement procedures...provided that the procurements conform to applicable Federal law..." and 2CFR Section 200.320(b), "...if small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources...".

Effect

The Organization was not in compliance with federal procurement requirements.

Cause

The Organization did not follow its written procurement policy which is the reason it was not in compliance with federal procurement requirements.

Recommendation

The Organization should create an internal control structure that ensures that procurement compliance procedures are being followed.

Views of Responsible Officials

The Organization did seek input from various sources prior to purchases. This was done verbally as well as through online research. Based upon this information as well as the experience and knowledge of the selected vendors coupled with the agency needs, it was determined that these actions were appropriate. Going forward this process will be documented.

1ST KIDS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
MARCH 31, 2018

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

Material Weakness

Questioned Costs

Special Education - Grants for Infants and Family with Disabilities  
CFDA #84.181

Condition 2018-04

The Organization was not managing equipment in accordance with federal equipment management requirements. The Organization did not have adequate property records, perform a bi-annual physical inventory or have a control system in place to ensure that equipment was adequately safeguarded.

Criteria

According to 2CFR Section 200.313(d)(1), "property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding...the acquisition date, and cost of the property...the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property...". In accordance with 2CFR Section 200.313(d)(2), "a physical inventory of the property must be taken and the results reconciled with the property records at least once every two years". As noted in 2CFR Section 200.313(d)(3), "a control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property...(4) maintenance procedures must be developed to keep property in good condition".

Effect

The Organization was not in compliance with 2CFR 200.313(d) regarding equipment management requirements.

Cause

The Organization did not have an internal control structure in place to ensure that federal equipment management requirements are being followed.

Recommendation

The Organization should create an internal control structure that includes written policies to ensure that equipment management compliance procedures are being followed.

Views of Responsible Officials

A detailed listing of all computers and equipment has been provided. A depreciation schedule has been provided. These listings will be combined, reviewed, and updated to agree to the financial statements as required.

1ST KIDS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
MARCH 31, 2018

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

Material Weakness

Questioned Costs

Special Education - Grants for Infants and Family with Disabilities  
CFDA #84.181 \$ 41,396

Condition 2018-05

The Organization appeared to spend over the federal award in grant years ending June 30, 2017 and 2018. This resulted in over-expenditures of \$3,004 and \$38,392.

Criteria

The Organization's grant specified an award budget for the grant years ending June 30, 2017 and 2018.

Effect

The Organization spent over its federal grant award amount.

Cause

The federal grant award is reduced by the in-kind rent for space the Organization uses rent free in its Fort Wayne and Marion, Indiana offices. The Organization did not factor in the award reduction when claiming grant expenses.

Recommendation

The Organization should track its in-kind usage with the grant award to ensure that it will not over spend the federal award.

Views of Responsible Officials

The state office has been contacted and will provide documentation regarding this transaction. It is the Organization's determination that this was done properly and did not result in over expenditures for the identified period. In the future they will confirm with the State at the end of each grant period.

## EXIT CONFERENCE

An exit conference was held with representatives of 1st Kids, Inc. on December 18, 2018 at the office of 1st Kids, Inc. in Crown Point, Indiana.

### 1ST KIDS, INC.

CLARE MANN

EXECUTIVE DIRECTOR

### AUDIT ORGANIZATION REPRESENTATIVE

GREG WARD

PRINCIPAL



11045 Broadway Suite F  
Crown Point, IN 46307  
219-662-7790 (Phone)  
219-662-7510 (Fax)

December 31, 2018

Swartz, Retson & Co., P.C.  
235 E. 86<sup>th</sup> Avenue  
Merrillville, IN 46410

Subject: Corrective Action Plan

Reference: Audit for the Year Ended March 31, 2018

Condition 2018-1

We noted in a sample of twenty five reimbursements that three vendor payments were made three or more days after the reimbursement request was made. In one instance, the Organization requested reimbursement for the entire year in advance and paid the vendor on a monthly basis. In another instance, the Organization requested and paid the vendor for the entire year even though the most recent lease required only monthly payments.

Corrective Action Plan: Going forward the Organization will terminate this practice

Anticipated Completion Date: March 31, 2019

Contact Person: Clara Mann

Condition 2018-2:

The Organization did not have written procedures regarding federal cash management and allowability of costs pertaining to federal funds.

Corrective Action Plan: Policy has been provided. This will be reviewed and updated on an as needed basis and not less than annually.

Anticipated Completion Date: March 31, 2019

Contact Person: Clara Mann

Condition 2018-3: The Organization did not follow its written procurement guidelines for small purchases by not obtaining price or rate quotations from an adequate number of qualified sources.

Corrective Action Plan: Going forward this process will be documented

Anticipated Completion Date: March 31, 2019

Contact Person: Clara Mann

Condition 2018-4: The Organization was not managing equipment in accordance with federal equipment management requirements. The Organization did not have adequate property records, perform a bi-annual physical inventory or have a control system in place to ensure that equipment was adequately safeguarded.

Corrective Action Plan: A detailed listing of all computers and equipment has been provided. A depreciation schedule has been provided. These listings will be combined, reviewed, and updated to agree to the financial statements as required.

Anticipated Completion Date: March 31, 2019

Contact Person: Clara Mann

Condition 2018-5: The Organization appeared to spend over the federal award in grant years ending June 30, 2017 and 2018. This resulted in over-expenditures of \$3,004 and \$38,392.

Corrective Action Plan: The state office has been contacted and will provide documentation regarding this transaction. It is the Organization's determination that this was done properly and did not result in over expenditures for the identified period. In the future they will confirm with the state at the end of each grant period.

Anticipated Completion Date: March 31, 2019

Contact Person: Clara Mann