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January 9, 2020

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, 2018 to March 31, 2019. 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, 2019 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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, 2019 AND 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 statements of financial position as of March 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of 1st Kids, Inc. as of March 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Other Information*

Our audits were 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 audits 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 20, 2019 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 20, 2019



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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, 2019, 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 20, 2019.

**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.

A handwritten signature in cursive script that reads "A. W. F. Peterson & Co., P.C.".

Merrillville, IN  
December 20, 2019



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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, 2019. 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.

**Opinion on Each Major Federal Program**

In our opinion, 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 each of its major federal programs for the year ended March 31, 2019.

## 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 audits 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. *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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.



Merrillville, IN  
December 20, 2019

1ST KIDS, INC.

STATEMENT OF FINANCIAL POSITION  
MARCH 31, 2019 AND 2018

ASSETS

	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash	\$1,518,243	\$1,054,172
Grants Receivable	874,224	1,162,843
Eligibility Determination Receivable	33,402	32,275
Prepaid Expenses	<u>68,503</u>	<u>57,251</u>
Total Current Assets	<u>2,494,372</u>	<u>2,306,541</u>
PROPERTY AND EQUIPMENT		
Land, Buildings, and Equipment	265,565	300,481
Less: Accumulated Depreciation	<u>126,377</u>	<u>151,684</u>
Total Property and Equipment	<u>139,188</u>	<u>148,797</u>
TOTAL ASSETS	<u>\$2,633,560</u>	<u>\$2,455,338</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts Payable	\$ 52,651	\$ 157,584
Accrued Payroll Expenses	<u>627,782</u>	<u>566,999</u>
Total Current Liabilities	680,433	724,583
NET ASSETS		
Without Donor Restrictions	<u>1,953,127</u>	<u>1,730,755</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$2,633,560</u>	<u>\$2,455,338</u>

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

# 1ST KIDS, INC.

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED MARCH 31, 2019 AND 2018

	Without Donor Restrictions <u>2019</u>	Without Donor Restrictions <u>2018</u>
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>		
System Point of Entry Grant	\$5,315,573	\$5,275,805
Eligibility Determination	1,785,577	1,707,963
Donations	16	500
In-Kind Revenue	22,231	46,473
Other Revenue	<u>5,451</u>	<u>10,956</u>
Total Revenues, Gains, and Other Support	<u>7,128,848</u>	<u>7,041,697</u>
<b>EXPENSES AND LOSSES</b>		
Program Services	6,760,612	6,820,238
Management and General	<u>145,864</u>	<u>192,025</u>
Total Expenses and Losses	<u>6,906,476</u>	<u>7,012,263</u>
<b>CHANGE IN NET ASSETS</b>	222,372	29,434
NET ASSETS - Beginning of Year	<u>1,730,755</u>	<u>1,701,321</u>
NET ASSETS - End of Year	<u>\$1,953,127</u>	<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, 2019

	<u>Program Services</u>	<u>Management &amp; General</u>	<u>Total Expenses</u>
SALARIES AND RELATED EXPENSES			
Salaries	\$3,536,074	\$ 77,426	\$3,613,500
Payroll Taxes	261,252	5,604	266,856
Payroll Benefits	<u>460,209</u>	<u>9,872</u>	<u>470,081</u>
Total Salaries and Related Expenses	4,257,535	92,902	4,350,437
EXPENSES			
Professional Fees	1,760,695	16,345	1,777,040
Insurance	42,087	2,215	44,302
Travel	177,672	9,351	187,023
Occupancy	242,431	12,760	255,191
Eligibility Team Scheduling	69,833	3,675	73,508
Supplies	54,866	2,888	57,754
Postage, Phone, and Shipping	108,855	5,728	114,583
Interest Expense	43	00	43
Gain on Asset Disposal	4,283	00	4,283
Depreciation	<u>42,312</u>	<u>00</u>	<u>42,312</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$6,760,612</u>	<u>\$145,864</u>	<u>\$6,906,476</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

	<u>Program Services</u>	<u>Management &amp; General</u>	<u>Total 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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 222,372	\$ 29,434
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	42,312	22,731
Loss on Disposal of Asset	4,283	00
(Increase) Decrease in:		
Grants Receivable	288,619	2,270
Eligibility Determination Receivable	(1,127)	(2,157)
Prepaid Expenses	(11,252)	91,494
Increase (Decrease) in:		
Accounts Payable	(104,933)	(675)
Accrued Payroll Expenses	<u>60,783</u>	<u>155,896</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	501,057	298,993
 CASH FLOWS FROM INVESTMENT ACTIVITIES		
Purchase of Property and Equipment	<u>(36,986)</u>	<u>(119,289)</u>
 NET INCREASE IN CASH	464,071	179,704
 CASH- Beginning of Year	<u>1,054,172</u>	<u>874,468</u>
 CASH- End of Year	<u>\$1,518,243</u>	<u>\$1,054,172</u>
 SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
CASH PAID DURING THE YEAR FOR:		
Interest	<u>\$ 43</u>	<u>\$ 00</u>

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

# 1ST KIDS, INC.

## NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2019 AND 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.

#### Basis of Presentation

The Organization records resources for accounting and reporting purposes based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment.

*Net Assets With Donor Restrictions* - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

# 1ST KIDS, INC.

## NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2019 AND 2018

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

#### Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

#### Contributions and Pledges

The Organization records unconditional promises to give (pledges) as receivables and contributions within the appropriate net asset category based on the existence or absence of donor-imposed restrictions. The Organization recognizes conditional promises to give when the conditions stipulated by the donor are substantially met. A conditional promise to give is considered unconditional if the possibility that the condition will not be met is remote.

#### 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 years ended, March 31, 2019 and 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 years ended March 31, 2019 and 2018 was \$42,312 and \$22,731, respectively.

#### 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 \$907,626 and \$1,195,118 for the years ended March 31, 2019 and 2018, respectively.

# 1ST KIDS, INC.

## NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2019 AND 2018

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

Noninterest-bearing transaction accounts are not fully insured by the Federal Deposit Insurance Corporation (FDIC). At March 31, 2019, the Organization had \$1,028,376 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, 2019, 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.

#### 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.

#### Functional Expense Allocation Methodology

Expenses directly attributable to a specific functional area of the Organization are reported as expenses of those functional areas. The financial statements report certain categories of expenses that are attributable to one or more programs or supporting functions of the Organization. Those expenses include payroll expense, professional fees, insurance, occupancy, and office expenses. The Executive Director and manager's payroll expense is allocated based on estimate of time.

#### Liquidity Management

The Organization maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests cash in its checking accounts.

To address unanticipated liquidity needs, the Organization has a committed line of credit of \$75,000 which it could draw upon. The Organization has no board designated net assets or donor restrictions that would prevent the use of amounts available to be used for current operations.

1ST KIDS, INC.

NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2019 AND 2018

NOTE 2 - ACCOUNTING PRONOUNCEMENT ADOPTED

In August 2016, the FASB issued Accounting Standards Update ASU 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adopted ASU 2016-14 as of and for the year ended March 31, 2019 and has adjusted the presentation of these financial statements accordingly. The ASU has been applied retrospectively, which has resulted in reclassifications to fiscal 2018. The Organization has opted not to disclose liquidity and availability information for fiscal 2018 as permitted under the ASU in the year of adoption.

NOTE 3 - AVAILABILITY OF RESOURCES

The Organization's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

	<u>Amount</u>
Cash	\$1,518,243
Accounts Receivable	874,224
Eligibility Determination Receivable	<u>33,402</u>
Total Financial Assets Available to Management for General Expenditures Within One Year	<u>\$2,425,869</u>

NOTE 4 - NET ASSETS WITHOUT DONOR RESTRICTIONS

The Organization's net assets without donor restrictions is comprised of undesignated amounts at:

	<u>2019</u>	<u>2018</u>
Net Assets Without Donor Restrictions	\$1,953,127	\$1,730,755

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at March 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Computers	\$109,790	\$149,924
Computer Software	31,051	25,407
Furniture and Fixtures	106,856	103,986
Office Equipment	<u>17,868</u>	<u>21,164</u>
	265,565	300,481
Less: Accumulated Depreciation	<u>126,377</u>	<u>151,684</u>
Total Property and Equipment	<u>\$139,188</u>	<u>\$148,797</u>

# 1ST KIDS, INC.

## NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2019 AND 2018

### NOTE 6 - LINE OF CREDIT

As of March 2019, the Organization has a \$75,000 available line of credit with Centier Bank, variable interest based on the prime rate plus 0.50%. Previously, the variable interest rate was based on the prime rate plus 1.00%. The index was 5.50% and 4.75% as of March 31, 2019 and 2018, respectively. The minimum interest rate on the note is 6.00%. The line of credit is secured by all business assets and matures on March 20, 2021. The outstanding obligation was \$0 and \$0 at March 31, 2019 and 2018, respectively. Interest expense was \$43 and \$0 for the years ended March 31, 2019 and 2018, respectively.

### NOTE 7 - 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 \$81,000 and \$80,100 for the years ended March 31, 2019 and 2018, respectively.

The Organization rents office space in Elkhart, Indiana from an unrelated party. The lease is month-to-month and monthly rent was \$4,394. Beginning April 15, 2019, monthly rent increased to \$4,624. Rent expense was \$52,730 and \$52,380 for the years ended March 31, 2019 and 2018, respectively.

The Organization rents office space in Fort Wayne, Indiana from an unrelated party through December 31, 2025. 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 \$61,016 and \$14,841 for the years ended March 31, 2019 and 2018, respectively.

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 and \$35,518 for the years ended March 31, 2019 and 2018, respectively.

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

<u>Year Ending</u>	<u>Amount</u>
March 31, 2020	\$ 144,566
March 31, 2021	\$ 146,966
March 31, 2022	\$ 149,626
March 31, 2023	\$ 152,807
March 31, 2024	\$ 153,407

# 1ST KIDS, INC.

## NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2019 AND 2018

### NOTE 8 - 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. The Organization used the Marion office space for all of fiscal 2018 and 2019. The monthly fair market rent was \$1,852. During the years ended March 31, 2019 and 2018, the Organization recorded \$22,231 and \$46,473 as in-kind revenue and in-kind occupancy expense, respectively.

### NOTE 9 - 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 \$48,202 and \$52,134 for the years ended March 31, 2019 and 2018, respectively.

### NOTE 10 - CONCENTRATION OF REVENUE

During the years ended March 31, 2019 and 2018, the Organization received 74% and 75%, respectively, 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 11 - 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 years ended March 31, 2019 and 2018 were \$61,960 and \$60,198, respectively.

### NOTE 12 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 20, 2019, the date the financial statements were available for issuance.

**SUPPLEMENTARY SCHEDULES**

1ST KIDS, INC.

SCHEDULE OF GOVERNMENTAL FUNDING  
MARCH 31, 2019

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA <u>Number</u>	Program or Award <u>Receipts</u>	Total Program <u>Assistance</u>
<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>\$5,315,573</u>
TOTAL FEDERAL AWARDS			<u>\$5,315,573</u>

1ST KIDS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
MARCH 31, 2019

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<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 #21508	84.181	<u>\$5,315,573</u>
TOTAL FEDERAL AWARDS		<u>\$5,315,573</u>

# 1ST KIDS, INC.

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS MARCH 31, 2019 AND 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, 2019. 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, 2019 AND 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. No 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.
5. The auditor's report on compliance for the major federal award program for 1st Kids, Inc. expresses an unmodified opinion on all major federal programs.
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 not determined to be a low-risk auditee.

### B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None.

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

None.

# 1ST KIDS, INC.

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS YEAR ENDED MARCH 31, 2019 AND 2018

**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.

Outcome: Previously reported corrective action implemented.

Status: The finding is fully corrected.

**Condition 2018-02** The Organization did not have written procedures regarding federal cash management and allowability of costs pertaining to federal funds.

Outcome: Previously reported corrective action implemented.

Status: The finding is fully corrected.

**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.

Outcome: Previously reported corrective action implemented.

Status: The finding is fully corrected.

**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.

Outcome: Previously reported corrective action implemented.

Status: The finding is fully corrected.

**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.

Outcome: Previously reported corrective action implemented.

Status: The finding is fully corrected.

## EXIT CONFERENCE

An exit conference was held with representatives of 1st Kids, Inc. on December 30, 2019 via conference call.

### 1ST KIDS, INC.

CLARE MANN

EXECUTIVE DIRECTOR

### AUDIT ORGANIZATION REPRESENTATIVE

GREG WARD

PRINCIPAL