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JE JOSEPH EVE

HEAD START INC. DBA EXPLORER'S ACADEMY
Billings, Montana

Financial and Compliance Audit Report

Years Ended June 30, 2018 and 2017



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HEAD START INC. DBA EXPLORER'S ACADEMY

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INDEPENDENT AUDITOR'S REPORT

**Board of Directors
Head Start Inc. dba Explorer's Academy**

We have audited the accompanying financial statements of Head Start Inc. dba Explorer's Academy (the "Organization"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities 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 audits. 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. 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 Organization'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 Organization'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.

Basis for Qualified Opinion on 2018 Other Expenses

We were unable to obtain appropriate audit evidence with respect to the Organization's recording of other expenses stated at (\$213,408) in the accompanying 2018 schedule of functional expenses. The information provided consistently included adjustments for correction of other accounts, not actual expenses. The adjustments could not be explained or resolved to our satisfaction.

Qualified Opinion on 2018 Other Expenses

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion on 2018 Other Expenses paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Head Start Inc. dba Explorer's Academy as of June 30, 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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying 2018 schedules of functional expenses are presented for purposes of additional analysis and is not a required part of the financial statements. The 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, except for the effects on the supplementary information of the matter described in the Basis for Qualified Opinion on 2018 Other Expenses paragraph, such 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 March 28, 2019, on our consideration of Head Start Inc. dba Explorer's Academy'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 Head Start Inc. dba Explorer's Academy'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 Head Start Inc. dba Explorer's Academy's internal control over financial reporting and compliance.

Prior Period Financial Statements

The financial statements of Head Start Inc. dba Explorer's Academy as of June 30, 2017, were audited by other auditors whose reported dated March 26, 2018 expressed an unmodified opinion on those financial statements.

Wipfli LLP

Billings, Montana
March 28, 2019

HEAD START INC. DBA EXPLORER'S ACADEMY

Statements of Financial Position

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current assets		
Cash	\$ 321,114	\$ 290,918
Restricted cash	64,724	67,053
Investments	158,847	143,365
Accounts receivable, net	10,000	
Grant receivables	22,572	134,570
Prepaid expenses	<u>17,603</u>	<u>27,899</u>
Total current assets	<u>594,860</u>	<u>663,805</u>
Property and equipment, net of accumulated depreciation	<u>2,147,976</u>	<u>890,995</u>
Total assets	<u>\$ 2,742,836</u>	<u>\$ 1,554,800</u>
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 110,067	\$ 184,607
Accrued payroll and benefits	85,496	100,109
Advances from grantors	17,966	
Current portion of long-term debt	<u>19,517</u>	
Total current liabilities	<u>233,046</u>	<u>284,716</u>
Long-term liabilities		
Notes payable, net of current portion	<u>614,416</u>	
Total liabilities	<u>847,462</u>	<u>284,716</u>
Net assets		
Unrestricted		
Operating	316,607	312,036
Property and equipment	1,514,043	890,995
Temporarily restricted	<u>64,724</u>	<u>67,053</u>
Total net assets	<u>1,895,374</u>	<u>1,270,084</u>
Total liabilities and net assets	<u>\$ 2,742,836</u>	<u>\$ 1,554,800</u>

HEAD START INC. DBA EXPLORER'S ACADEMY

Statement of Activities

Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and support			
Grants	\$ 4,645,765		\$ 4,645,765
Donated goods and services	471,538		471,538
Contributions	40,377	\$ 20,523	60,900
Net investment income	18,674		18,674
Other revenue	18,864		18,864
Net assets released from restrictions:			
Satisfaction of donor-imposed restrictions	<u>22,852</u>	<u>(22,852)</u>	
Total revenues and support	<u>5,218,070</u>	<u>(2,329)</u>	<u>5,215,741</u>
Expenses			
Program services	4,016,806		4,016,806
Management and general	563,302		563,302
Fundraising	<u>10,343</u>		<u>10,343</u>
Total expenses	<u>4,590,451</u>		<u>4,590,451</u>
Change in net assets	627,619	(2,329)	625,290
Net assets, beginning of year	<u>1,203,031</u>	<u>67,053</u>	<u>1,270,084</u>
Net assets, end of year	<u>\$ 1,830,650</u>	<u>\$ 64,724</u>	<u>\$ 1,895,374</u>

HEAD START INC. DBA EXPLORER'S ACADEMY

Statement of Activities

Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and support			
Grants	\$ 3,438,997		\$ 3,438,997
United Way	1,038		1,038
Donated goods and services	527,908		527,908
Contributions	67,478	\$ 18,270	85,748
Net investment income	25,063		25,063
Loss on disposition of property and equipment	(51,298)		(51,298)
Net assets released from restrictions:			
Satisfaction of donor-imposed restrictions	23,883	(23,883)	
Total revenues and support	<u>4,033,069</u>	<u>(5,613)</u>	<u>4,027,456</u>
Expenses			
Program services	3,670,264		3,670,264
Management and general	471,059		471,059
Fundraising	17,958		17,958
Total expenses	<u>4,159,281</u>	<u></u>	<u>4,159,281</u>
Change in net assets	(126,212)	(5,613)	(131,825)
Net assets, beginning of year	<u>1,329,243</u>	<u>72,666</u>	<u>1,401,909</u>
Net assets, end of year	<u>\$ 1,203,031</u>	<u>\$ 67,053</u>	<u>\$ 1,270,084</u>

HEAD START INC. DBA EXPLORER'S ACADEMY

Statements of Cash Flows

Years Ended June 30, 2018 and 2017

Cash flows from operating activities:	2018	2017
Change in net assets	\$ 625,290	\$ (131,825)
Adjustments to reconcile change in net assets to net cash provided by (used) for operating activities:		
Depreciation	112,428	81,281
Bad debt expense	2,000	
Loss on sale of property and equipment		51,298
Unrealized (gain) loss on investments	(15,482)	(19,705)
Realized (gain) loss on investments		(514)
(Increase) decrease in:		
Accounts receivable	(12,000)	
Grant receivables	111,998	(32,557)
Prepaid expenses	10,296	(8,002)
Increase (decrease) in:		
Accounts payable	(74,540)	18,937
Accrued expenses	(14,613)	(10,871)
Advances from grantors	17,966	
Net cash provided by (used) for operating activities	763,343	(51,958)
Cash flows from investing activities		
Purchase of investments		(10,777)
Proceeds from sale of investments		9,191
Purchases of property and equipment	(719,409)	(39,904)
Proceeds from sales of property and equipment		2,700
Net cash (used) for investing activities	(719,409)	(38,790)
Cash flows from financing activities:		
Principal payments on long-term debt	(16,067)	
Net cash (used) for financing activities	(16,067)	0
Net increase (decrease) in cash	27,867	(90,748)
Cash, beginning of year	357,971	448,719
Cash, end of year	\$ 385,838	\$ 357,971
Supplemental Information:		
Property purchased with debt	\$ 650,000	
Interest paid	\$ 25,138	\$ 474

See Accompanying Notes to the Financial Statements.

HEAD START INC. DBA EXPLORER'S ACADEMY

Notes to the Financial Statements

Years Ended June 30, 2018 and 2017

Organization

Head Start Inc. dba Explorer's Academy (the "Organization"), operates a federally funded Head Start program in Billings, Laurel and Lockwood Montana. The mission of the Organization is to provide comprehensive services for young children and their families to achieve school readiness and lifelong success.

Note 1 - Summary of Significant Accounting Policies

A. Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

B. Basis of 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 based on the existence or absence of donor-imposed restrictions:

Unrestricted—These net assets generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving interest from operating investments, less expenses incurred in providing program related services, raising contributions, and performing administrative functions.

Temporarily Restricted—These net assets result from gifts of cash and other assets that are received with donor stipulations that limit the use of the donated assets. Until the donor restriction expires, that is until the stipulated time restriction ends or the purpose of the restriction is accomplished, the net assets are temporarily restricted.

Permanently Restricted—These net assets are received from donors who stipulate that resources are to be maintained permanently, but permit the Organization to expend all of the income (or other economic benefits) derived from the donated assets.

C. Cash

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

D. Investments

The Organization records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of net position. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income, and realized and unrealized capital gains and losses.

E. Accounts Receivable

Accounts receivable includes amounts due for daycare services provided. The allowance for doubtful accounts adjusts for those accounts the Organization deems uncollectible. For the years ended June 30, 2018 and 2017, the allowance amounted to \$2,000 and \$0, respectively.

HEAD START INC. DBA EXPLORER'S ACADEMY

Notes to the Financial Statements

Years Ended June 30, 2018 and 2017

Note 1 - Summary of Significant Accounting Policies - Continued

F. Grant Receivables

Grant receivables represents amounts due from the Department of Health and Human Services for grant/contract program reimbursements. The grant receivables were \$22,572 and \$134,570 at June 30, 2018 and 2017, respectively.

Prepaid Expenses

Prepaid items represent payments made by the Organization for which benefits extend beyond the years ended June 30, 2018 and 2017, respectively.

G. Property and Equipment

Purchased property and equipment is recorded at cost while contributed property and equipment is recorded at fair value at the time of donation. The Organization capitalizes all property and equipment in excess of \$5,000 and minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the statement of activities and change in net assets for the respective period. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method.

The United States Department of Health and Human Services retains a reversionary interest in any equipment acquired with Federal funds. Disposition of such equipment is subject to rules and regulations of the United States Government. Assets acquired with other funds of the Organization are not subject to reversionary interests.

The estimated useful lives for significant property and equipment categories are as follows:

<u>Asset Category</u>	<u>Years</u>
Buildings and improvements	5 to 40
Machinery and equipment	5 to 10
Vehicles	5

H. Accrued Leave

Employees with 3 years of service, accrue leave based on years of service and hours worked. Unused leave is automatically carried over from year to year up to a maximum of 8 days and is paid out upon termination of employment. Accrued leave represents the Organization's liability for the cost of unused leave at June 30, 2018. Accrued leave is included in accrued payroll and benefits.

I. Advances from Grantors

Advances from grantors arise when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when the revenue recognition criteria is met, the liabilities for advances from grantors is removed from the balance sheet and the revenue is recognized. The advances at June 30, 2018 are monies received from the State of Montana for the STARS program.

HEAD START INC. DBA EXPLORER'S ACADEMY

Notes to the Financial Statements

Years Ended June 30, 2018 and 2017

Note 1 - Summary of Significant Accounting Policies - Continued

J. Use of Estimates

Preparing the Organization's financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect 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 these estimates.

K. Income Tax Status

The Organization is organized as a Montana nonprofit corporation and has been recognized as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi), and has been determined not to be a private foundation under Section (509)(a)(1). The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Organization has no unrelated business income and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

L. Contribution Revenue

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and change in net assets as a net assets released from restrictions. If a restriction is fulfilled in the same period in which the contribution is received, the support is reported as temporarily restricted and then released from restriction in the same period.

M. Functional Allocation of Expenses

The costs of program and supporting services have been summarized on a functional basis in the statements of activities. The statements of functional expenses represent the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

N. Advertising Costs

Advertising costs are expensed as incurred. During the years ended June 30, 2018 and 2017, advertising costs amounted to \$5,429 and \$5,307, respectively.

HEAD START INC. DBA EXPLORER'S ACADEMY

Notes to the Financial Statements

Years Ended June 30, 2018 and 2017

Note 1 - Summary of Significant Accounting Policies - Continued

O. New Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, Revenue from Contracts with Customers which requires all companies to adopt a five step analysis to determine the point in that goods or services have been exchanged with customers in exchange for consideration. The implementation of this update is effective for annual reporting periods beginning after January 1, 2018. Based on its initial review of the requirements under the new pronouncement, management does not believe there will be any material impact on the recognition of revenues as reported under its contracts.

In August 2016, the FASB issued ASU 2016-14 (the ASU) Presentation of Financial Statements for Not-for-Profit Entities. The ASU seeks to improve Not-for-Profit financial reporting by simplifying net asset classifications and enhancing presentation and disclosure requirements regarding liquidity, financial performance, and cash flows. The ASU is effective for fiscal years beginning after December 15, 2017. Management has not assessed the impact of implementing this new guidance.

Note 2 - Cash

Cash consists of the following at June 30, 2018 and 2017:

	2018	2017
Savings	\$ 16,487	\$ 29,021
Checking	117,225	77,800
Money market	251,476	250,500
Petty cash	650	650
	<u>\$ 385,838</u>	<u>\$ 357,971</u>

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Organization's deposits may not be returned to it. The Organization does not have a deposit policy for custodial credit risk. As of June 30, 2018, \$1,047 of the Organization's bank balances of \$479,189 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$ 1,047</u>
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Restricted Cash

Restricted cash consists of the following at June 30, 2018 and 2017:

	2018	2017
Gifts of cash with donor stipulations	<u>\$ 64,724</u>	<u>\$ 67,053</u>

HEAD START INC. DBA EXPLORER'S ACADEMY

Notes to the Financial Statements

Years Ended June 30, 2018 and 2017

Note 3 - Investments

The Organization had the following investments for the years ended June 30:

	Fair Value	
	2018	2017
Marketable securities	\$ 124,075	\$ 70,302
Mutual funds	34,772	73,063
Total investments	<u>\$ 158,847</u>	<u>143,365</u>

Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level or any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

HEAD START INC. DBA EXPLORER'S ACADEMY

Notes to the Financial Statements

Years Ended June 30, 2018 and 2017

Note 3 - Investments - Continued

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2018:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities				
Marketable securities	\$ 124,075	\$ 124,075		
Mutual funds	34,772	34,772		
Total equity securities	<u>158,847</u>	<u>158,847</u>	<u>0</u>	<u>0</u>
Total investments by fair value level	<u>158,847</u>	<u>\$ 158,847</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total investments measured at fair value	<u>\$ 158,847</u>			

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2017:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities				
Marketable securities	\$ 70,302	\$ 70,302		
Mutual funds	73,063	73,063		
Total equity securities	<u>143,365</u>	<u>143,365</u>	<u>0</u>	<u>0</u>
Total investments by fair value level	<u>143,365</u>	<u>\$ 143,365</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total investments measured at fair value	<u>\$ 143,365</u>			

HEAD START INC. DBA EXPLORER'S ACADEMY

Notes to the Financial Statements

Years Ended June 30, 2018 and 2017

Note 4 - Property and Equipment

Property and equipment consisted of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Property not being depreciated:		
Land	\$ 327,000	
Construction in progress	<u>0</u>	\$ 39,904
Total property not being depreciated	<u>327,000</u>	<u>39,904</u>
Property and equipment being depreciated		
Buildings and improvements	2,412,803	1,330,490
Machinery and equipment	151,540	151,540
Vehicles	<u>324,400</u>	<u>324,400</u>
Total property and equipment being depreciated	<u>2,888,743</u>	<u>1,806,430</u>
Less accumulated depreciation	<u>(1,067,767)</u>	<u>(955,339)</u>
Net property and equipment being depreciated	<u>1,820,976</u>	<u>851,091</u>
Net property and equipment	<u>\$ 2,147,976</u>	<u>\$ 890,995</u>

Depreciation expense for the years ended June 30, 2018 and 2017 was \$112,428 and \$81,281, respectively.

Note 5 - Long-Term Debt

At June 30, 2018 long-term debt consisted of the following:

On July 7, 2017 the Organization signed a promissory note and mortgage with \$ 633,933 Stockman Bank of Montana for \$650,000 at an interest rate of 4.450% to purchase property adjacent to the Head Start. The purchase price of the building was \$1,250,000 and \$600,000 of the building was paid for with federal program dollars. There is a federal lien on the property for the federal government's portion of the purchase price. Repayment of the note is over a 10 year period, with monthly principal and interest payments of \$4,126 due beginning on September 10, 2017 and maturing on August 10, 2037.

Less current maturities	<u>(19,517)</u>
Total long-term debt	<u>\$ 614,416</u>

Future minimum payments on the long-term debt are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>
2019	\$ 19,517
2020	24,394
2021	23,858
2022	25,098
2023	26,396
Thereafter	<u>514,670</u>
	<u>\$ 633,933</u>

HEAD START INC. DBA EXPLORER'S ACADEMY

Notes to the Financial Statements

Years Ended June 30, 2018 and 2017

Note 6 - Donated Goods and Services

Donated goods and services for the years ended June 30, 2018 and 2017 are as follows:

	2018	2017
Salaries and fringe benefits (professional services)	\$ 399,646	\$ 438,695
Rent of office and classroom space	49,822	14,800
Supplies	17,970	73,397
Travel	4,100	909
Other		107
Total	<u>\$ 471,538</u>	<u>\$ 527,908</u>

All donated goods and services were for regular program services. Their value has been calculated using the estimated cost of similar goods and services.

Note 7 - Temporarily Restricted Net Assets

Temporarily restricted net assets for the years ended June 30, 2018 and 2017 are as follows:

	2018	2017
Classrooms	\$ 1,223	\$ 1,223
Families	14,304	16,599
Friday Food Pack Program	3,136	3,136
Health Education for Parents	4,646	4,646
Language and Literacy	9,833	9,833
Milk	813	813
Montana Healthy Kids	22,726	22,727
Trauma Informed Care	8,043	8,076
Total	<u>\$ 64,724</u>	<u>\$ 67,053</u>

HEAD START INC. DBA EXPLORER'S ACADEMY

Notes to the Financial Statements

Years Ended June 30, 2018 and 2017

Note 8 - Net Assets Released from Restrictions

The following temporarily restricted net assets were released from program restrictions by incurring expenses satisfying the restricted purposes specified by the Federal, State, and other grantors:

	2018	2017
Children and Family Needs at Red Lodge site		542
Classrooms		\$ 468
Clothing		70
Families	\$ 2,296	974
Friday Food Pack Program		15,686
Health Education for Parents		299
Language and Literacy		47
Miscellaneous		2,682
Move with Me, Mommy		248
Playground		2,341
Read to Me, Daddy		526
Trauma Informed Care	33	
Parent Involvement	3,573	
Booster Seats	350	
North Park Garden	1,000	
Terry Park Sensory Room	2,500	
Terry Park Library	8,000	
Christmas Gifts for Children	2,250	
Washington, DC Christmas Lighting Trip	1,500	
Food Pantry Drive	350	
Water Bottles for Children	1,000	
Total	\$ 22,852	\$ 23,883

Note 9 - Lease Commitments

The Organization entered into a shared services agreement with the Laurel Public Schools for classroom and office space. The lease is on an annual basis. Rental payments of \$2,000 and \$1,500 were made for the years ended June 30, 2018 and 2017. The Organization is required to provide any furnishings necessary in the classrooms.

The Organization entered into a shared services agreement with the Lockwood Public Schools for classroom and office space. The lease is on an annual basis and requires rental payment of \$2,000. The Organization is required to provide any furnishings necessary in the classrooms. For the year ended June 30, 2018, the Schools donated the use of the facility to the Organization.

On July 1, 2008, the Organization entered into a lease agreement with Joliet Community Center, Inc. to lease classroom, playground, and office space in the Joliet Community Center in Joliet, Montana. The lease term was for six years and was to expire June 30, 2018. The Organization was required to pay rent of \$6,700 annually and its proportionate share of utilities, repairs, and maintenance. The Organization was required to maintain a general public liability insurance and personal property insurance as deemed necessary for their functions. The Joliet site was closed as of June 30, 2016. The Joliet Community Center, Inc. agreed to terminate the lease as of October 31, 2016. A final lease payment of \$2,232 was paid on December 7, 2016.

HEAD START INC. DBA EXPLORER'S ACADEMY

Notes to the Financial Statements

Years Ended June 30, 2018 and 2017

Note 9 - Lease Commitments - Continued

On June 1, 2017, the Organization entered into a lease agreement with Lithia of Billings to lease six vehicles for a lease term of three years. The Organization is required to pay monthly lease payments of \$847. Future minimum lease payments are as follows:

<u>Year</u>	<u>Payments</u>
2019	\$ 9,492
2020	9,101
Total minimum lease payments	<u>\$ 18,593</u>

Note 10 - Contingencies

The Organization participates in a number of federally assisted grant programs that are subject to audit and adjustment by the grantors. Accordingly, the Organization's compliance with applicable grant requirements may be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Organization expects such amounts, if any, to be immaterial.

Note 11 - Economic Dependency

The Organization recognized \$4,057,635 and \$3,215,967 in the years ended June 30, 2018 and 2017, respectively, in Head Start funds provided by the Department of Health and Human Services. This represents 87% and 94%, respectively, of total grant funding for the years ended June 30, 2018 and 2017. These funds are essential for the Organization to continue to meet its contractual obligations. A decrease would impair the Organization's operations.

Note 12 - Defined Contribution Plan

Certain employees are covered by a 401(k) defined contribution plan. To be eligible to participate, an employee must have attained the age of 18 and completed one year of service. The Organization may make discretionary or matching contributions, and for the years ended June 30, 2018 and 2017, elected to contribute \$31,500 and \$25,000, respectively, on behalf of eligible employees who had participated in the plan. Starting in fiscal year 2019, the Organization will make a matching contribution equal to employee elective deferrals with a maximum of 3% of employee compensation. The plan administrative expenses incurred by the Organization during the years ended June 30, 2018 and 2017, were \$4,595 and \$0, respectively.

Note 13 - Reclassifications

Certain amounts in the June 30, 2017 financial statements have been reclassified to conform to the classifications used in the June 30, 2018 financial statements. These reclassifications have no effect on the previously reported change in net assets.

Note 14 - Subsequent Events

The Organization has evaluated events and transactions for potential recognition and disclosure in the financial statements through March 28, 2019, which is the date of the financial statements were available to be issued. There were no subsequent events identified by management that are required to be disclosed.

HEAD START INC. DBA EXPLORER'S ACADEMY

Notes to the Financial Statements

Years Ended June 30, 2018 and 2017

Note 15 - Endowment Held by Billings Community Foundation

The Billings Community Foundation holds a donor designated endowment in the name of the Organization. The Organization could access the investment income derived from this endowment, however all investment income has been reinvested.

HEAD START INC. DBA EXPLORER'S ACADEMY

Schedule of Functional Expenses

Year Ended June 30, 2018

	Program Services	Management & General	Fundraising	Total
Salaries and wages	\$ 1,966,842	\$ 496,913		\$ 2,463,755
Payroll taxes	320,550			320,550
Benefits	192,007	28,851		220,858
Staff development and recruiting	6,396			6,396
Total salaries and related expenses	2,485,795	525,764		3,011,559
Repairs and maintenance	74,332			74,332
Books and subscriptions	18,566	539	\$ 50	19,155
Travel	10,565	1,807		12,372
Training	52,971	8,349		61,320
Supplies and materials	354,783	1,602	(165)	356,220
Janitorial and laundry	38,092			38,092
Printing and copying	1,779	137	155	2,071
Utilities and telephone	93,659			93,659
Vehicle expense	24,997			24,997
Insurance	64,445			64,445
Penalties and fees	148	76		224
Rent	56,907			56,907
Contracted services	34,120	23,519		57,639
Professional fees	471,321		3,250	474,571
Postage	2,643	73		2,716
Technology	135,837	160		135,997
Food and beverage	170,586	46		170,632
Equipment rental	(903)		2,859	1,956
Advertising	81	1,254	4,094	5,429
Debt service - interest	25,138			25,138
Bad debt expense	2,000			2,000
Other	(213,484)	(24)	100	(213,408)
Total expenses before depreciation	3,904,378	563,302	10,343	4,478,023
Depreciation	112,428			112,428
Total expenses	\$ 4,016,806	\$ 563,302	\$ 10,343	\$ 4,590,451

HEAD START INC. DBA EXPLORER'S ACADEMY

Schedule of Functional Expenses

Year Ended June 30, 2017

	Program Services	Management & General	Fundraising	Total
Salaries and wages	\$ 1,787,499	\$ 363,473		\$ 2,150,972
Payroll taxes	227,847	45,177		273,024
Benefits	181,538	9,856		191,394
Staff development and recruiting	4,311			4,311
Total salaries and related expenses	2,201,195	418,506		2,619,701
Repairs and maintenance	132,763	173		132,936
Books and subscriptions	12,439			12,439
Travel	8,080	2,147		10,227
Training	26,871	13,318		40,189
Supplies and materials	307,499	4,638	\$ 1,544	313,681
Janitorial and laundry	36,331			36,331
Printing and copying	5,301			5,301
Utilities and telephone	61,959	75		62,034
Vehicle expense	33,108			33,108
Insurance	32,609	8,891		41,500
Penalties and fees	373			373
Rent	21,271	1,506	750	23,527
Contracted services	31,667			31,667
Professional fees	467,507	5,046	3,250	475,803
Postage	2,186			2,186
Technology	45,456			45,456
Food and beverage	155,800			155,800
Equipment rental	2,888			2,888
Advertising	1,497	52	3,758	5,307
Debt service - interest	474			474
Other	7,234	11,182	8,656	27,072
Total expenses before depreciation	3,594,508	465,534	17,958	4,078,000
Depreciation	75,756	5,525		81,281
Total expenses	\$ 3,670,264	\$ 471,059	\$ 17,958	\$ 4,159,281

HEAD START INC. DBA EXPLORER'S ACADEMY

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2018

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Pass-through the Montana Department of Public Health and Human Services		
Child and Adult Care Food Program (Head Start)	10.558	\$ <u>266,202</u>
Total U.S. Department of Agriculture		<u>266,202</u>
<u>U.S. Department of Health and Human Services</u>		
Direct Programs		
Head Start	93.600	<u>4,057,635</u>
Total U.S. Department of Health and Human Services		<u>4,057,635</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ <u><u>4,323,837</u></u>

HEAD START INC. DBA EXPLORER'S ACADEMY

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2018

Note 1 - Basis of Accounting

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Head Start Inc. dba Explorer's Academy under programs of the federal government for the year ended June 30, 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 the Head Start Inc. dba Explorer's Academy, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Head Start Inc. dba Explorer's Academy.

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. Pass-through entity identifying numbers are presented where available.

Note 3 - Indirect Cost Rate

Head Start Inc. dba Explorer's Academy has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 4 - Subrecipients

Of the expenditures presented in the schedule, the Organization provided no awards to subrecipients.

Note 5 - Outstanding Federal Loans

Head Start Inc. dba Explorer's Academy has no federal loan balances outstanding at June 30, 2018.

Note 6 - Reconciliation of Expenditures

The following is a reconciliation of the expenditures reported on the Organization's schedule of expenditures of federal awards to expenses reported in the Organization's statement of activities.

Expenditures on schedule of expenditures of federal awards	\$ 4,323,837
Expenditures funded by state and other funding sources	<u>266,614</u>
Expenditures per financial statements	<u>\$ 4,590,451</u>

**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**

**Board of Directors
Head Start Inc. dba Explorer's Academy**

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 Head Start Inc. dba Explorer's Academy (the "Organization"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Head Start Inc. dba Explorer's Academy's basic financial statements, and have issued our report thereon dated March 28, 2019. The report was qualified because we were unable to obtain appropriate audit evidence with respect to the Organization's recording of other expenses.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Head Start Inc. dba Explorer's Academy'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and a deficiency that we consider to be a significant deficiency.

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 reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2018-003 to be a significant deficiency.

**Head Start Inc. dba Explorer's Academy
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**

Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of 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*.

Organization's Responses to Findings

Head Start Inc. dba Explorer's Academy's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Head Start Inc. dba Explorer's Academy's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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.

Wipfli LLP

**Billings, Montana
March 28, 2019**

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

**Board of Directors
Head Start Inc. dba Explorer's Academy**

Report on Compliance for Each Major Federal Program

We have audited Head Start Inc. dba Explorer's Academy's (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2018. The Organization's major federal program is 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 program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Organization's major federal program 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 the major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization'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 opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Basis for Qualified Opinion on CFDA 93.600 Head Start

As described in the accompanying schedule of findings and questioned costs, the Organization did not comply with requirements regarding CFDA 93.600 Head Start cash management and earmarking requirements as described in items 2018-004 and 2018-005, respectively. Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the requirements applicable to that program.

**Head Start Inc. dba Explorer's Academy
Independent Auditor's Report on
Compliance for Each Major Federal
Program and on Internal Control
over Compliance Required by the
Uniform Guidance**

Qualified Opinion on CFDA 93.600 Head Start

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph on CFDA 93.600 Head Start, Head Start Inc. dba Explorer's Academy, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 93.600 Head Start for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the Organization 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 the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with 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 the Organization's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2018-004 and 2018-005 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.

Head Start Inc. dba Explorer's Academy's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Head Start Inc. dba Explorer's Academy's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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.

Wipfli LLP

**Billings, Montana
March 28, 2019**

HEAD START INC. DBA EXPLORER'S ACADEMY

Schedule of Findings and Questioned Costs

Year Ended June 30, 2018

1. Summary of Auditor's Results
Financial Statements

Type of auditor's report issued on whether the financial statements were prepared in accordance with GAAP

Qualified

Internal control over financial reporting:

- Material weakness(es) identified? ☒ Yes ☐ No
- Significant deficiency(ies) identified? ☒ Yes ☐ None Reported
- Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☒ Yes ☐ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None Reported

Type of auditor's report issued on compliance for the major program:

Qualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

☒ Yes ☐ No

Identification of major programs

<u>CFDA Number(s)</u>	<u>Federal Program or Cluster</u>
93.600	Head Start

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?

☐ Yes ☒ No

HEAD START INC. DBA EXPLORER'S ACADEMY

Schedule of Findings and Questioned Costs

Year Ended June 30, 2018

2. Audit Findings in Relation to Financial Statements

2018-001 Material Audit Adjustments and Financial Statement Preparation

Criteria or Specific Requirement: A properly designed system of internal control over financial reporting allows entities to initiate, authorize, record, process, and report financial data reliably in accordance with generally accepted accounting principles. This also includes the preparation of the Organization's financial statements and accompanying notes to the financial statements by internal personnel of the entity.

Condition: During the course of our engagement, we proposed a material audit adjustment that would not have been identified as a result of the Organization's existing internal controls, and therefore, could have resulted in a material misstatement of the Organization's financial statements. As auditors, we also proposed numerous changes to the financial statements and accompanying notes to the financial statements made by internal personnel of the entity.

Context: We noted there were hundreds of journal entries to various accounts. We noted that there were journal entries made to equity that totaled \$746,167, there was an entry to correct Fixed Assets in the amount of \$29,904, there was an entry to correct Accounts Payable in the amount of \$63,000, and several adjustments to other expense for the correction of other accounts, not actual expenses. The adjustments to the other expense account that totaled (\$213,408) could not be explained or resolved to our satisfaction.

Effect: Material misstatements could occur in the financial statements and not be detected by management in a timely manner. Inadequate controls over financial reporting as a result of turnover in the financial reporting process result in the more than remote likelihood that the Organization would not be able to draft the financial statements, accompanying notes to the financial statements and schedule of expenditures of federal awards that are correct without assistance.

Cause: This weakness is due to the staff turnover as well as a lack of adherence to controls in the financial reporting process.

Repeat: Yes - Years as Repeat Finding: One

Auditor's Recommendation: We recommend that the Organization adhere to the matrix control structure. The Finance Director is charged with reconciling the accounting records including all sub-ledgers and should reconcile these accounts on a timely basis. We also recommend that the Organization consider hiring additional staff or outsourcing to a local accounting firm to assist with the account reconciliation process.

Views of Responsible Officials: Management is in agreement with this finding. The Organization is now fully staffed and are already in the process of reconciling and correcting accounts. The Organization will also undertake an evaluation of procedures to find ways to cross-train staff, ensure appropriate oversight of internal controls, and build redundancy into the processes, thus reducing the risk that a change in one employee impairs the financial reporting process.

HEAD START INC. DBA EXPLORER'S ACADEMY

Schedule of Findings and Questioned Costs

Year Ended June 30, 2018

2. Audit Findings in Relation to Financial Statements - Continued

2018-002 Timely Account Reconciliations

Criteria or Specific Requirement: Reviewing and reconciling accounts to the general ledger in a timely manner is a necessary step in the Organization's internal control process.

Condition: During the course of our engagement, we identified certain accounts that were not reconciled from a sub-ledger or other detail or support to the general ledger on a timely basis. Areas with differences that resulted in adjustments to the financial statements include bank account reconciliations, accounts payable and accrued benefits and fixed assets.

Context: We performed substantive procedures to determine if supporting schedules tied to the balances in the general ledger.

Effect: Misstatements were not identified and corrected in a timely manner by management.

Cause: This weakness is due to the limited resources, staff turnover and knowledge of proper accounting practices.

Repeat: Yes - Years as Repeat Finding: One

Auditor's Recommendation: We recommend management prepare and review account reconciliations on a timely basis in order to identify potential misstatements and reconciling items. Significant accounts should be reconciled from a sub-ledger or other detail or support to the general ledger at least monthly. Proper knowledge should be obtained by all accounting staff associated with the reconciliation of the accounts.

Views of Responsible Officials: Management is in agreement with this finding. The Organization is now fully staffed and are already in the process of reconciling and correcting accounts.

HEAD START INC. DBA EXPLORER'S ACADEMY

Schedule of Findings and Questioned Costs

Year Ended June 30, 2018

2. Audit Findings in Relation to Financial Statements - Continued

2018-003 Proper Authorization

Criteria or Specific Requirement: The policies and procedures of the Organization state that a purchase order requisition form must be completed by requesting staff and authorized by signature of the department supervisor, site director or assistant director for approval.

Condition: During our testing of 25 expenditures, we noted 12 that did not have the required purchase requisition form completed. We also noted that there were no purchase requisitions for the transactions that were noted on 7 different credit card statements.

Context: We tested the controls over a sample of 25 expenditures from a population of one thousand two hundred-seventy nine. We also tested the transactions that made up the balance of 8 different credit card accounts.

Effect: Unauthorized purchases could occur and potential misstatements as well as unallowable costs could exist.

Cause: Controls were not in place to ensure that a purchase requisition form was always completed.

Repeat: No

Auditor's Recommendation: We recommend that the Organization follow its system of internal control and ensure that all expenditures have a properly executed purchase requisition before a purchase occurs or funds are disbursed.

Views of Responsible Officials: Management is in agreement with this finding. Now that they are fully staffed in the accounting department, the accounts payable clerk and the director of finance make regular reviews for proper signature authority on every purchase requisition that is presented for payment.

HEAD START INC. DBA EXPLORER'S ACADEMY

Schedule of Findings and Questioned Costs

Year Ended June 30, 2018

3. Audit Findings and Questioned Costs in Relation to Federal Awards

2018-004 Cash Management

Federal program information:

Funding agency: U.S. Department of Health and Human Services
Title: Head Start
CFDA number: 93.600
Award year and number: FY2018 08CH1030-05

Criteria or Specific Requirement: The Head Start Performance Standard requires that expenditures are incurred prior to request for reimbursement. Supporting documentation must be used to support the drawdown request.

Condition: During the drawdown testing, we noted instances when the drawdown requested was not fully supported.

Context: We reviewed 21 drawdowns during fiscal year 2018.

Questioned Costs: None.

Effect: For the 21 drawdowns tested, 8 did not have complete supporting documentation, and 3 had no supporting documentation. This could create a situation where the Organization is unable to support the reimbursements and drawdown requests.

Cause: The Organization experienced key employee turnovers. The Organization's established system of controls did not effectively ensure all drawdowns were supported by adequate supporting documentation.

Repeat: No

Auditor's Recommendation: We recommend the Organization reevaluate procedures to ensure cash is not drawn without supporting documentation and drawdown requests are not made before the funds are expended.

Views of Responsible Officials: Management is in agreement with this finding. Due to excessive turnover in the finance department, documentation for each Head Start draw was not always assembled and files in the office prior to the draw. Now that they are fully staffed, they have already implemented the process of reviewing the support for every Head Start draw from July 1, 2018 to date.

HEAD START INC. DBA EXPLORER'S ACADEMY

Schedule of Findings and Questioned Costs

Year Ended June 30, 2018

3. Audit Findings and Questioned Costs in Relation to Federal Awards - Continued

2018-005 Administrative Cost Earmarking

Federal program information:

Funding agency: U.S. Department of Health and Human Services
Title: Head Start
CFDA number: 93.600
Award year and number: FY 2018 08CH1030-05

Criteria or Specific Requirement: Earmarking Requirements

Condition: In testing the nature of the costs that were recorded as administrative costs, we noted 5 items that were missing supporting documentation which totaled \$47,592.

Context: We tested 100% of the administrative costs that were identified as administrative costs. We examined 25 items that totaled \$558,227.

Questioned Costs: Out of \$558,227, \$47,592 had no supporting documentation. See table below:

Type	Administrative Cost	Amount with Support	Amount without Support
Office Supplies	10,395	\$ 767	\$ 9,628
Accounting	17,267		17,267
Financial Auditing	31,333	12,525	18,808
Other Professional Services	1,764		1,764
Professional Fees	125		125
	<u>\$ 60,884</u>	<u>\$ 13,292</u>	<u>\$ 47,592</u>

The \$47,592 was pro rata allocated expenses recorded as a journal entry.

Effect: Costs that are not for development and administration of the program could be mistakenly allocated to the program.

Cause: The Organization's established system of controls did not effectively ensure all expenditures/costs were supported by adequate documentation.

Repeat: No

Auditor's Recommendation: We recommend the Organization keep adequate supporting records in order to identify and allocate its costs.

Views of Responsible Officials: All administrative costs were supported by documentation obtained at the time the expense was incurred. Turnover during the fiscal year in the Finance Department, absent effective leadership, allowed the allocations at times to be applied incorrectly and needed to be revised. There was insufficient documentation provided for the reallocation of the expense, not for the expense itself.

HEAD START INC. DBA EXPLORER'S ACADEMY

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2018

The following summarizes the prior audit findings and questioned costs in relation to federal awards and corrective action taken:

- Finding 2017-A** Material Audit Adjustments and Financial Statement Preparation -
Not Implemented
- Please see finding 2018-001. Various journal entries were made to financial statement accounts. Management did not detect these errors and thus, the finding is repeated.
- Finding 2017-B** Timely Account Reconciliations - **Not Implemented**
- Please see finding 2018-002. Accounts were not reconciled properly and material entries were made to various accounts. Management did not detect these errors and thus, the finding is repeated.
- Finding 2017-C** Missing Documentation - **Not Implemented**
- This is a recurring finding because the Organization was missing various supporting documents pertaining to draw downs and expenditures.
- Finding 2017-001** U.S. Department of Health and Human Services - CFDA#93.600 Head Start Cash Management Significant Deficiency in Internal Control over Compliance - **Implemented**
- Finding 2017-002** U.S. Department of Health and Human Services - CFDA#93.600 Head Start Reporting Significant Deficiency in Internal Control over Compliance - SF-425 Quarterly Reporting Requirements - **Implemented**