

DRAFT DATED

FEB 20 P.M.

FOR
DISCUSSION PURPOSES

ARKANSAS HEAD START ASSOCIATION

Financial Statements and Supplementary Data

December 31, 2023 and 2022

(with Independent Auditors' Report Thereon)

DRAFT DATED
FEB 26 P.M.
FOR
DISCUSSION PURPOSES

Independent Auditors' Report

To the Board of Directors of
Arkansas Head Start Association:

Opinion

We have audited the accompanying financial statements of Arkansas Head Start Association (a nonprofit organization) which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arkansas Head Start Association as of December 31, 2023 and 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Arkansas Head Start Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Arkansas Head Start Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Arkansas Head Start Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Arkansas Head Start Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of governmental assistance is presented for purposes of additional analysis as required by the Arkansas Department of Human Services Audit Guidelines 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

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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 February ___, 2024 on our consideration of Arkansas Head Start Association'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Arkansas Head Start Association's internal control over financial reporting and compliance.

February ___, 2024

ARKANSAS HEAD START ASSOCIATION

Statements of Financial Position

December 31, 2023 and 2022

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<u>Assets</u>	<u>2023</u>	<u>2022</u>
Current assets:		
Cash in bank	\$ 81,185	69,301
Grants and dues receivable	11,866	20,584
Inventory	3,327	3,343
Prepaid expenses	1,513	383
Total current assets	<u>97,891</u>	<u>93,611</u>
Office space and equipment:		
Office equipment, at cost	44,128	43,119
Operating lease right-of-use asset	126,381	126,381
Less accumulated depreciation and amortization	<u>110,294</u>	<u>83,547</u>
Net equipment	<u>60,215</u>	<u>85,953</u>
Other assets:		
Deposit	<u>1,865</u>	<u>1,865</u>
Total assets	<u>\$ 159,971</u>	<u>181,429</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	5,313	4,019
Operating lease liability	26,193	22,836
Accrued expenses	18,016	17,537
Deferred dues, grants, registrations and fees	<u>31,042</u>	<u>28,172</u>
Total current liabilities	<u>80,564</u>	<u>72,564</u>
Operating lease liability, net of current installments	<u>34,634</u>	<u>60,828</u>
Total liabilities	115,198	133,392
Net assets:		
Without donor restrictions	<u>44,773</u>	<u>48,037</u>
Total net assets	<u>44,773</u>	<u>48,037</u>
Total liabilities and net assets	<u>\$ 159,971</u>	<u>181,429</u>

ARKANSAS HEAD START ASSOCIATION

Statements of Activities

Years ended December 31, 2023 and 2022

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	<u>2023</u>	<u>2022</u>
Change in unrestricted net assets:		
Revenue:		
Federal grants	\$ 128,859	120,295
Other grants	2,672	2,346
Dues	46,182	46,648
Conference and training fees	98,644	99,834
Other	<u>1,007</u>	<u>4,252</u>
Total revenue and support	<u>277,364</u>	<u>273,375</u>
Expenses:		
Salaries and fringe benefits	145,492	149,584
Lease expense	30,513	30,702
Association conference and training	55,796	82,056
Dues	1,125	930
Insurance	2,108	1,836
Supplies	7,232	8,445
Professional fees	3,400	3,350
Consulting services	-	2,250
Telephone	9,708	9,474
Postage	219	366
Travel	19,451	7,540
Miscellaneous	4,113	2,994
Depreciation	<u>1,471</u>	<u>1,763</u>
Total expenses	<u>280,628</u>	<u>301,290</u>
Change in net assets	(3,264)	(27,915)
Net assets, beginning of period	<u>48,037</u>	<u>75,952</u>
Net assets, end of period	<u>\$ 44,773</u>	<u>48,037</u>

ARKANSAS HEAD START ASSOCIATION

Statements of Cash Flows

Years ended December 31, 2023 and 2022

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	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Cash received from grantors and participants	\$ 288,924	265,926
Cash paid to suppliers and employees	(253,222)	(269,131)
Interest received	<u>28</u>	<u>42</u>
Net cash provided (used) by operating activities	<u>35,730</u>	<u>(3,163)</u>
Cash flows from investing activities:		
Purchases of property and equipment	<u>(1,009)</u>	<u>(2,582)</u>
Net cash used by investing activities	<u>(1,009)</u>	<u>(2,582)</u>
Cash flows from financing activities:		
Payments on lease obligation	<u>(22,837)</u>	<u>(23,492)</u>
Net cash used by financing activities	<u>(22,837)</u>	<u>(23,492)</u>
Net increase (decrease) in cash	11,884	(29,237)
Cash at beginning of year	<u>69,301</u>	<u>98,538</u>
Cash at end of year	<u>\$ 81,185</u>	<u>69,301</u>

ARKANSAS HEAD START ASSOCIATION

Notes to Financial Statements

December 31, 2023 and 2022

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(1) ACCOUNTING POLICIES

(a) Nature of Operations

The Arkansas Head Start Association is a non-profit organization that coordinates the activities of the Arkansas Head Start Program. Assistance comes from dues paid by the various Head Start centers in Arkansas, registration fees for training conferences, as well as grants from state and federal governments.

(b) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(c) Inventory

Inventory is stated at the lower of cost or market and includes ancillary items purchased for resale or fundraising purposes.

(d) Furniture and Equipment

The cost of equipment is depreciated over the estimated lives of the equipment using the straight-line method. Useful lives range from 3 to 10 years. Expenditures for maintenance and repairs are expensed as incurred; replacements and betterments that extend the useful lives of property and equipment are capitalized.

(e) Cash

For the purposes of the statement of cash flows, the Association defines cash as all demand and time deposits in banks and cash on hand.

(f) Receivables and Revenue Recognition

Accounts and grants receivable are stated at the amount management expects to collect from outstanding balances less an allowance for uncollectible accounts. The Association provides for losses on accounts receivable using the allowance method. The allowance is based on a combination of experience, aging, and other circumstances, which may affect the ability of service recipients to meet their obligations. 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 Association does not assess late fees or interest on accounts due.

ARKANSAS HEAD START ASSOCIATION

Notes to Financial Statements, Continued

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The Association receives a substantial portion of its operating funds from dues and registration fees. These funds are deemed earned during the period to which they relate. Grant funds received that are not expended are recorded as refundable advances until expenditures are made in accordance with terms of the grant agreement. Dues and registration fees collected in advance of the period to which they relate are recorded as deferred revenue.

(g) State Awards

The Association's state awards have requirements as to the use and disposition of their funds. These requirements are for the purpose of fulfilling state guidelines.

(h) Income Taxes

The Association is a non-profit corporation and has obtained exemption from federal and state income taxes under the provisions of the IRC Section 501(c)(3) and related state statutes. The Association's federal information return is subject to examination by the Internal Revenue Service for a period of three years from the date they are filed. There are no examinations currently being conducted.

(2) LEASES

Operating lease

The Association currently conducts its operations in premises under an operating lease from U.S. Depot, LLC. The lease term expires in March 2026 and currently has no stated option to extend the term. The operating lease cost for the years ended 2023 and 2022 term totaled \$30,497 and \$30,697, respectively. The discount rate used for the operating lease is 5.0%. The right-to-use asset and operating lease liability at December 31, 2023 are as follows:

Right-to-use operating lease asset (net of amortization)	\$ 56,871
Operating lease liability	<u>\$ 60,828</u>

A lease deposit totaling \$1,865 was paid in 2006. The lease was renewed in April, 2021 for a period of five years and includes annual escalations. The annual future rental expense under this operating lease for the remaining life of the lease is as follows:

	Operating lease expense	Lease liability maturities
2024	\$ 27,723	26,193
2025	26,382	27,534
2026	6,378	7,101

The Association also entered into a month-to-month lease for storage space at a monthly cost of \$125. The lease may be terminated by either party with 10 day notification.

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Notes to Financial Statements, Continued

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(3) EMPLOYEE BENEFIT PLAN

The Association has adopted a savings incentive match plan for employees of small employers (SIMPLE PLAN). Under the provisions of the plan, the Association contributes a matching amount of the participating employee's salary reduction contributions for the plan year. Under the terms of the plan, eligible employees may make elective contributions to the plan subject to limits under the Internal Revenue Code. The Association will make matching contributions up to 3% of base salary for eligible full-time employees. The expense to the Association totaled \$3,875 and \$3,867 for 2023 and 2022, respectively. This expense is included in salaries and fringe benefit expense in the accompanying statements of activities.

(4) CONCENTRATION

The Association received approximately 46% and 44% of its unrestricted support and revenue from federal and state grant programs passed through the Arkansas Department of Human Services and the Arkansas Division of Childcare and Early Childhood Education for 2023 and 2022, respectively. It is possible that these sources of revenue and support could cease, which would have a negative impact on the Association and its ability to continue operations.

All funds are deposited in a financial institution insured by the Federal Deposit Insurance Corporation. Deposits did not exceed the insured balances at December 31, 2023.

(5) LIQUIDITY AND FINANCIAL ASSETS AVAILABILITY

The Association has \$93,000 of financial assets consisting of cash of \$49,000, dues and grants receivable of \$12,000, and short-term investments of \$32,000 available within one year of the statement of financial position date to meet cash needs for general expenditure. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. The dues and grant receivable are not subject to restriction and are expected to be collected within one year. Management expects that its dues, grant, conference and training revenues will continue to provide operating resources on a consistent basis. Subsequent to the end of the year, the annual Collaboration grant in the amount of \$125,000 was renewed for the fiscal award period extending into 2024. Management also expects to conduct three training programs during the year in support of its recurring program activities. The Association has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet approximately 160 days of normal operating expenses, which are, on average, approximately \$94,000. The Association has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the Association invests cash in certificate of deposits to serve as a reserve to fund unanticipated expenditures.

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(6) DEFERRED DUES, GRANTS, REGISTRATIONS AND FEES

Deferred dues, grant funds and registration fees and sponsorships at December 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Dues assessments	\$ 29,310	27,406
Unexpended grant funds	<u>1,732</u>	<u>766</u>
	<u>\$ 31,042</u>	<u>28,172</u>

(7) PROGRAMS

Collaboration Program:

The collaboration program is designed to promote, enhance and support state and local collaboration among Head Start and other early childhood programs including the Arkansas Better Chance for School Success preschool program which targets three and four year old children. The Association serves as a resource for child care programs by coordinating educational programs and training opportunities. This grant is included in the schedule of governmental assistance.

W.K. Kellogg Foundation Grant:

The Association received funding to support the creation of a statewide Parent Engagement Guide and Framework, revision of the Early Learning Standards, and revision of the Kindergarten Entry Screener. Expenses for 2023 and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
Depreciation	\$ <u>107</u>	<u>1,322</u>

Region VI Head Start Institute Conference:

The Region VI Head Start Institute is a five state institute for AR, LA, OK , NM, and Texas. The Arkansas Head Start Association hosts the conference once every five years. The purpose of the conference is to provide professional development and networking opportunities for local Head Start programs and staff. The conference was last held in 2020. The results of the 2022 conference activities were as follows:

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Notes to Financial Statements, Continued

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(7) PROGRAMS (continued)

Region VI Head Start Institute 2022 Conference:

Revenues and contributions:	2022
Registration Fees	\$ 80,776
Sponsorships	2,800
Silent auction	1,657
Exhibits	5,600
Total revenues and contributions	<u>90,833</u>
Expenses:	
Meeting space, meals and beverages	25,851
Exhibits	3,395
Donations	1,657
Speakers	9,500
Travel and lodging	1,143
Program equipment, materials and supplies	13,393
Region VI partner distribution	17,947
Total expenses	<u>72,886</u>
Excess of revenues and contributions over expenses	<u>\$ 17,947</u>

(8) SUBSEQUENT EVENTS

Management has evaluated subsequent events through February ___, 2024, which is the date the financial statements were available to be issued.

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Schedule of Governmental Assistance

December 31, 2023

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Department/Division Program

CFDA Number	Grant Award	Grant Period	Fed/State Revenues	Fed/State Expenditures	Total Expenditures
93.600	125,000	3/1/22 - 2/28/23	\$ 8,599	8,599	8,599
93.600	125,000	3/1/23 - 2/28/24	120,260	120,260	120,260
			<u>\$ 128,859</u>	<u>128,859</u>	<u>\$ 128,859</u>

Federal Assistance:

U.S. Department of Health and Human Services/Pass-through from Arkansas State Department of Human Services, Region VI Office for Children and Families - Head Start Collaboration program

Total Governmental Assistance

December 31, 2022

CFDA Number	Grant Award	Grant Period	Fed/State Revenues	Fed/State Expenditures	Total Expenditures
93.600	125,000	3/1/21 - 2/28/22	\$ 5,387	5,387	5,387
93.600	125,000	3/1/22 - 2/28/23	114,908	114,908	114,908
			<u>\$ 120,295</u>	<u>120,295</u>	<u>\$ 120,295</u>

Federal Assistance:

U.S. Department of Health and Human Services/Pass-through from Arkansas State Department of Human Services, Region VI Office for Children and Families - Head Start Collaboration program

Total Governmental Assistance

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Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

Board of Directors
Arkansas Head Start Association:

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 Arkansas Head Start Association (a nonprofit organization), which comprise the statement of financial position as of December 31, 2023, and the related statements 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 February ____, 2024.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Arkansas Head Start Association'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 Arkansas Head Start Association's internal control. Accordingly, we do not express an opinion on the effectiveness of Arkansas Head Start Association'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 Association'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.

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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 Arkansas Head Start Association'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 Association'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 Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

2/---/24

Supplemental Data for Audited Financial Statements
submitted to the
Arkansas Department of Human Services

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Auditee name and address:

Arkansas Head Start Association
Union Station
1400 West Markham St., Ste 406
Little Rock, Arkansas 72201

Employer identification number:

58-2194485

Phone number:

501-371-0740

Project Director:

Jacqueline Govan

Contact person:

Deana Howell

Cost of audit:

\$3,400