



Kingsbridge Heights Community Center

Building a better Bronx, one family at a time.

***FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITORS' REPORT***

YEARS ENDED JUNE 30, 2017 AND 2016

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Kingsbridge Heights Community Center, Inc.
Bronx, New York

Report on the Financial Statements

We have audited the accompanying financial statements of Kingsbridge Heights Community Center, Inc. which comprise the statements of financial position as of June 30, 2017, and the related statements of activities, cash flows, and functional expenses 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 auditors' 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 present fairly, in all material respects, the financial position of Kingsbridge Heights Community Center, Inc. as of June 30, 2017, 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:

Prior Period Financial Statements

The financial statements of Kingsbridge Heights Community Center, Inc., as of June 30, 2016, were audited by other auditors whose report, dated January 31, 2017, expressed an unmodified opinion on those statements.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 20, 2018 on our consideration of Kingsbridge Heights Community Center, 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 the Kingsbridge Heights Community Center, 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 Kingsbridge Heights Community Center, Inc.'s internal control over financial reporting and compliance.

Dorfman Abrams Music, LLC

Saddle Brook, New Jersey
February 20, 2018, except for Notes 2, 8 and 14 and the Schedule of Expenditures of Federal Awards, which is dated March 28, 2018

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.

STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2017	2016 (restated)
Cash	\$ 254,421	\$ 60,716
Accounts receivable, net	583,972	693,723
Contributions receivable, net		11,961
Prepaid expenses and other assets	14,496	31,763
Property and equipment, net	965,436	1,006,470
Total assets	\$ 1,818,325	\$ 1,804,633

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 703,518	\$ 1,073,834
Accrued payroll and payroll related liabilities	651,702	391,421
Deferred revenue	43,590	
Short-term loans payable and line of credit	188,638	53,000
Due to government agencies	2,388,557	1,393,026
Notes payable	298,092	338,397
Total liabilities	4,274,097	3,249,678
Net assets:		
Unrestricted	(2,746,648)	(1,705,636)
Temporarily restricted	290,876	260,591
Total net assets	(2,455,772)	(1,445,045)
Total liabilities and net assets	\$ 1,818,325	\$ 1,804,633

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

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.

STATEMENTS OF ACTIVITIES

	Year ended June 30, 2017			Year ended June 30, 2016 (restated)		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total
Support and revenue:						
Government grants	\$ 6,480,051	\$	\$ 6,480,051	\$ 7,342,669	\$	\$ 7,342,669
Private grants and contributions	196,325	378,050	574,375	270,018	147,000	417,018
Program fees	470,576		470,576	310,105		310,105
Medicaid revenue	261,547		261,547	303,915		303,915
Special events, net of expenses of \$27,140 in 2017 and \$21,452 in 2016	156,672		156,672	123,888		123,888
In-kind donation	339,948		339,948	367,828		367,828
Other income	45,206		45,206	84,077		84,077
	<u>7,950,325</u>	<u>378,050</u>	<u>8,328,375</u>	<u>8,802,500</u>	<u>147,000</u>	<u>8,949,500</u>
Net assets released from restrictions	<u>347,765</u>	<u>(347,765)</u>		<u>315,098</u>	<u>(315,098)</u>	
Total support and revenues	<u>8,298,090</u>	<u>30,285</u>	<u>8,328,375</u>	<u>9,117,598</u>	<u>(168,098)</u>	<u>8,949,500</u>
Expenses:						
Program services:						
Early childhood services	5,708,221		5,708,221	5,347,638		5,347,638
Youth and family services	2,078,486		2,078,486	2,234,371		2,234,371
Adult/clinical services	397,529		397,529	773,954		773,954
Total program services	<u>8,184,236</u>		<u>8,184,236</u>	<u>8,355,963</u>		<u>8,355,963</u>
Supporting services:						
Management and general	999,132		999,132	1,581,523		1,581,523
Fundraising	155,734		155,734	353,316		353,316
Total supporting services	<u>1,154,866</u>		<u>1,154,866</u>	<u>1,934,839</u>		<u>1,934,839</u>
Total program and supporting services	<u>9,339,102</u>		<u>9,339,102</u>	<u>10,290,802</u>		<u>10,290,802</u>
Change in net assets	<u>(1,041,012)</u>	<u>30,285</u>	<u>(1,010,727)</u>	<u>(1,173,204)</u>	<u>(168,098)</u>	<u>(1,341,302)</u>
Net assets, beginning of year as previously reported	(216,549)	260,591	44,042	205,592	428,689	634,281
Prior period adjustment	<u>(1,489,087)</u>		<u>(1,489,087)</u>	<u>(738,024)</u>		<u>(738,024)</u>
Net assets, beginning of year, as restated	<u>(1,705,636)</u>	<u>260,591</u>	<u>(1,445,045)</u>	<u>(532,432)</u>	<u>428,689</u>	<u>(103,743)</u>
Net assets, end of year	<u>\$ (2,746,648)</u>	<u>\$ 290,876</u>	<u>\$ (2,455,772)</u>	<u>\$ (1,705,636)</u>	<u>\$ 260,591</u>	<u>\$ (1,445,045)</u>

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

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.

STATEMENTS OF CASH FLOWS

	<u>Year ended June 30,</u>	
	<u>2017</u>	<u>2016</u> <u>(restated)</u>
Cash flows from operating activities:		
Change in net assets	\$ (1,010,727)	\$ (1,341,302)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	93,833	111,038
Bad debt expense		98,280
(Increase) decrease in:		
Accounts receivable	109,751	(146,969)
Contributions receivable	11,961	171,812
Prepaid expenses	17,267	47,048
Increase (decrease) in:		
Accounts payable and accrued expenses	(370,316)	320,306
Accrued payroll and payroll related liabilities	260,281	665
Due to government agencies	995,531	651,396
Deferred revenue	43,590	(3,342)
Net cash provided (used) by operating activities	<u>151,171</u>	<u>(91,068)</u>
Cash flows from investing activities:		
Purchase of fixed assets	<u>(52,799)</u>	<u>(107,978)</u>
Net cash used by investing activities	<u>(52,799)</u>	<u>(107,978)</u>
Cash flows from financing activities:		
Repayment of notes payable	(319,605)	(51,007)
Repayment of short-term loans and line of credit	(67,362)	(39,678)
Proceeds from notes payable	279,300	92,678
Proceeds from short-term loans and line of credit	<u>203,000</u>	<u> </u>
Net cash provided by financing activities	<u>95,333</u>	<u>1,993</u>
Net increase (decrease) in cash and cash equivalents	193,705	(197,053)
Cash, beginning of year	<u>60,716</u>	<u>257,769</u>
Cash, end of year	<u>\$ 254,421</u>	<u>\$ 60,716</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	<u>\$ 18,116</u>	<u>\$ 22,357</u>

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

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended June 30, 2017 and 2016

	Program services expenses							
	Early childhood services		Youth services		Adult/clinical services		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Salaries	\$ 2,627,183	\$ 2,449,476	\$ 1,424,838	\$ 1,401,551	\$ 215,253	\$ 179,762	\$ 4,267,274	\$ 4,030,789
Payroll taxes and employee benefits	788,447	556,004	270,557	268,361	42,133	72,484	1,101,137	896,849
Total salaries and related expenses	3,415,630	3,005,480	1,695,395	1,669,912	257,386	252,246	5,368,411	4,927,638
Professional and contract fees	1,578,432	1,701,234	82,485	104,483	113,066	469,282	1,773,983	2,274,999
Office and program supplies	157,846	126,736	52,883	27,382	6,556	11,165	217,285	165,283
Occupancy	251,548	145,370	55,272	95,347	7,405	29,050	314,225	269,767
Telephone	16,025	12,662	4,019	8,067		693	20,044	21,422
Insurance	35,365	37,627	21,293	24,290	6,640	9,745	63,298	71,662
Training and conferences	28,469	26,529	12,552	16,008			41,021	42,537
Travel	25,142	41,871	58,298	54,726	1,571	1,110	85,011	97,707
Food	121,777	138,741	44,586	86,345	2,217		168,580	225,086
Repairs and maintenance	4,031	7,117		1,052			4,031	8,169
Participant costs	1,652	12,591	38,367	34,120	2,550	525	42,569	47,236
Parent activities	9,521	9,457					9,521	9,457
Bad debt expense				98,280				98,280
Interest expense								
Bank fees								
Miscellaneous	1,550	4,123	1,007	1,653			2,557	5,776
Total expenses before depreciation	5,646,988	5,269,538	2,066,157	2,221,665	397,391	773,816	8,110,536	8,265,019
Depreciation	61,233	78,100	12,329	12,706	138	138	73,700	90,944
Total expenses	<u>\$ 5,708,221</u>	<u>\$ 5,347,638</u>	<u>\$ 2,078,486</u>	<u>\$ 2,234,371</u>	<u>\$ 397,529</u>	<u>\$ 773,954</u>	<u>\$ 8,184,236</u>	<u>\$ 8,355,963</u>

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

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended June 30, 2017 and 2016

	Supporting services						Total program and supporting services expenses	
	Management and general		Fundraising		Total		2017	2016
	2017	2016	2017	2016	2017	2016		
Salaries	\$ 555,201	\$ 788,093	\$ 120,190	\$ 241,483	\$ 675,391	\$ 1,029,576	\$ 4,942,665	\$ 5,060,365
Payroll taxes and employee benefits	56,860	210,171	17,216	52,095	74,076	262,266	1,175,213	1,159,115
Total salaries and related expenses	612,061	998,264	137,406	293,578	749,467	1,291,842	6,117,878	6,219,480
Professional and contract fees	171,691	289,972	9,454	14,128	181,145	304,100	1,955,128	2,579,099
Office and program supplies	35,931	44,413	608	3,746	36,539	48,159	253,824	213,442
Occupancy	29,487	109,923	4,443	34,871	33,930	144,794	348,155	414,561
Telephone	7,815	12,389	514		8,329	12,389	28,373	33,811
Insurance	13,059				13,059		76,357	71,662
Training and conferences	1,451	426	2,100	2,384	3,551	2,810	44,572	45,347
Travel	4,884	3,710		30	4,884	3,740	89,895	101,447
Food	1,271	11,514	533	92	1,804	11,606	170,384	236,692
Repairs and maintenance	30,525	7,601			30,525	7,601	34,556	15,770
Participant costs		720		1,875		2,595	42,569	49,831
Parent activities							9,521	9,457
Bad debt expense								98,280
Interest expense	18,116	22,357			18,116	22,357	18,116	22,357
Bank fees	7,809	5,551		4	7,809	5,555	7,809	5,555
Miscellaneous	45,185	54,875	390	2,322	45,575	57,197	48,132	62,973
Total expenses before depreciation	979,285	1,561,715	155,448	353,030	1,134,733	1,914,745	9,245,269	10,179,764
Depreciation	19,847	19,808	286	286	20,133	20,094	93,833	111,038
Total expenses	<u>\$ 999,132</u>	<u>\$ 1,581,523</u>	<u>\$ 155,734</u>	<u>\$ 353,316</u>	<u>\$ 1,154,866</u>	<u>\$ 1,934,839</u>	<u>\$ 9,339,102</u>	<u>\$ 10,290,802</u>

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

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

1. Summary of significant accounting policies

This summary of significant accounting policies of Kingsbridge Heights Community Center, Inc. (KHCC) is presented to assist in understanding the Center's financial statements. The financial statements and notes are representations of the KHCC's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America as promulgated in *FASB Accounting Standards Codification* (the Codification) and have been consistently applied in the preparation of the financial statements.

Nature of the Organization

Kingsbridge Heights Community Center, Inc. was organized as a New York State not-for-profit corporation to provide resources to empower Bronx residents from cradle to career to advance education and well-being for a vibrant community. KHCC achieves this in an environment that fosters academic milestones, literacy, mental health support, nutrition, technology, and the arts. KHCC serves 4,500 participants annually, a demographically diverse and socioeconomically vulnerable population. Families come from all parts of the borough with the majority being north and central Bronx residents. KHCC has served an invaluable role in disrupting cycles of poverty, abuse, and lack of access within our community through education, support, and treatment and counseling services. We do so through the following areas: Early Childhood, Youth, and Adult and Family Services.

The primary sources of revenue are grants from government agencies, private grants and contributions and service fees.

- Early Childhood Services serves over 500 children under 5 years old and their families annually, 80% living below the poverty line providing comprehensive early care and learning in several different program options including: Early Head Start, ELNY and PreK for All. ECS provides education, health, mental health, and special education outreach services under our comprehensive family services model.
- Youth serves more than 500 students annually through after school, special needs, tween, teen and college directions programs.
- Adult and Family Services - Our Changing Futures Program (long-term abuse treatment and therapy) served more than 200 families in 2017. This program provided nearly 2,000 mental health sessions through long-term therapy for survivors of domestic and child sexual abuse. We also provided parenting and ESOL classes to more than 300 parents and adults.

KHCC also is deeply committed to creating a healthy green environment to escape the demands of city life, combating high rates of food related health disparities such as obesity, diabetes, and heart disease. We cultivate curiosity within children of all ages in the seed to plate process and provide an alternative source of fresh produce for our community, many of whom live on low incomes and often struggle to afford fresh fruits and vegetables.

KHCC is an active member of United Neighborhood Houses of New York City and United Neighborhood Centers of America. From the adaptive reuse of our historic building to our responsive programs, KHCC represents a crucial piece of the fabric of New York City.

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

1. Summary of significant accounting policies (continued)

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of KHCC and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of KHCC and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by KHCC. Generally, the donors of these assets permit KHCC to use all or part of the income earned on any related investments for general or specific purposes. There were no permanently restricted net assets at June 30, 2017 and 2016.

Cash

Cash consists of demand deposit accounts. Certain government funding sources require KHCC to maintain separate cash accounts for the deposit and disbursement of funds related to their funded programs.

Government grants, service fees and other receivables

Grants, service fees and other receivables are recorded when services are rendered.

Allowance for doubtful accounts

KHCC determines whether an allowance for uncollectibles should be provided for accounts and contributions receivable. Such estimates are based on management's assessment of the aged basis, current economic conditions, subsequent receipts and historical information. Receivables are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. As of June 30, 2017 and 2016, management determined that an allowance was not necessary.

Fixed assets

Expenditures in excess of \$1,000 which enhance the value of fixed assets are capitalized. Fixed assets are stated at cost or, if donated, at fair market value at date of the gift. Fixed assets acquired under the terms of grant provisions, title to which reverts to the granter at the termination of the contract, are recorded as an asset in the unrestricted fund.

Depreciation is computed over the estimated useful lives of the assets by the straight-line method for financial reporting purposes as follows:

Buildings and improvements	5 - 25 years
Furniture and equipment	3 - 7 years
Vehicles	5 years

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

1. Summary of significant accounting policies (continued)

Due to government agencies

Due to government agencies includes advances from funders, which are contractually owed back.

Grants from government agencies, service and program fees revenue

KHCC receives funding for many of its programs through contracts principally entered into with the federal government, New York State, and New York City. Revenue from governmental grants is recognized as the expenditures for each contract are incurred. Revenues from fee-for-service and reimbursement contracts are recorded at rates established by the governmental payors. Revenues are recorded based on estimated allowable costs and are subject to audit and adjustment by governmental payors. The effects of such adjustments are recorded when reasonably determinable, however, it is the opinion of management that any additional adjustments not yet recognized on the books and records, if any, would be immaterial and would not have a material adverse effect on the financial position of the Center.

Donations, contributions and pledges

Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 as net assets released from restrictions.

In-kind contributions

In-kind contributions are recorded at their estimated fair value.

Income taxes

KHCC was incorporated in the State of New York and is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for income taxes in the accompanying financial statements.

Uncertain tax positions

As of June 30, 2017, management believes that based on evaluation of KHCC's tax positions that any liability as a result of uncertain tax positions would not be material. Management continually evaluates expiring statutes of limitations, changes in tax law, and new authoritative rulings to assist in evaluating the KHCC's tax positions. Accrued interest and penalties associated with uncertain tax positions, if any, would be recognized as part of the income tax position. Income tax returns are filed in the U.S. federal jurisdiction, and state jurisdictions. U.S. federal and state income tax returns prior to fiscal year 2013 are closed.

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

1. Summary of significant accounting policies (continued)

Use of estimates

The preparation of financial statements 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.

Functional allocation of expenses

The costs of providing various programs and support services have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain expenses have been allocated among the programs and supporting services based on management's best estimates.

Reclassifications

Certain 2016 amounts have been reclassified to conform to the 2017 presentation.

2. Going concern evaluation by management

KHCC has experienced liquidity and cash flow issues over the past number of years. In response to alleviating doubts that KHCC can continue to operate as a going concern, KHCC has implemented the following actions and intends to continue to implement additional processes and procedures on an on-going basis:

- KHCC received advance payments for specific funds that were expended in areas that were not covered by the contractual agreement with Administration for Children's Services ("ACS"). This resulted in a liability due to ACS in the amount of \$2,306,353 as of June 30, 2017 (see note 8). Increased emphasis will be placed on budget and program controls for ongoing ACS contracts, accurate and timely reporting to the Board of Directors for proper oversight and tighter cash flow processes. Simultaneously, KHCC will begin negotiations on a payment plan with ACS which will allow KHCC to address the liability while operating without significant liquidity issues in the near term.
- In May 2017, KHCC obtained a line of credit with an availability up to \$300,000 to fund general operations and to address liquidity and cash flow issues (see note 7). In addition to the line of credit, KHCC was able to renew two notes payable with JP Morgan Chase through May 2024 (see note 9).
- As reflected in the statement of functional expenses, during fiscal year 2017, KHCC completed a reduction in personnel, which has decreased total annual salaries and benefits by approximately \$300,000. In addition, KHCC has reduced costs from all other expenses over the prior year by approximately \$530,000.
- KHCC has been awarded an additional \$150,000 in public grant revenue for a program which has historically struggled to cover overhead costs. These grant awards will increase cash flow to help this program operate while helping to alleviate the pressure of covering the program's overhead.

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

3. Risks and uncertainties

Financial instruments that potentially subject the Center to concentrations of credit risk consist principally of cash, and accounts and contributions receivable. KHCC maintains its cash in bank deposit accounts, the balances of which, at times, may exceed federally insured limits. Exposure to credit risk is reduced by placing such deposits in high quality financial institutions. KHCC limits its exposure by performing periodic evaluations of the financial institution where it maintains its cash. Concentration of credit risk with respect to receivables is limited due to the fact that they are mainly derived from governmental agencies.

4. Accounts receivable

Accounts receivable consist of the following at June 30:

	<u>2017</u>	<u>2016</u> <u>(restated)</u>
New York City Administration for Children's Services	\$	\$ 285,686
US Department of Health and Human Services - Administration for Children and Families	70,615	27,158
NYS Department of Health - Child and Adult Care Food Program	19,547	80,273
NYC Mayor's Office of Criminal Justice	46,678	21,993
NYC Department of Youth and Community Development	254,255	152,400
NYS Office for Persons with Developmental Disabilities	25,169	51,024
NYS Department of Health - Criminal Justice	61,538	1,500
NYS Office of Victims Services	32,880	
Other grants and service fees receivable	<u>73,290</u>	<u>73,689</u>
	<u>\$ 583,972</u>	<u>\$ 693,723</u>

At June 30, 2017, all receivables are expected to be collected within one year.

5. Property and equipment

Land, buildings and equipment consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Land	\$ 61,500	\$ 61,500
Buildings and improvements	1,866,270	1,813,470
Furniture and equipment	754,684	754,684
Vehicles	<u>132,082</u>	<u>132,082</u>
	2,814,536	2,761,736
Less accumulated depreciation	<u>1,849,100</u>	<u>1,755,266</u>
	<u>\$ 965,436</u>	<u>\$ 1,006,470</u>

Depreciation expense was \$93,833 and \$111,038 for the years ended June 30, 2017 and 2016, respectively.

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

6. In-kind contributions

KHCC occupies space for program and administrative services provided at no cost by the Parks Department of the City of New York. An estimate for the fair value of this space has been recorded as revenue and corresponding expense on the statement of activities. For the years ended June 30, 2017 and 2016, in-kind revenue and expense was \$296,215 and \$296,000, respectively, and is recorded as in-kind donation and program services expense, respectively.

KHCC receives donated services from specialized providers and other volunteers that create or enhance non-financial assets and allow KHCC to fulfill its mission. Donated specialized services have been recognized on the accompanying financial statements. These donated services require professional skills, and would typically need to be purchased if not provided by donation. Such specialized donated services amounted to \$43,733 and \$71,828 as of June 30, 2017 and 2016, respectively.

7. Short-term loans and line of credit

Short-term loans and line of credit at June 30 included the following:

	<u>2017</u>	<u>2016</u>
In March 2016, KHCC obtained a cash flow loan from the Fund for the City of New York in the amount of \$48,000 for the support of program operations. The loan carried no interest and was repaid on July 17, 2017.	\$ 14,000	\$ 48,000
In September 2016, KHCC obtained a loan from the Fund for the City of New York in the amount of \$33,000 to cover program operations. This short-term loan did not bear any interest, and was repaid on August 3, 2017.	4,638	
During fiscal year 2016, KHCC received a loan from a Board member in the amount of \$5,000. This loan bore no interest and was repaid during fiscal year 2017.		5,000
In May 2017, KHCC obtained a revolving line of credit for \$300,000 to fund general operations. The line bears interest on outstanding balances at 9.35%. The balance outstanding as of June 30, 2017 was \$170,000. The line of credit expires in May 2018.	<u>170,000</u>	
	<u>\$ 188,638</u>	<u>\$ 53,000</u>

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

8. Due to government agencies

Due to government agencies at June 30 included the following:

	<u>2017</u>	<u>2016 (restated)</u>
New York City Administration for Children's Services:		
Fiscal year 2013 to 2015 – close out letter	\$ 738,024	\$ 738,024
Fiscal year 2016 - close out letter	618,370	618,370
Fiscal year 2017	<u>949,959</u>	<u> </u>
	2,306,353	1,356,394
Other organizations	<u>82,204</u>	<u>36,632</u>
	<u>\$ 2,388,557</u>	<u>\$ 1,393,026</u>

9. Notes payable

Notes payable at June 30 included the following:

	<u>2017</u>	<u>2016</u>
Loan payable to JP Morgan Chase for \$250,000 at an interest rate of 5.49%, secured by property owned by KHCC and payable in 60 monthly installments of \$2,722, commencing on April 21, 2012 and ending on March 21, 2017 with a balloon payment of \$144,356. Balloon payment was refinanced with new term note at an interest rate of 6.58% payable in 83 installments of \$2,156 commencing on June 8, 2017 and ending on May 8, 2024.	\$ 143,018	\$ 160,401
Loan payable to JP Morgan Chase for \$233,698 at an interest rate of 5.49%, secured by property owned by KHCC and payable in 60 monthly installments of \$2,544, commencing on April 21, 2012 and ending on March 21, 2017 with a balloon payment of \$132,922. Balloon payment was refinanced with new term note at an interest rate of 6.67% payable in 83 installments of \$2,021 commencing on June 8, 2017 and ending on May 8, 2024.	133,697	149,942
In 2015, KHCC entered into a five-year capital equipment lease agreement for \$36,060. The term of the agreement calls for a monthly payment of \$714, including interest. The lease carries an effective annual interest rate of 7% and runs through February 2020.	<u>21,377</u>	<u>28,054</u>
	<u>\$ 298,092</u>	<u>\$ 338,397</u>

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

9. Notes payable (continued)

Annual principal payments due on the long-term note during the next five years and in total thereafter under the aforementioned borrowings are approximately as follows:

Year ending June 30:	
2018	\$ 39,840
2019	42,622
2020	43,408
2021	39,774
2022	42,529
Thereafter	<u>89,919</u>
	<u>\$ 298,092</u>

10. Commitments and contingencies

On September 28, 2010, KHCC entered into a license agreement with the Parks Department of the City of New York (the Department) for the use of a building for one of its programs. Under the terms of this agreement, KHCC is entitled to operate its programs at the Kingsbridge Heights Community Center. Under the agreement, KHCC is responsible for the maintenance of the Center. The agreement is terminable upon twenty-five days notice at the discretion of the Department or KHCC.

In June 2017, the Organization received a notice from the District Council 1707, Local 95 Head Start Employee Welfare Fund (the Fund) representing its Head Start Employees of potential arrearages in the aggregate amount of \$343,142, in the payment of fringe benefits to the Fund on behalf of certain employees during the years 2012 through 2015. In addition, the Fund is claiming that the Organization also owes \$196,317 in penalties and assessments for the payments not made. The Organization reviewed the Fund's claim and believes that its liability will not exceed \$200,000 and has recorded this amount as a liability in the June 30, 2017 financial statements. The Organization believes that the remaining amount of the claim cannot be substantiated by the Fund and is vigorously disputing the balance.

KHCC is responsible to report to various third parties, among which are the New York State Office of the Attorney General's Medicaid Fraud Control Unit, the Internal Revenue Service, the New York State Office of the Attorney General's Charities Bureau, and the New York State Office for People with Developmental Disabilities. These agencies as well as other agencies have the right to audit fiscal, as well as programmatic compliance, i.e., clinical documentation, among other compliance requirements. Noncompliance with such laws and regulations could result in fines, penalties, and exclusion from such programs. KHCC is not aware of any allegations of noncompliance that could have a material adverse effect on KHCC's change in net assets or financial position and believes that it is substantially in compliance with all applicable laws and regulations.

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

11. Pension plan

KHCC sponsors a profit-sharing plan and trust covering all employees who have attained 12 consecutive months of employment. Contributions are determined as a percentage of each eligible employee's base salary and all employees are fully vested in their contributions. KHCC did not contribute to the profit-sharing plan during the year ended June 30, 2017. Pension expense for the year ended June 30, 2016 was \$28,574.

KHCC also contributes to a union-managed pension fund with Local 95, D.C. 1707. The expense for the years ended June 30, 2017 and 2016 was \$57,603 and \$61,081, respectively. These contributions represented approximately 4% and 5% of the total salaries for the years ended June 30, 2017 and 2016, respectively.

12. Significant source of support

KHCC received approximately 51% and 53% of their total revenues and other support from two governmental agencies during the fiscal years ended June 30, 2017 and 2016. The City of New York Administration for Children's Services comprised approximately 32% and 33% of KHCC's total revenues and other support for the years then ended, respectively.

The United States Department of Health and Human Services - Administration for Children and Families, comprised approximately 19% and 20% of KHCC's total revenues and other support for the years then ended, respectively.

13. Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2017</u>	<u>2016</u>
College/teens	\$ 167,672	\$ 148,723
Changing futures	54,733	58,368
Capital grant	50,000	50,000
Respite	2,832	
Other programs	<u>15,639</u>	<u>3,500</u>
	<u>\$ 290,876</u>	<u>\$ 260,591</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes as follows during the years ended June 30:

	<u>2017</u>	<u>2016</u>
College/teens	\$ 244,551	\$ 169,883
Changing futures	3,635	139,965
Respite	32,168	
Other programs	<u>67,411</u>	<u>5,250</u>
	<u>\$ 347,765</u>	<u>\$ 315,098</u>

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

14. Prior period adjustment

KHCC had not reflected the total amount due to ACS for fiscal years 2013 to 2016 in prior years. This resulted in an overstatement of the fiscal year 2013 to 2016 grant revenue in the total amount of \$1,356,394 as well as an understatement of the due to ACS liability for the same amount. In addition, KHCC overstated revenues and receivables from ACS in the amount of \$162,343. The financial statements have been restated for this adjustment.

In addition, KHCC had not reflected a receivable from NYS Department of Health – Child and Adult Care Food Program in prior years. This resulted in an understatement of the fiscal 2016 grant revenue in the amount of \$29,650 as well as an understatement of the grants receivable for the same amount. The financial statements have also been restated for this adjustment.

	<u>2017</u>
New York City Administration for Children's Services:	
Fiscal year 2013 to 2016 due to ACS (see note 8)	\$ 1,356,394
Fiscal year 2016 – overstatement of revenues	<u>162,343</u>
	1,518,737
NYS Department of Health – Child and Adult Care Food Program	<u>(29,650)</u>
Net effect of prior period adjustments	<u>\$ 1,489,087</u>

15. Subsequent events

Subsequent events have been evaluated through February 20, 2018, which is the date the financial statements were available to be issued.

SINGLE AUDIT SECTION

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
Kingsbridge Heights Community Center, Inc.
Bronx, New York

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 Kingsbridge Heights Community Center, Inc., which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 20, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kingsbridge Heights Community Center, 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 Kingsbridge Heights Community Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Kingsbridge Heights Community Center, 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses, finding numbers 2017-001 and 2017-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kingsbridge Heights Community Center, 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*.

Kingsbridge Heights Community Center, Inc.'s Response to Findings

Kingsbridge Heights Community Center, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Kingsbridge Heights Community Center, Inc. response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result 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.

Dorfman Adams Incis, LLC

Saddle Brook, New Jersey

February 20, 2018

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
Kingsbridge Heights Community Center, Inc.
New York, New York

Report on Compliance for Each Major Federal Program

We have audited Kingsbridge Heights Community Center, 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 Kingsbridge Heights Community Center, Inc.'s major federal programs for the year ended June 30, 2017. Kingsbridge Heights Community Center, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Kingsbridge Heights Community Center, 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 Kingsbridge Heights Community Center, 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 Kingsbridge Heights Community Center, Inc.'s compliance.

Basis for Qualified Opinion on CFDA 93.600 Head Start

As described in the accompanying schedule of findings and questioned costs, Kingsbridge Heights Community Center, Inc. did not comply with requirements regarding CFDA 93.600 Head Start as described in finding numbers 2017-003 for Allowable Costs; 2017-004 and 2017-007 for Cash Management; 2017-005 for Matching; and 2017-006 for Reporting. Compliance with such requirements is necessary, in our opinion, for Kingsbridge Heights Community Center, Inc. to comply with the requirements applicable to that program.

Qualified Opinion on CFDA 93.600 Head Start

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Kingsbridge Heights Community Center, Inc. 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 for the year ended June 30, 2017.

Other Matters

Kingsbridge Heights Community Center, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Kingsbridge Heights Community Center, Inc. response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Kingsbridge Heights Community Center, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Kingsbridge Heights Community Center, 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 Kingsbridge Heights Community Center, Inc.'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 have not been 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 considered the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2017-003, 2017-004, 2017-005, 2017-006 and 2017-007 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.

Kingsbridge Heights Community Center, Inc.'s response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Kingsbridge Heights Community Center, Inc. response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

Dayman Abrams Music, LLC

Saddle Brook, New Jersey

March 28, 2018

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2017

Federal grantor/pass through grantor/program title	Contract period	Federal CFDA number	Pass-through grantor number	Pass-through entity identifying number	Program or award amount	Federal expenditures
U.S. Department of Health and Human Services Early Head Start		93.600	*		\$ 1,954,959	\$ 1,633,552
Passed through the City of New York Administration for Children's Services:						
EarlyLearn Head Start		93.600	*	20131406993 / 20171403769	881,825	1,003,200
EarlyLearn Head Start Health and Safety		93.600	*	20131406993	40,785	36,500
Total Head Start					<u>2,877,569</u>	<u>2,673,252</u>
477 Cluster						
Passed through the New York City Department of Health and Human Services:						
Temporary Assistance for Needy Families		93.558	*	C-026491	52,128	34,279
Passed through the New York City Department of Youth and Community Development:						
Community Services Block Grant	** July 1, 2016 - June 30, 2017	93.569	*	12161N	34,000	33,203
Community Services Block Grant	** July 1, 2016 - June 30, 2017	93.569	*	810806	62,596	62,596
Community Services Block Grant	** July 1, 2016 - June 30, 2017	93.569	*	766608 9920	29,842	29,201
Community Services Block Grant	** July 1, 2016 - June 30, 2017	93.569	*	810806	18,000	18,000
Total passed through the New York City Department of Youth and Community Development					<u>144,438</u>	<u>143,000</u>
Total 477 Cluster					<u>196,566</u>	<u>177,279</u>
Total U.S. Department of Health and Human Services					<u>3,074,135</u>	<u>2,850,531</u>
U.S. Department of Education						
Passed through New York State Higher Education Services Corporation						
College Access Challenge Grant Program		84.378A	*	C-112313	325,070	28,536
Total U.S. Department of Education					<u>325,070</u>	<u>28,536</u>
U.S. Department of Justice						
Passed through the New York State Crime Victims Board						
Crime Victim Assistance		16.575	*	C-100302	305,235	274,609
Crime Victim Assistance		16.575	*	C-100601	54,786	91
Total U.S. Department of Justice					<u>360,021</u>	<u>274,700</u>
U.S. Department of Agriculture						
Passed through the New York State Department of Health:						
Child and Adult Care Food Program		10.558	*	4938	75,793	75,793
Child and Adult Care Food Program		10.558	*	3308	229,794	229,794
Total Child and Adult Care Food Program					<u>305,587</u>	<u>305,587</u>
Total U.S. Department of Agriculture					<u>305,587</u>	<u>305,587</u>
U.S. Department of Housing and Urban Development						
Passed through the New York City Department of Youth and Community Development:						
Community Development Block Grant	** July 1, 2016 - June 30, 2017	14.218	*	766608 9917	58,158	56,766
Total U.S. Department of Housing and Urban Development					<u>58,158</u>	<u>56,766</u>
					<u>\$ 4,122,971</u>	<u>\$ 3,516,120</u>

* Pass-through grantor number not provided by grantor

** Contract period reported as required by the New York City Department of Youth and Community Development

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2017

1. Basis of presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Kingsbridge Heights Community Center, Inc. under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of Kingsbridge Heights Community Center, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Kingsbridge Heights Community Center, Inc.

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 Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect costs

Kingsbridge Heights Community Center, Inc. elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

4. Subrecipients

There were no amounts provided to subrecipients from federal awards received during the year ended June 30, 2017.

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2017

Part 1 - Summary of Auditors' Results

Financial Statement Section

- A) Type of auditors' report issued: Unmodified
- B) Internal control over financial reporting:
- 1) Material weakness(es) identified? x yes no
- 2) Significant deficiencies identified? yes x no
- C) Noncompliance material to financial statements noted? yes x no

Federal Awards Section

- D) Internal control over compliance:
- 1) Material weakness(es) identified? x yes no
- 2) Significant deficiencies identified? yes x no
- E) Type of auditors' report on compliance for major programs: Qualified
- F) Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? x yes no

G) Identification of major programs:

<u>CFDA numbers</u>	<u>Name of Federal programs</u>
93.600	Head Start

- H) Dollar threshold used to determine Type A programs: \$750,000
- I) Auditee qualified as low-risk auditee? yes x no n/a

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2017

Part 2 - Schedule of Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Uniform Guidance.

2017-001 Material Misstatement of Financial Statements

Material Weakness

Criteria: The Organization must prepare financial statements that reflect accurate information about its financial position, results of operations or changes in net assets for the fiscal year. In addition, the Organization should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations.

Condition(s): During the course of our audit procedures, it was noted that the Organization was recording advance payments received from several government grants as revenue earned during the fiscal year. In addition, it was noted that the Organization had not reflected a material amount due to a grantor for fiscal years 2013 to 2016 resulting in a prior period adjustment and restatement of the prior period financial statements.

Effect: Material adjusting journal entries and prior period adjustments were proposed and accepted by management during the audit. The effect of the prior period adjustments and the restatement of the net assets is presented in Note 14 to the financial statements.

Cause: Financial reporting error.

Recommendation: We recommend that the Organization refines its revenue recognition practices as it relates to government grants and implement internal control procedures to ensure revenues are properly recorded during the year.

Views of Responsible Officials and Planned Corrective Actions:

The Organization records revenue as it is earned. Starting in fiscal year 2018, ACS revenue was received on a monthly voucher basis. Therefore, all revenue had a matching expense related to it. Any advances received that were not vouched for are recorded in a liability account - due to Government funders, until the funding agency recoups on the advance, or matching expenses are recorded.

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

Part 2 - Schedule of Financial Statement Findings (continued)

2017-002 Material Misstatement of Financial Statements

Material Weakness

Criteria: In accordance with 2 CFR 200.510, the Organization must prepare a Schedule of Expenditures of Federal Awards (SEFA) for the period covered by the financial statements which must include the total Federal awards expended.

Condition(s): During the course of our audit procedures, it was noted that several program awards were not included on the SEFA. It was also noted that the Organization was not properly recording federal award expenses for two of the programs listed.

Effect: Adjustments to the SEFA were proposed and accepted by management.

Cause: The Organization did not have a proper system of internal control in place to prevent or detect and correct errors on the SEFA.

Recommendation: We recommend that the Organization implements internal controls over the preparation of the SEFA to ensure accurate reporting of federal awards.

Views of Responsible Officials and Planned Corrective Actions:

The Organization has implemented a more thorough internal contract tracking process, which categorizes Federal contracts and pass-through accurately. Prior to submission of the SEFA for audit, the Organization will ensure that federal awards shown on the SEFA agree with the general ledger and comply with all reporting requirements.

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2017

Part 3 - Schedule of Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by the Uniform Guidance (significant deficiencies, material weaknesses, and material instances of noncompliance, including questioned costs) as well as any abuse findings involving federal awards that are material to a major federal program.

U.S. Department of Health and Human Services

Head Start CFDA – 93.600

2017-003 Contract No. 20131406993 - Grant Period July 1, 2016 to September 30, 2016; and Contract No. 20171403769 - Grant Period October 1, 2016 to June 30, 2017; Pass-Through Entity Name: New York City Administration for Children's Services

Material Weakness

Criteria: Federal programs only cover costs that are reasonable, allowable, and allocable for the accomplishment of the program objectives and must be consistent with policies and procedures.

Furthermore, cost must conform to any limitations or restrictions set forth in the award agreements. According to the EarlyLearn Head Start contract with the NYC Administration for Children's Services (ACS), expenditures shall be charged to the program based on the approved line-item budget, cost allocation using an appropriate cost allocation plan, and reconciliation of expenses incurred.

Condition(s): During review of the Schedule of Expenditures of Federal Awards and ACS EarlyLearn schedules, it was noted that expenditures charged to the EarlyLearn Head Start program exceeded line-item budget approved by ACS.

Effect: Costs charged to the program in excess of approved budgets are deemed unallowable and therefore might not be reimbursed by the funding agency.

Questioned Costs: Questioned costs are deemed to be \$232,622.

Cause: Budgets by funding source were not reviewed and adhered to during the fiscal year. As a result of this audit, management requested a modification of the line-item budget in January 2018 which was approved by ACS in March 2018.

Recommendation: We recommend that the Organization implement internal control procedures to ensure that costs charged to the program do not exceed the line-item budget approved by ACS or other funding sources. Controls over the disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of inaccurate records and financial statements and possible disallowance of funds.

Views of Responsible Officials and Planned Corrective Actions:

The Organization has implemented budget schedules which ensure that line-items are not exceeded as related to the budget. This schedule is reviewed monthly by fiscal staff, CFO and the Early Childhood Program Directors. The Organization believes that this is an appropriate level of review and oversight on the ACS budget. Modifications, based upon this budget schedule, are prepared when necessary.

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2017

Part 3 - Schedule of Federal Award Findings and Questioned Costs (continued)

U.S. Department of Health and Human Services

Head Start CFDA – 93.600

2017-004 Contract No. 20131406993 - Grant Period July 1, 2016 to September 30, 2016; and Contract No. 20171403769 - Grant Period October 1, 2016 to June 30, 2017; Pass-Through Entity Name: New York City Administration for Children's Services

Material Weakness

Criteria: Non-Federal entities must minimize the time elapsing between the transfer of funds from the pass-through entity and disbursement by the non-Federal entity for direct program or project costs and the proportionate share of allowable indirect costs.

Furthermore, in accordance with the EarlyLearn Head Start contract, all Head Start funds must be obligated and spent within the Head Start program year they are received and must be invoiced within 90 days after the end of the same Head Start Grant program year.

Condition(s): During the course of the Uniform Guidance audit procedures, it was noted that advance payments were recorded as revenues instead of tracking funds to actual expenditures to determine that such funds have been earned as reimbursements for costs in accordance with the terms and conditions established on the agreement.

Effect: Possible disallowance of funds, the Organization might not be in compliance with contract requirements.

Cause: The Organization had no procedures in place to reconcile advance payments to allowable costs charged to the program.

Recommendation: We recommend that the Organization implement internal control procedures so they can ensure that payments received are reconciled to allowable expenditures by funding source on a regular basis, so they can be properly recorded as revenues in accordance with the terms of the award agreement.

Views of Responsible Officials and Planned Corrective Actions:

For the fiscal year ending June 30, 2018, Early Head Start funds are reimbursed by the government funder on a monthly voucher. Because of this, only costs that have been expended can be reimbursed. Head Start revenue will only be recognized when appropriate and related expenses are disbursed.

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

Part 3 - Schedule of Federal Award Findings and Questioned Costs (continued)

U.S. Department of Health and Human Services

Head Start CFDA – 93.600

2017-005 Contract No. 02CH010207 - Grant Period July 1, 2016 to August 31, 2016; and September 1, 2016 to June 30, 2017

Material Weakness

Criteria: Grantees are required to contribute at least 20 percent of the costs of the program through cash or in-kind contributions, unless a lesser amount has been approved.

A partial waiver was approved by the Department of Health and Human Services – Administration for Children and Families, reducing the non-Federal share to be contributed to; 14.45% of the costs of the program through cash or in-kind contributions.

Condition(s): During the course of the Uniform Guidance audit procedures, it was noted that the Organization did not meet the non-Federal share matching requirement. During fiscal year 2017, the Organization only contributed up to 10.39% of the program costs.

Effect: Possible disallowance of funds; the Organization might not be in compliance with contract requirements.

Questioned Costs: Questioned costs are deemed to be \$66,279.

Cause: The Organization was not able to obtain private and corporate contributions of cash or in-kind contributions to meet established requirement.

Recommendation: We recommend that the Organization implement internal control procedures so they can ensure that matching requirements are met. Non-Federal contributions should be reviewed regularly to ensure Organization's compliance or to request additional waivers.

Views of Responsible Officials and Planned Corrective Actions:

The Organization has enhanced its non-Federal share funding reporting, which will assist in the monitoring of in-kind contributions, and help increase the amount to the required 20%.

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2017

Part 3 - Schedule of Federal Award Findings and Questioned Costs (continued)

U.S. Department of Health and Human Services

Head Start CFDA – 93.600

2017-006 Contract No. 02CH010207 - Grant Period July 1, 2016 to August 31, 2016; and September 1, 2016 to June 30, 2017

Contract No. 20131406993 - Grant Period July 1, 2016 to September 30, 2016; and Contract No. 20171403769 - Grant Period October 1, 2016 to June 30, 2017; Pass-Through Entity Name: New York City Administration for Children's Services

Material Weakness

Criteria: The Organization should have procedures in place to ensure that both qualitative and financial reports required by the contract are submitted in a timely and accurate fashion.

Condition(s): During the course of our audit procedures performed on reporting, it was noted that the reports were not submitted in a timely fashion to the funding agencies. In addition, it was noted that expenditures charged to the EarlyLearn Head Start program exceeded line-item budget approved by the NYC Administration for Children's Services.

Effect: Possible disallowance of funds, the late submission of information to the award agency could cause delay in payments or impact future funding.

Questioned Costs: Questioned costs are deemed to be \$232,622.

Cause: There is no formal process in place to track the due dates of required reports. In addition, changes in procedures and the allocation methodology resulted in reports not being submitted in a timely manner.

In addition, budgets by funding source were not reviewed and adhered to during the fiscal year. As a result of this audit, management requested a modification of the line-item budget in January 2018 which was approved by ACS in March 2018.

Recommendation: We recommend that the Organization strengthen internal controls surrounding the timely submission of required reports by implementing a formal due date system to track reporting requirement. We also recommend that the Organization implement internal control procedures to ensure that costs charged to the program do not exceed the line-item budget approved by ACS.

Views of Responsible Officials and Planned Corrective Actions:

The Organization has shifted responsibilities in the fiscal department and has created a formal calendar to track reporting requirements. The Organization has also collaborated with the Early Childhood Services program in order to receive timely reports regarding attendance per funding column. This will assist in keeping an accurate allocation methodology.

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

Part 3 - Schedule of Federal Award Findings and Questioned Costs (continued)

U.S. Department of Health and Human Services

Head Start CFDA – 93.600

2017-007 Contract No. 02CH010207 - Grant Period July 1, 2016 to August 31, 2016; and September 1, 2016 to June 30, 2017
Contract No. 20131406993 - Grant Period July 1, 2016 to September 30, 2016; and Contract No. 20171403769 - Grant Period October 1, 2016 to June 30, 2017; Pass-Through Entity Name: New York City Administration for Children's Services

Material Weakness

Criteria: Non-Federal entities must minimize the time elapsing between the transfer of funds from the pass-through entity and disbursement by the non-Federal entity for direct program or project costs and the proportionate share of allowable indirect costs.

Furthermore, in accordance with the EarlyLearn Head Start contract, all Head Start funds must be obligated and spent within the Head Start program year they are received and must be invoiced within 90 days after the end of the same Head Start Grant program year.

Condition(s): During the course of our audit procedures performed, it was noted that several expenses charged to the programs had not been paid within the required timeframe established under the agreements. In addition, it was noted that one expenditure charged to the Early Head Start program was recorded twice.

Effect: Possible disallowance of funds, the Organization might not be in compliance with program requirements.

Questioned Costs: Questioned costs are deemed to be \$10,377.

Cause: The Organization does not have a procedure in place to review outstanding accounts payable to ensure that expenses are paid within the required number of days.

Recommendation: We recommend that the Organization implement internal control procedures so they can ensure that the fiscal regulation of paying expenses within the required number of days are met.

Views of Responsible Officials and Planned Corrective Actions:

The Organization has implemented internal control procedures in order to ensure payables have been paid as timely as possible. The Organization updates cash balances in its accounting software on a daily basis and reviews outstanding payables on a weekly basis, to ensure that Head Start obligations are spent within 90 days of being invoiced.

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND
QUESTIONED COSTS AS PREPARED BY MANAGEMENT

Year Ended June 30, 2017

This section identifies the status of prior year findings related to the financial statements and federal and state awards that are required to be reported in accordance with Government Auditing Standards, and the Uniform Guidance.

U.S. Department of Health and Human Services

2016-001 Head Start CFDA – 93.600 (Material Weakness)

Criteria: In accordance with the Uniform Guidance Part 200.405, if costs benefit multiple programs, the costs should be allocated to the programs based on the proportional benefit based on the level of effort and benefit derived by the federal program. Additionally, per the Uniform Guidance 200.413, direct costs are those costs that can be identified specifically or directly assigned to such activities that are related directly to the federal program relatively easy with a high degree of accuracy.

Condition: This finding was a material weakness stating that during the predecessor auditor's testing of 60 payroll transactions and 60 OTPS transactions for CFDA 93.600, Head Start contract 20131406993, they observed that KHCC did not separately track payroll and OTPS expenses related to this contract. Rather, expenses were recorded in the general ledger based on site location, rather than program. Also, KHCC did not have a cost allocation plan in place in order to properly allocate the expenses related to this contract.

Effect: Since KHCC is not compliant with the provisions of Uniform Guidance Part 200.405 and 200.413, predecessor auditor was unable to determine that the allocations of costs for the Head Start program were properly claimed as federal expenditures.

Questioned Costs: Questioned costs were deemed to be \$672,793.

Cause: The allocation methodology currently in place allows for allocation by program site and not by individual program.

Recommendation: Predecessor auditor recommended that management reevaluate its allocation methodology and revamp its general ledger chart of accounts so that costs can be properly allocated based on the specified funding source by program. This will provide for more accurate financial reporting.

Current status: This finding has been remediated. Starting in fiscal year 2017, the Organization adopted a new allocation methodology based on program enrollment and has separate cost centers for each individual program.

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND
QUESTIONED COSTS AS PREPARED BY MANAGEMENT

Year Ended June 30, 2017

This section identifies the status of prior year findings related to the financial statements and federal and state awards that are required to be reported in accordance with Government Auditing Standards, and the Uniform Guidance.

U.S. Department of Health and Human Services

2016-002 Head Start CFDA – 93.600 (Material Weakness)

Criteria: In accordance with the Uniform Guidance Part 200.302(a), the entity's financial management systems, including records documenting compliance with federal statutes, regulations, and the terms and conditions of the federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the federal statutes, regulations, and the terms and conditions of the federal award.

Condition: This finding was a material weakness stating that during the predecessor auditor's testing of Head Start contract 20131406993, they observed that KHCC was not tracking funds to a level of expenditures adequate to establish that such funds have been used according to the federal statutes, regulations, and the terms and conditions of the federal award.

Effect: Since KHCC is not compliant with the provisions of Uniform Guidance Part 200.302(a), predecessor auditor was unable to determine that the preparation of reports and the usage of funds were in accordance with federal statutes.

Questioned Costs: Questioned costs are deemed to be \$672,793.

Cause: KHCC is not in compliance with the provisions of Uniform Guidance Part 200.302(a). KHCC is required to have its financial management system sufficient to permit the preparation of reports to establish that federal funds have been used in accordance with federal regulations.

Recommendation: Predecessor auditor recommended that KHCC comply with the requirements of Uniform Guidance Part 200.302(a) and maintain a financial management system that would be sufficient to accurately prepare reports in accordance with federal regulations.

Current status: This finding has been remediated. Starting in fiscal year 2017, the Organization adopted a new allocation methodology based on program enrollment and has separate cost centers for each individual program allowing for the preparation of reports in accordance with federal statutes.

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND
QUESTIONED COSTS AS PREPARED BY MANAGEMENT

Year Ended June 30, 2017

This section identifies the status of prior year findings related to the financial statements and federal and state awards that are required to be reported in accordance with Government Auditing Standards, and the Uniform Guidance.

U.S. Department of Health and Human Services

2016-003 Head Start CFDA – 93.600 (Material Weakness)

Criteria: In accordance with the Uniform Guidance Part 200.302(b)(1) and (2), financial management, the financial management system of each non-federal entity, must provide for the identification, in its accounts, of all federal awards received and expended and the federal programs under which they were received. The non-federal entity must also provide for accurate, current, and complete disclosure of the financial results of each federal award or program in accordance with the reporting requirements set forth in 200.327.

According to the reporting guidelines under Head Start contract 20131406993, a cost allocation plan is required based on the contractual agreement with Administration for Children's Services and in accordance with federal regulations. EarlyLearn agencies shall accurately and equitably allocate costs, which are attributable to the operation of two or more programs or which are attributable to two or more funding sources.

Condition: This finding was a material weakness stating that during the predecessor auditor's testing of Head Start contract 20131406993, they observed that KHCC did not have supporting documentation for the federal amounts reported under this contract.

Effect: Since KHCC is not compliant with the provisions of Uniform Guidance Part 200.302, predecessor auditor was unable to determine that the federal expenditures were accurately reported.

Questioned Costs: Questioned costs are deemed to be \$672,793.

Cause: KHCC does not have a financial management system in place that identifies all federal awards received and expended under the Head Start program.

Recommendation: Predecessor auditor recommended that management ensure that federal funds are properly identified as such in the financial management system. This will provide for more accurate financial reporting.

Current status: This finding has been remediated. Starting in fiscal year 2017, the Organization adopted a new allocation methodology based on program enrollment and has separate cost centers for each individual program allowing for the preparation of reports in accordance with federal statutes.

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND
QUESTIONED COSTS AS PREPARED BY MANAGEMENT

Year Ended June 30, 2017

This section identifies the status of prior year findings related to the financial statements and federal and state awards that are required to be reported in accordance with Government Auditing Standards, and the Uniform Guidance.

U.S. Department of Health and Human Services

2016-004 Head Start CFDA – 93.600 (Material Weakness)

Criteria: The OMB Uniform Guidance and contract with federal funding agency require that non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations and program compliance requirements as follows:

Section 2 CFR 200.512 of the Uniform Guidance states:

(a) General. (1) The audit must be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period. If the due date falls on a Saturday, Sunday, or federal holiday, the reporting package is due the next business day.

(b) Data Collection. The FAC is the repository of record for Subpart F-Audit Requirements of this Part reporting packages and the data collection form. All federal agencies, pass-through entities and others interested in a reporting package and data collection form must obtain it by accessing the FAC."

Condition: The audit package and data collection form were not submitted to the Federal Audit Clearinghouse for the reporting year ended June 30, 2016 within nine months after the end of the audit period.

Effect: KHCC is deficient in its submission of the required audit reporting package and data collection form. As such, KHCC is noncompliant with the reporting requirements.

Questioned Costs: Not determinable.

Cause: KHCC was unable to prepare a timely and accurate Schedule of Expenditures of Federal Awards due to not being able to separately track expenses related to the Head Start program.

Recommendation: Predecessor auditor recommended that KHCC implement policies, procedures and controls to ensure compliance with the reporting requirements. KHCC should designate an individual that has thorough knowledge of both the program and the compliance requirements to monitor, review and approve all required reports including knowledge of reporting deadlines and ensure timely submission of all required reports to the funding agency. Evidence of submission should also be maintained as part of program documentation.

Current status: This finding has been remediated. For fiscal year 2017, the Data Collection Form is expected to be submitted within nine months after the end of the audit period.

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND
QUESTIONED COSTS AS PREPARED BY MANAGEMENT

Year Ended June 30, 2017

This section identifies the status of prior year findings related to the financial statements and federal and state awards that are required to be reported in accordance with Government Auditing Standards, and the Uniform Guidance.

U.S. Department of Health and Human Services

2016-005 Head Start CFDA – 93.600 (Material Weakness)

Criteria: In accordance with the Uniform Guidance, Part 200.327 on financial reporting, unless otherwise approved by OMB, the federal awarding agency may solicit only the standard, OMB-approved government-wide data elements for collection of financial information. This information must be collected with the frequency required by the terms and conditions of the federal award, but no less frequently than annually nor more frequently than quarterly except in unusual circumstances, for example, where more frequent reporting is necessary for the effective monitoring of the federal award or could significantly affect program outcomes, and preferably in coordination with performance reporting.

According to the Head Start federal reporting guidelines, federal financial reporting forms (SF-425) are required to be filed as quarterly, semi-annual and final reports. These are due on one of the standard due dates as determined by a grantees budget period. For KHCC those due dates are as follows: for quarterly reports, January 30, April 30, July 30 and October 30, for semi-annual reports, April 30 and October 30 and final reports are due January 30.

Condition: This finding was a material weakness stating that during the predecessor auditor's compliance testing on reporting, KHCC filed two quarterly SF-425's, one semi-annual SF-425 and the annual SF-425 past the required due date.

Effect: KHCC is noncompliant with the reporting requirements.

Questioned Costs: Not determinable.

Cause: Due to staffing changes at KHCC, these reports were not prepared and approved by the due dates.

Recommendation: Predecessor auditor recommended that KHCC implement policies, procedures and controls to ensure compliance with the reporting requirements. KHCC should designate an individual that has thorough knowledge of both the program and the compliance requirements to monitor, review and approve all required reports including knowledge of reporting deadlines and ensure timely submission of all required reports to the funding agency. Evidence of submission should also be maintained as part of program documentation.

Current status: This finding has not been remediated. The discussion of Finding 2017-006 regarding reporting also applies to this finding.

KINGSBRIDGE HEIGHTS COMMUNITY CENTER, INC.
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND
QUESTIONED COSTS AS PREPARED BY MANAGEMENT

Year Ended June 30, 2017

This section identifies the status of prior year findings related to the financial statements and federal and state awards that are required to be reported in accordance with Government Auditing Standards, and the Uniform Guidance.

U.S. Department of Health and Human Services

2016-006 Head Start CFDA – 93.600 (Material Weakness)

Criteria: In accordance with the Uniform Guidance, Part 200.306 on cost sharing or matching, unless otherwise approved by OMB, for all federal awards, any matching funds must be accepted as part of the non-federal entity's matching funds, if provided for in the approved budget by the federal awarding agency.

According to the Head Start federal reporting guidelines, grantees are required to contribute a non-federal match of at least 20 percent of the costs of the program through cash or in-kind contributions.

Condition: This finding was a material weakness stating that during the predecessor auditor's compliance testing on matching, they noted that the 20% required non-Federal match was not met for the Head Start contract passed through Administration for Children and Families.

Effect: KHCC is noncompliant with the matching requirements.

Questioned Costs: Questioned costs are deemed to be \$140,443.

Cause: KHCC was unable to obtain the non-federal match through cash or in-kind contributions.

Recommendation: Predecessor auditor recommended that KHCC implement policies, procedures and controls to ensure compliance with the matching requirements. Non-federal matching requirements should be reviewed periodically to ensure the 20% match requirement is being met.

Current status: This finding has not been remediated. The discussion of Finding 2017-005 regarding reporting also applies to this finding.



March 28, 2018

To whom it may concern,

Please find the below responses from the Kingsbridge Heights Community Center, Inc. (the organization) regarding the schedule of findings and questioned costs for the year ended June 30, 2017.

2017 001

The organization records revenue as it is earned. Starting in Fiscal Year 2018, ACS revenue was received on a monthly voucher basis. Therefore, all revenue had a matching expense related to it. Any advances received that were not vouched for are recorded in a liability account, Due to Government Funders, until the funding agency recoups on the advance or matching expenses are recorded.

2017 002

The organization has implemented a more thorough internal contract tracking process, which categorizes federal contracts and pass-throughs accurately. Prior to submission of the SEFA for audit purposes, the organization will ensure that federal awards shown on the SEFA agree with the general ledger and comply with all reporting requirements.

2017 003

The organization has implemented budget schedules which ensure that line items are not exceeded as related to the budget. This schedule is reviewed monthly by fiscal staff, CFO and the Early Childhood Co-Directors. The organization believes that this is an appropriate level of review and oversight on the ACS budget. Modifications, based upon this budget schedule, are prepared when necessary.

2017 004

For the fiscal year ending June 30, 2018, Head Start funds are reimbursed by the government funder on a monthly voucher. Because of this, only costs that have been expended can be reimbursed. Head Start revenue will only be recognized when appropriate and related expenses are disbursed.

2017 005

The organization has enhanced its non-federal share funding reporting, which will assist in the monitoring of in-kind contributions and help increase the amount to the required 20 percent.

2017 006

The organization has shifted responsibilities in the fiscal department and has created a formal calendar to track reporting requirements. The organization has also collaborated with the Early Childhood Services program in order to receive timely reports regarding attendance per funding column. This will assist in keeping an accurate allocation methodology.

2017 007

The organization has implemented internal control procedures in order to ensure payables have been paid as timely as possible. The organization updates cash balances in its accounting software on a daily basis and reviews outstanding payables on a weekly basis to ensure that Head Start obligations are spent within 90 days of being invoiced.

Sincerely,

A handwritten signature in black ink, appearing to read "M. Della", written in a cursive style.

Margaret Della
Executive Director