KIDWORKS COMMUNITY DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2018

KIDWORKS COMMUNITY DEVELOPMENT CORPORATION
TABLE OF CONTENTS

Davis Farr LLP
2301 Dupont Drive | Suite 200 | Irvine, CA 92612
Main: 949.474.2020 | Fax: 949.263.5520

Board Members
KidWorks Community Development Corporation
Santa Ana, California

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of KidWorks Community Development Corporation (KidWorks), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended and 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 of 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KidWorks as of June 30, 2018 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The financial statements of KidWorks for the year ended June 30, 2017 were audited by other auditors whose report dated November 3, 2017 expressed an unmodified audit opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, as required by the California Department of Education, 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 and in conformity with the *Guide for Auditing Child Development, Nutrition, and Adult Basic Education Programs* issued by the California Department of Education. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Requirements Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2018 on our consideration of KidWorks Community Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 KidWorks Community Development Corporation's internal control over financial reporting and compliance.

Davis Farr LLP

October 11, 2018
Irvine, California

KidWorks Community Development Corporation

Statement of Financial Position

June 30, 2018

(with comparative totals as of June 30, 2017)

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 989,449	1,378,491
Contributions receivable	197,983	100,317
Grants receivable	206,169	115,699
Investments	126,925	242,399
Prepaid expenses	45,467	36,228
Total Current Assets	1,565,993	1,873,134
Property and equipment, net	4,232,331	3,887,115
Deposits	1,525	1,525
TOTAL ASSETS	$ 5,799,849	5,761,774
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	$ 30,955	172,923
Accrued expenses	134,724	122,690
Total Current Liabilities	165,679	295,613
Total Liabilities	165,679	295,613
Net Assets:		
Unrestricted net assets	4,176,943	4,079,143
Temporarily restricted	1,457,227	1,387,018
Total Net Assets	5,634,170	5,466,161
TOTAL LIABILITIES AND NET ASSETS	$ 5,799,849	5,761,774

See accompanying notes to financial statements

KidWorks Community Development Corporation

Statement of Activities

Year ended June 30, 2018
(with comparative totals for the year ended June 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals 2018	Totals 2017
SUPPORT					
Contributions	$ 342,323	197,983	-	540,306	380,998
Capital campaign contributions	-	-	-	-	580,000
Donated goods, facilities, services	333,650	-	-	333,650	217,639
Non-government grants	769,801	345,875	-	1,115,676	607,684
Government grants and contracts	254,120	-	-	254,120	312,757
Total support	1,699,894	543,858	-	2,243,752	2,099,078
REVENUE					
Special events	852,540	-	-	852,540	759,047
Less: cost of direct benefits to donors	(123,274)	-	-	(123,274)	(80,620)
Net special events	729,266	-	-	729,266	678,427
Progam service fees	18,145	-	-	18,145	14,759
Interest and dividend income	15,188	-	-	15,188	12,510
Other revenue	8,064	-	-	8,064	13,761
Net unrealized gain (loss) on investments	(4,101)	-	-	(4,101)	7,490
Total revenue	766,562	-	-	766,562	726,947
Net assets realeased from restrictions	473,649	(473,649)	-	-	-
TOTAL SUPPORT AND REVENUE	2,940,105	70,209	-	3,010,314	2,826,025
EXPENSES					
Program services	2,242,245	-	-	2,242,245	2,194,035
Fundraising	384,478	-	-	384,478	378,792
Management and general	215,582	-	-	215,582	176,627
TOTAL EXPENSES	2,842,305	-	-	2,842,305	2,749,454
CHANGE IN NET ASSETS	97,800	70,209	-	168,009	76,571
NET ASSETS, BEGINNING OF YEAR	4,079,143	1,387,018	-	5,466,161	5,389,590
NET ASSETS, END OF YEAR	$ 4,176,943	1,457,227	-	5,634,170	5,466,161

See accompanying notes to financial statements

KidWorks Community Development Corporation

Statement of Functional Expenses

Year ended June 30, 2018
(with comparative information for the year ended June 30, 2017)

	Program Services	Fundraising	Management and General	Totals 2018	Totals 2017
Payroll expenses					
Salaries and wages	$ 1,329,724	207,721	62,793	1,600,238	1,429,253
Employee benefits	80,317	33,649	32,805	146,771	138,008
Payroll taxes	94,721	30,362	17,943	143,026	127,975
Workers comp insurance	48,257	2,997	5,764	57,018	54,486
Total payroll expenses	1,553,019	274,729	119,305	1,947,053	1,749,722
Advertising and marketing	21,136	28,604	1,599	51,339	28,666
Awards and recognition	5,368	1,756	911	8,035	5,427
Bank charges	588	10,080	1,208	11,876	10,834
Board, staff, donor development	13,466	5,041	2,479	20,986	16,008
Contract and temp services	10,359	-	352	10,711	16,739
Depreciation	67,195	13,180	10,230	90,605	65,401
Donated facilities	49,200	-	-	49,200	49,200
Donated goods and services	112,286	3,924	2,799	119,009	168,439
Dues and subscriptions	5,081	3,179	3,122	11,382	9,690
Equipment leases and repairs	17,382	3,384	5,017	25,783	22,775
Event expenses	4,450	72,034	3,553	80,037	114,873
Facility repairs and maintenance	40,295	4,024	8,444	52,763	36,908
Field trips and camps	5,122	-	-	5,122	8,186
Food and beverage	-	48,456	2,009	50,465	15,816
Incentives and stipends	11,585	-	-	11,585	31,489
Insurance	23,918	3,089	4,920	31,927	31,226
Miscellaneous	9,616	2,755	432	12,803	9,609
Postage	190	4,441	1,414	6,045	2,932
Printing	1,708	2,293	559	4,560	1,506
Professional fees	51,417	11,054	24,862	87,333	169,971
Program meals	42,590	24	-	42,614	52,282
Rent	19,287	128	7,581	26,996	21,893
Scholarships	72,454	-	-	72,454	71,731
Supplies, books and materials	51,483	3,381	4,610	59,474	43,627
Taxes and licenses	480	213	1,067	1,760	7,309
Telephone	12,549	2,063	2,565	17,177	16,339
Transportation	8,600	2,029	670	11,299	12,651
Travel and meetings	5,469	4,373	1,865	11,707	7,358
Utilies	25,952	3,518	4,009	33,479	31,467
Total expenses	2,242,245	507,752	215,582	2,965,579	2,830,074
Less expenses included in revenue section of the statement of activities	-	(123,274)	-	(123,274)	(80,620)
Total expenses included in the expense section of the statement of activities	$ 2,242,245	384,478	215,582	2,842,305	2,749,454

See accompanying notes to financial statements

KidWorks Community Development Corporation

Statement of Cash Flows

Year ended June 30, 2018

(with comparative totals for the year ended June 30, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 168,009	76,571
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	90,605	65,401
Donated property and equipment	(165,441)	-
Net unrealized (gain) loss on investments	4,101	(7,490)
(Increase) decrease in contribution receivable	(97,666)	146,297
(Increase) decrease in grants receivable	(90,470)	(62,793)
(Increase) decrease in prepaid expenses	(9,239)	8,134
(Increase) decrease in deposits	-	(200)
Increase (decrease) in accounts payable	(141,968)	129,425
Increase (decrease) in accrued liabilities	12,034	14,281
NET CASH PROVIDED BY OPERATING ACTIVITIES	(230,035)	369,626
CASH FLOW FROM INVESTING ACTIVITIES		
Redemption of certificate of deposit	122,086	-
Purchase of investments	(10,713)	(8,017)
Purchase of property and equipment	(270,380)	(882,442)
NET CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES	(159,007)	(890,459)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(389,042)	(520,833)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,378,491	1,899,324
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 989,449	1,378,491
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Donated fixed assets	$ 165,441	-
TOTAL NONCASH INVESTING AND FINANCING ACTIVITIES	$ 165,441	$ -

See accompanying notes to financial statements

NOTE 1— ORGANIZATION AND NATURE OF ACTIVITIES

KidWorks Community Development Corporation ("the Organization") began its outreach programs in 1993 from a rented apartment unit in central Santa Ana. Since then, KidWorks has expanded to operate four community centers that combined serve over 800 children, youth and parents in weekly programs and over 4,000 community members annually. The Organization operates four centers: the Dan Donahue Center, the KidWorks Center on Townsend, the KidWorks Center at Bishop Manor, and the KidWorks Center at Cedar Evergreen, which are all safe havens where children and families receive education and support to help them succeed. The centers are strategically located in neighborhoods that are characterized by gangs, low levels of education, and dense housing. Most of the residents served are low-income and Latino.

The mission of KidWorks is to restore at-risk neighborhoods one life at a time. The Organization builds on the strengths and potential in the community through education, character formation, and personal development. The goals of KidWorks are to 1) be a model of community transformation by building on existing community assets; 2) be a safe haven for youth and families; and 3) be a place for learning, nurturing, and leadership development. KidWorks regularly collaborates with other organizations to make the programs as robust as possible.

KidWorks believes that all aspects of life are interconnected: spiritual, emotional, physical, mental, economic, and social. To this end, KidWorks provides the following programs which address academics and arts, health and fitness, college and career readiness, and leadership and spiritual development.

Preschool: KidWorks operates a state-licensed preschool that serves 48 children annually. The goal of the Preschool is to make every student Kindergarten ready.

After School Programs offer multi-faceted services to engage children, youth and families.

University Starts Now offers academic support to at-risk children and youth, ages 5-18, alongside their parents. Goal of the academic program is for all children enrolled in the program to ultimately graduate from a college or university.

FitWorks offers family-friendly activities and nutritional, health-focused programs and workshops.

Summer Programs offers a 6-week summer program for children and teens that includes an outdoor camp, career exploration, sports, arts, college preparation and more.

Spiritual/Character and Leadership Development facilitates character building lessons for children through weekly faith-based discussions and community service groups for teenagers.

NOTE 1— ORGANIZATION AND NATURE OF ACTIVITIES (continued)

Youth and Family Engagement

Community Engagement encourages at-risk youth and parents to participate in activities that promote personal empowerment, service opportunities and community transformation.

Adultworks provides classes, workshops and support groups to parents of enrolled children and youth to develop confidence, parenting, and leadership skills.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The net assets and revenues, gains and losses are classified based on the existence or absences of donor-imposed restrictions as follows:

Unrestricted - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily restricted – Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Organization, pursuant to those stipulations, or that expire by the passage of time.

Permanently restricted – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of such assets permit the Organization to use all or part of the income earned on assets. There are no permanently restricted assets as of June 30, 2018.

Accounting Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is unconditional. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the 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.

Cash and Cash Equivalents

For purposes of the statement of financial position and the statement of cash flows, cash and cash equivalents consist of cash and other highly liquid resources, such as investments in certificates of deposit and money market funds, with an original maturity of three months or less when purchased.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions Receivable and Promises to Give
Unconditional promises to give are recorded at net realizable value. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Contributions not expected to be received within one year are recognized as temporarily restricted support. Management believes the contributions receivable as of June 30, 2018 are fully collectible and therefore, the Organization has not recorded an allowance for doubtful accounts.

Grants Receivable
Grants receivable consist primarily of reimbursements due from governmental agencies under various grant agreements and private grants awarded. Receivables are stated at the amount that management expects to collect from outstanding balances. Management believes the grants receivable as of June 30, 2018 are fully collectible; and therefore, the Organization has not recorded an allowance for doubtful accounts.

Property and Equipment
Property and equipment are stated at cost, if purchased or at fair value at the date of the gift, if donated and significant. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Expenditures for major additions and improvements that exceed $1,000 are capitalized. Minor replacements, maintenance, and repairs are charged to expense as incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Transportation Equipment	5 years
Computer Equipment	5-7 years
Furniture and Office Equipment	5-7 years
Leasehold Improvements	15 years
Buildings	40 years

Long Lived Assets
The Organization reviews long lived assets such as property and equipment to determine if there has been an impairment of value whenever events or changes occur that indicate the carrying value of the assets may have declined and not be recoverable. No circumstances have occurred during the year to cause the Organization to believe there has been any impairment of the carrying value of its long lived assets as of June 30, 2018. There can be no assurance, however, that market or other conditions will not change in the future resulting in impairment of long lived assets.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributed Goods, Services, and Facilities

The Organization receives in-kind goods, services, and facilities, which are recorded at estimated fair market value at the date of donation, if significant. Contributed services are recognized by the Organization if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During the year ended June 30, 2018, the Organization received the following non-cash donations:

Equipment and furniture	$	39,834
Food inventory		93,050
Free use of facilities		49,200
Materials and supplies		48,331
Professional services		103,235
	$	333,650

A substantial number of volunteers have donated significant amounts of their time to the Organization and its programs. The donated services are not reflected in the financial statements since these services do not meet the criteria for recognition. Management estimated the value of donated time spent by volunteers for the year ended June 30, 2018 to be $240,954.

Advertising and Marketing Costs

The Organization uses advertising and marketing to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising and marketing expense for the year ended June 30, 2018 was $51,339.

Expense Allocation

The cost of providing various programs and other activities has been summarized on a functional basis in the statement of activities and the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code ("IRC") and Section 23701(d) of the California Tax Code. Consequently, the accompanying financial statements do not reflect any provision for income taxes. Contributions to the Organization are deductible for tax purposes under Section 170(b)(1) of the IRC.

GAAP provides accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Organization in its federal and state exempt organization returns are more likely than not to be sustained upon examination. The Organization's returns are subject to examination by federal and state taxing authorities, generally for three and four years after they are filed, respectively.

Fair Value of Financial Instruments

Financial assets and liabilities are recorded at their fair market value in accordance with ASC 820, Fair Value Measurements. This standard defines fair value and establishes a hierarchy for reporting the reliability of input measurements used to assess fair value for all assets and liabilities. ASC 820 defines fair value as the selling price that would be received for an asset, or paid to transfer a liability, in the principal or most advantageous market on the measurement date. The hierarchy prioritizes fair value measurements based on the types of inputs used in the valuation technique. The inputs are categorized in the following levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data (market-corroborated inputs).

- Level 3 inputs are unobservable inputs for the asset or liability, that is, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risks) developed based on the best information available in each circumstance.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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 events and results could differ from those assumptions and estimates.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Summarized Comparative Totals

The financial statements include certain prior year summarized comparative information that does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

NOTE 3 — CONTRIBUTIONS RECEIVABLE

Contributions receivable as of June 30, 2018 are due as follows:

Less than one year	$ 197,983
	$ 197,983

NOTE 4 — GRANTS RECEIVABLE

Grants and contracts receivable as of June 30, 2018 were as follows:

California Department of Education	$ 25,503
Orange County Department of Education	10,000
Snell & Wilmer	9,666
St. Andrews Presbyterian Church	6,000
The California Endowment	155,000
	$ 206,169

NOTE 5 - INVESTMENTS

The Organization's investments consist of mutual funds. The investments in mutual funds are recorded at fair market value based on quoted prices in active markets (all Level 1 measurements). Investments consisted of the following as of June 30, 2018:

	Fair Value	Cost	Unrealized Gain (Loss)
Equities:			
Blackrock Global	$ 14,830	16,379	(1,549)
Blackrock Equity	57,873	55,076	2,797
Oppenheimer Rising	12,812	13,279	(467)
	85,515	84,734	781
Fixed Income:			
Blackrock Global	7,300	8,067	(767)
Pioneer Strategic Income	34,110	36,567	(2,456)
	41,410	44,634	(3,223)
	$ 126,925	129,368	(2,442)

Investment return for the year ended June 30, 2018 is summarized as follows:

Interest and dividends	$ 15,188
Net unrealized gain (loss)	(4,101)
	$ 11,087

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Investments are managed by professional investment managers who have responsibility for investing the funds in various investment classes. Due to the level of risk associated with certain securities, it is at least reasonably possible that changes in the near term could materially affect account balances and the amounts reported in the accompanying financial statements.

NOTE 6 — PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2018 is summarized as follows:

Buildings and improvements	$ 3,124,054
Computer equipment	183,649
Furnitures and fixtures	311,717
Land	1,390,482
Vehicles	97,917
	5,107,819
Less: accumulated depreciated	(875,488)
	$ 4,232,331

Depreciation expense for the year ended June 30, 2018 was $90,605.

NOTE 7 — CAPITAL CAMPAIGN

In May of 2015 KidWorks launched the Building Dreams Capital Campaign. KidWorks set out with an ambitious goal of raising $3.5M to address the pressing need to expand its main community center. The KidWorks Dan Donahue Center had reached capacity and many students were deferred to a multi-year waiting list that had grown to nearly 300 names.

The bold vision of the Building Dreams Campaign included acquiring a 10,000 square foot industrial building adjacent to the existing KidWorks center, fully renovating the newly acquired building, joining the existing and newly acquired building into one new 20,000 square foot space which includes the following expanded features: four new learning labs, an educational multi-purpose center, a fully equipped fitness center, a volunteer center, expanded administration facilities, the latest in information technology tools, an urban learning garden and an outdoor sports court.

A key goal of this major campaign was to accomplish the significant expansion with the use of new capital and without the need for financing. Many new and existing KidWorks friends and donors captured the vision of the Building Dreams Campaign. KidWorks' track record of successful impact and responsible stewardship gave donors the confidence to make meaningful gifts toward the expansion.

At the conclusion of FY 2017/2018 several significant milestones had been reached:

- The $3.5M fundraising goal had been met.
- The adjacent industrial building had been acquired and the interior fully renovated.
- The end of construction and grand opening of the newly expanded KidWorks Dan Donahue Center was celebrated in the fall of 2017.
- By spring of 2018, the interior of building had been fully furnished and operational.

NOTE 7 — CAPITAL CAMPAIGN, (continued)

- By the end of June 2018, the final phase of improvements had commenced. The outdoor sports court was renovated. The new fitness center will be furnished and equipped during fiscal year 2018-2019.

NOTE 8 — ACCRUED EXPENSES

Accrued expenses as of June 30, 2018 consisted of the following:

Accrued payroll	$	52,246
Accrued vacation		61,880
Other accrued expenses		20,598
	$	134,724

NOTE 9 — COMPENSATED ABSENCES

It is the Organization's policy to accrue vacation pay for its employees. Full-time staff may accrue up to a maximum of 240 hours, based on years of service, which may be paid out at the end of their employment period. Employees are also granted sick pay, which is not an earned benefit. No payment of unused sick leave will be made upon termination of employment.

NOTE 10 — RETIREMENT PLAN

The Organization maintains a defined contribution profit sharing plan covering substantially all employees meeting minimum eligibility requirements. The plan allows for elective deferrals to be made by the employee subject to limitations. The Organization is allowed to make matching contributions as well as discretionary contributions to the plan for qualified participants. The Organization may terminate the plan at any time. Employer contributions made for the year ended June 30, 2018 was $5,664.

NOTE 11— COMMITMENTS AND CONTINGENCIES

The Organization rents facilities for its afterschool programs at KidWorks Center at Townsend and KidWorks Center at Bishop Manor. The Townsend agreement is with the Orange County Housing Authority and provides the space rent free. The fair market value of the lease is $2,050 per month. The Organization maintains a Memorandum of Understanding with the Bishop Manor Homeowners Association to operate its community center at the location and is in effect until August 31, 2020. The space is provided rent free and has a fair market value of $2,050 per

NOTE 11— COMMITMENTS AND CONTINGENCIES, (continued)

month. The Organization also rents various office equipment under non-cancelable operating leases.

Minimum lease payments required under the non-cancelable operating leases are as follows:

Year Ending June 30,	Total
2019	$ 16,032
2020	16,032
2021	16,032
2022	16,032
2023	9,352
	$ 73,480

Rental expenses were $26,966 for the year ended June 30, 2018.

The Organization has received federal and state government funds for specific purposes that are subject to review and audit by funding agencies. Such audits could generate expenditure disallowances or refunds payable under terms of the agency contracts. No material amounts are currently payable. Loss of government support would have a significant impact on the Organization's ability to provide specific program services.

NOTE 12 — TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2018 are available for the following purposes:

Capital Campaign	$ 1,039,952
Foundation for Success	31,000
Youthworks	168,625
Time restricted purpose	217,650
	$ 1,457,227

NOTE 13 — CONCENTRATIONS

The Organization's cash and cash equivalents are maintained in various banks and financial institutions. The Organization has exposure to credit risk to the extent that its cash and cash equivalents exceed amounts covered by the Federal Deposit Insurance Corporation (FDIC) and National Credit Union Administration (NCUA) up to $250,000. At June 30, 2018, the uninsured cash balance was $735,779. The Organization maintains its cash with a high-quality financial institutions which limits credit risks.

NOTE 14 — CALIFORNIA DEPARTMENT OF EDUCATION (CDE) CONTRACTS

During the fiscal year ended June 30, 2018, the Organization entered into three contract agreements to provide child development services as follows:

2018 Contract Number		Grant Amount
CSPP-7348	CA State Preschool Program	$ 220,800
CPKS-7056	Child Development Support Contract	5,000
CACFP-05677	Child & Adult Care Food Program	18,320
		$ 244,120

NOTE 15 — NUTRITION PROGRAM

The Organization had one nutrition agreement with CDE for a Child and Adult Care Food Program, as reported in the Schedule of Expenditures of Federal and State Awards. However, no nutrition audit report schedules are included in the audit because the audit disclosed no nutrition overpayments, underpayments, or program findings; the contractor did not request reimbursement of audit costs; and the audit is not a program-specific nutrition audit.

NOTE 16 — SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 11, 2018, the date the financial statements were available to be issue

OTHER REQUIRED INFORMATION

CERTIFIED PUBLIC ACCOUNTANTS

Davis Farr LLP
2301 Dupont Drive | Suite 200 | Irvine, CA 92612
Main: 949.474.2020 | Fax: 949.263.5520

Board Members
KidWorks Community Development Corporation
Santa Ana, California

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

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 KidWorks Community Development Corporation ("KidWorks"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 11, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered KidWorks' 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 KidWorks' internal control. Accordingly, we do not express an opinion on the effectiveness of KidWorks' 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 were not identified. 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 KidWorks' 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 one instance 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Davis Farr LLP

October 11, 2018
Irvine, California