

**UNITED INNER CITY SERVICES, INC.
d/b/a EARLYSTART**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
with
INDEPENDENT AUDITOR'S REPORT**

DECEMBER 31, 2021 (RESTATED)

TABLE OF CONTENTS

Independent Auditor’s Report.....	1-3
BASIC FINANCIAL STATEMENTS:	
Statement of Financial Position.....	4
Statement of Activities	5
Statement of Functional Expenses.....	6
Statement of Cash Flows.....	7
Notes to Financial Statements	8-18
SUPPLEMENTARY INFORMATION:	
Schedule of Expenditures of Federal Awards	20
Notes to Schedule of Expenditures of Federal Awards.....	21
INTERNAL CONTROL AND COMPLIANCE:	
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	23-24
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.....	25-27
Schedule of Findings and Questioned Costs	28



INDEPENDENT AUDITOR'S REPORT

Board of Directors

United Inner City Services, Inc.
Kansas City, Missouri

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of the United Inner City Services, Inc. dba EarlystART (a nonprofit organization) (“the Organization”), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of United Inner City Services, Inc. dba EarlystART as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's Responsibility for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

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

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

INDEPENDENT AUDITOR'S REPORT (continued)

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2022, on our consideration of the Organization'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 Organization'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 the Organization's internal control over financial reporting and compliance.

Marr and Company

Marr and Company, P.C.
Certified Public Accountants

Kansas City, Missouri

September 28, 2022, except for Note 11 to the Financial Statements and Schedule of Expenditures of Federal Awards, as to which the date is July 20, 2023

UNITED INNER CITY SERVICES, INC. DBA EARLYSTART

STATEMENT OF FINANCIAL POSITION

December 31, 2021 (Restated)

ASSETS	
Cash	\$ 2,096,312
Accounts receivable	21,745
Grants receivable	672,220
Unconditional promises to give receivable	527,500
Prepaid expenses	12,010
Lease deposits	14,468
Capital assets, net	<u>2,870,993</u>
Total Assets	\$ <u>6,215,248</u>

LIABILITIES AND NET ASSETS	
<u>Liabilities</u>	
Accounts payable	\$ 258,548
Accrued expenses	61,436
Accrued interest	3,249
Notes payable – PPP loan	598,690
Notes payable – mortgage note	<u>993,974</u>
Total Liabilities	1,915,897
<u>Net Assets</u>	
Without donor restrictions	3,771,851
With donor restrictions	<u>527,500</u>
Total Net Assets	<u>4,299,351</u>
Total Liabilities and Net Assets	\$ <u>6,215,248</u>

See Accompanying Independent Auditor's Report and Notes to these Financial Statements.

UNITED INNER CITY SERVICES, INC. DBA EARLYSTART

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2021 (Restated)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>SUPPORT, REVENUE, AND OTHER CHANGES</u>			
Federal and pass-through grants	\$ 2,060,868	\$ 0	\$ 2,060,868
State and local grants	1,039,674	0	1,039,674
Contributions	2,652,384	527,500	3,179,884
United Way federated campaign	97,784	0	97,784
Special event revenue	124,463	0	124,463
Client program service fees	661,205	0	661,205
Interest income	710	0	710
Gain on extinguishment of PPP debt	509,600	0	509,600
Other income	<u>9,524</u>	<u>0</u>	<u>9,524</u>
Total Support, revenue, and other changes	7,156,212	527,500	7,683,712
 <u>EXPENSES</u>			
Program services:			
Early childhood education	4,742,894	0	4,742,894
Social services	<u>290,407</u>	<u>0</u>	<u>290,407</u>
Total Program services	5,033,301	0	5,033,301
Supporting activities:			
Management and general	1,228,345	0	1,228,345
Fundraising and development	<u>366,804</u>	<u>0</u>	<u>366,804</u>
Total Supporting activities	<u>1,595,149</u>	<u>0</u>	<u>1,595,149</u>
Total Expenses	6,628,450	0	6,628,450
Net assets released from restrictions	<u>190,322</u>	<u>(190,322)</u>	<u>0</u>
Change in net assets	718,084	337,178	1,055,262
NET ASSETS, BEGINNING OF YEAR	<u>3,053,767</u>	<u>190,322</u>	<u>3,244,089</u>
NET ASSETS, END OF YEAR	\$ <u>3,771,851</u>	\$ <u>527,500</u>	\$ <u>4,299,351</u>

See Accompanying Independent Auditor's Report and Notes to these Financial Statements.

UNITED INNER CITY SERVICES, INC. DBA EARLYSTART

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2021 (Restated)

	<u>Program Services</u>			<u>Supporting Activities</u>			
	Early Childhood <u>Education</u>	Social Services <u>Services</u>	Total <u>Program</u>	Management and <u>General</u>	Fundraising and <u>Development</u>	Total Supporting <u>Activities</u>	<u>Total</u>
Salary and wages	\$ 2,639,239	\$ 212,878	\$ 2,852,117	\$ 510,552	\$ 221,663	\$ 732,215	\$ 3,584,332
Payroll taxes	202,272	17,023	219,295	44,392	17,122	61,514	280,809
Employee benefits	385,082	37,070	422,152	146,648	24,949	171,597	593,749
Professional development, personnel other	36,798	5,582	42,380	60,877	145	61,022	103,402
Contractors and contractual services	208,738	5,435	214,173	212,562	23,516	236,078	450,251
Occupancy, property, and maintenance	652,961	180	653,141	29,858	0	29,858	682,999
Equipment related	7,572	0	7,572	753	0	753	8,325
Insurance	0	0	0	21,295	0	21,295	21,295
Office supplies and materials	371,054	4,835	375,889	36,104	1,108	37,212	413,101
Food services	5,809	0	5,809	0	0	0	5,809
Engagement and emergency assistance	395	4,594	4,989	6,009	0	6,009	10,998
Professional and other purchased services	63,054	2,496	65,550	91,087	31,437	122,524	188,074
Marketing and development	0	0	0	16,410	10,222	26,632	26,632
Special event direct costs	0	0	0	0	32,521	32,521	32,521
Travel related	2,904	314	3,218	16,108	4,121	20,229	23,447
Depreciation	123,341	0	123,341	18,455	0	18,455	141,796
Interest and amortization expense	43,675	0	43,675	2,007	0	2,007	45,682
Miscellaneous expense	<u>0</u>	<u>0</u>	<u>0</u>	<u>15,228</u>	<u>0</u>	<u>15,228</u>	<u>15,228</u>
Total Expenses	\$ <u>4,742,894</u>	\$ <u>290,407</u>	\$ <u>5,033,301</u>	\$ <u>1,228,345</u>	\$ <u>366,804</u>	\$ <u>1,595,149</u>	\$ <u>6,628,450</u>

See Accompanying Independent Auditor's Report and Notes to these Financial Statements.

UNITED INNER CITY SERVICES, INC. DBA EARLYSTART

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2021 (Restated)

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 1,055,262
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	141,796
Amortization of loan fees	1,429
Gain on forgiveness of PPP debt	(509,600)
Changes in operating assets and liabilities:	
Accounts receivable	40,137
Unconditional promises to give receivable	(290,000)
Grant receivable	(171,158)
Prepaid expenses	(1,904)
Lease deposits	(6,493)
Accounts payable	231,445
Accrued expenses	<u>(43,398)</u>
Net cash provided from operating activities	447,516

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment	<u>(54,215)</u>
Net cash used in investing activities	(54,215)

CASH FLOWS FROM FINANCING ACTIVITIES

Principal payments on note payable	(39,890)
Proceeds from note payable borrowings net of loan fees	<u>597,190</u>
Net cash provided by financing activities	<u>557,300</u>

Net increase in cash 950,601

Cash, beginning of year 1,145,711

Cash, end of year \$ 2,096,312

Supplemental disclosures:

Cash paid for debt interest \$ 43,924

See Accompanying Independent Auditor's Report and Notes to these Financial Statements.

UNITED INNER CITY SERVICES, INC. DBA EARLYSTART

NOTES TO FINANCIAL STATEMENTS
December 31, 2021 (Restated)

INDEX

- NOTE 1: ORGANIZATION AND NATURE OF ACTIVITIES
- NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- A. Basis of Accounting
 - B. Program Services
 - C. Estimates
 - D. Cash and Cash Equivalents
 - E. Financial Instruments and Credit Risk
 - F. Accounts Receivable
 - G. Grants Revenue and Receivable
 - H. Promises to Give Receivable
 - I. Property and Equipment
 - J. Net Assets
 - K. Revenue Recognition
 - L. Functional Allocation of Expenses
 - M. Income Taxes
 - N. Subsequent Events
- NOTE 3: LIQUIDITY AND AVAILABILITY
- NOTE 4: UNCONDITIONAL PROMISES TO GIVE RECEIVABLE
- NOTE 5: CAPITAL ASSETS
- NOTE 6: NOTES PAYABLE
- NOTE 7: OPERATING LEASES
- NOTE 8: NET ASSETS WITH DONOR RESTRICTIONS
- NOTE 9: RETIREMENT PLAN
- NOTE 10: SUBSEQUENT EVENT
- NOTE 11: RESTATEMENT

UNITED INNER CITY SERVICES, INC. DBA EARLYSTART

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 (Restated)

NOTE 1: ORGANIZATION AND NATURE OF ACTIVITIES

United Inner City Services, Inc. (“UICS”) dba EarlystART (the “Organization”) was originally formed under the name United Inner City Services, Inc. on September 15, 1965 in the State of Missouri as a nonprofit corporation. Effective October 1, 2021, the Organization registered with the State of Missouri doing business as EarlystART.

The Organization is a multi-purpose social service agency providing a variety of services to residents of the inner city including, but not limited to, early education, a food pantry, youth recreation, emergency rent and utility assistance, and youth services aimed at preventing drug and alcohol abuse. The Organization’s major sources of revenue are grants and agreements from governmental, public, and private grantors, contributions, and client program service fees.

The mission of the Organization is “Building bridges. Inspiring minds. Impacting futures.” The Organization carries out its mission through its three state-licensed child and development centers: UICS – St. Mark Center, UICS – Metro Center, and UICS – North Center. Highly-trained faculty utilize a project-based curriculum in an arts-infused environment to teach UICS preschool students.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The financial statements of the Organization are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

B. Program Services

The Organization’s programs include the following:

Early Childhood Education – This program is designed to provide quality affordable early education and care including nutritious meals for children in the inner city that are pre-school age.

Social Services – This program provides emergency assistance, including rent, utilities and food, to low-income families.

C. 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 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, and those differences could be material.

D. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization defines its cash and equivalents to include cash in demand deposits and considers all highly liquid investments with an initial maturity when purchased of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash equivalents.

UNITED INNER CITY SERVICES, INC. DBA EARLYSTART

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 (Restated)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Financial Instruments and Credit Risk

The Organization manages deposit concentration risk by placing cash and demand deposit accounts with financial institutions believed by management to be creditworthy. Accounts at each depository institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times, amounts on deposit may exceed insured limits. The Organization had \$1,328,684 of bank balances in excess of federally insured limits as of December 31, 2021. To date, the Organization has not experienced any losses on such deposit accounts at the financial institution and believes it is not exposed to any significant credit risk on cash.

F. Accounts Receivable

Accounts receivable are stated at the amount management expects to collect. The Organization's management makes a regular assessment of the collectability of outstanding accounts and, if deemed necessary, writes off the receivable balances to be considered uncollectible. As of December 31, 2021, the Organization considered all accounts receivable fully collectible. The amount of bad debt expense for the year ending December 31, 2021, was \$0.

G. Grants Revenue and Receivable

The Organization receives significant funding under grants and agreements from governmental, public, and private grantors. This funding is subject to contractual restrictions, which must be met by providing qualified services or incurring qualifying expenses for the related program.

Revenue from grants and agreements is recognized only when funds are utilized, or services are provided by the Organization to carry out the activity stipulated in the grant or contract agreement. Grants receivable represent amounts due from funding organizations for qualified services provided or reimbursable expenses incurred. Amounts received prior to incurring qualifying expenditures or services are reported as refundable advances in the statement of financial position. No amounts have been received in advance under the grants and agreements.

H. Promises to Give Receivable

Promises to give receivable are recognized in the period received and reported at the amount management expects to collect on balances outstanding at year-end. Based on an assessment of the collection history with those having outstanding balances and current relationships with the donors, management has concluded that any uncollectible promise to give will be immaterial.

Unconditional promises to give receivable that are expected to be received within one year are recorded at their net realizable value. Unconditional promises to give receivable that are expected to be collected in future years are recorded at the present value of the estimated future cash flows, using a risk-free interest rate applicable to the year in which the contribution is made. Amortization of the discount is included in contribution revenue. However, the risk-free rate for contribution promises received in the prior and current year did not exceed 1.0% and therefore discounting future cash flows was not considered significant to be performed.

UNITED INNER CITY SERVICES, INC. DBA EARLYSTART

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 (Restated)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Property and Equipment

Property and equipment are recorded at cost if acquired, or fair value if donated. The Organization's policy is to capitalize property and equipment with a cost of \$1,000 or more and a useful life of one year or more. When assets are sold or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any resulting gain or loss is included in the statement of activities. Depreciation is calculated over the estimated useful lives of the respective assets on a straight-line basis.

	<u>Years</u>
Buildings	40
Building improvements	5-40
Furniture and equipment	3-10
Vehicles	5

J. Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor- (or certain grantor-) imposed restrictions. These net assets may be used at the discretion of the Organization's management and the Board of Directors.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and released from restrictions when the assets are placed in service, absent donor stipulations regarding how long the donated assets must be maintained.

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restriction and reported on the statement of activities as net assets released from restriction.

UNITED INNER CITY SERVICES, INC. DBA EARLYSTART

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 (Restated)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Revenue Recognition

The Organization recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

Noncash contributions are recorded at the estimated fair value at the time of donation. Contributions of long-lived assets donated without donor-imposed restrictions are recorded as support without donor restrictions. Contributed goods are recorded at fair value at the date of donation. Contributed services are recognized at fair value 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. Many individuals volunteer their time and talents assisting the Organization in accomplishing its mission. However, no amounts for these services are recognized in the financial statements since they did not meet the criteria.

Special events revenue is comprised of an exchange element based upon the direct benefits donors receive and a contribution element for the difference. The Organization recognizes special events revenue equal to the fair value of direct benefits to donors when the special event takes place. The Organization recognizes the contribution element of special event revenue immediately, unless there is a right of return if the special event does not take place.

L. Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include occupancy, maintenance, and depreciation, which are allocated on an estimated square footage basis, as well as payroll wages, benefits, and taxes, which are allocated on the basis of estimates of time and effort.

M. Income Taxes

United Inner City Services, Inc. dba EarlystART qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, whereby only unrelated business income, as defined by Section 509(a)(2) of the Code, is subject to federal income tax. The Organization has adopted the provisions of the FASB ASC 740-10 as it might apply to the Organization's financial transactions. The Organization's policy is to record a liability for any tax position that is beneficial to the Organization, including any related interest and penalties, when it is more likely than not the position taken by management with respect to the transaction or class of transactions will be overturned by a taxing authority upon examination. Organization's management believes there are no such positions as of December 31, 2021 and, accordingly, no liability has been accrued.

UNITED INNER CITY SERVICES, INC. DBA EARLYSTART

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 (Restated)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Subsequent Events

Except for the restatement described in Note 11, management has evaluated subsequent events to September 28, 2022, which is the date the financial statements were available for issuance.

NOTE 3: LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions and designations limiting their use, within one year of the statement of financial position date, comprise of the following:

Cash	\$ 2,096,312
Accounts receivable	21,745
Grants receivable	672,220
Unconditional promises to give receivable	<u>527,500</u>
Total financial assets	3,317,777
Less amounts not available to be used within one year:	
Unrestricted promises to give due in greater than one year	(130,000)
Assets with purpose restrictions	<u>(44,500)</u>
Net available financial assets	\$ <u>3,143,277</u>

The Organization received contributions restricted by donors for programs, which are ongoing, major, and central to its annual operations, to be available to meet cash needs for general expenditures. The Organization manages its liquidity and reserves following three guiding principles: 1) operating within a prudent range of financial soundness and stability, 2) maintaining adequate liquid assets to fund near-term operating needs, and 3) maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

NOTE 4: UNCONDITIONAL PROMISES TO GIVE RECEIVABLE

Unconditional promises to give receivable are estimated to be collected as follows as of December 31, 2021:

Receivable due within one year	\$ 397,500
Receivable due in one to five years:	
Fiscal year 2023	130,000
Allowance for uncollectible promises receivable	<u>0</u>
Total receivable, net	\$ <u>527,500</u>

UNITED INNER CITY SERVICES, INC. DBA EARLYSTART

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 (Restated)

NOTE 5: CAPITAL ASSETS

Capital assets consisted of the following as of December 31, 2021:

Land	\$ 241,842
Buildings and improvements	4,407,398
Furniture and equipment	560,722
Vehicles	40,697
Equipment not yet placed in service	6,686
Accumulated depreciation	<u>(2,386,352)</u>
Capital assets, net	\$ <u>2,870,993</u>

Depreciation expense for the year ended December 31, 2021, was \$141,796.

NOTE 6: NOTES PAYABLE

Payroll Protection Program ("PPP") Loan

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The Organization signed a note payable on April 8, 2020 with a local financial institution through the U.S. Small Business Administration ("SBA") for \$509,600 with a maturity date of April 8, 2022, the first payment deferred for six months, and annual interest rate of 1.0%. This note was available through the Paycheck Protection Program as a part of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") that offered cash-flow assistance to nonprofit and small business employers through guaranteed loans for certain expenses incurred from the disbursement date through the covered period. The PPP loan did not require collateral and offers the ability to have a substantial portion forgiven when the organization uses the proceeds on eligible costs.

The Organization filed for forgiveness from the SBA and received notification on January 19, 2021 the loan was fully forgiven. The Organization reported the loan as a note payable during 2020 and recognized as income in 2021 as gain on forgiveness of debt when the loan was officially forgiven.

During the year ended December 31, 2021, the Organization signed a second note payable in the amount of \$598,690 with 1% stated interest rate with a bank through the SBA on March 15, 2021, and with a maturity date of May 15, 2026. The Organization filed for forgiveness from the SBA and received notification on February 7, 2022 that the second loan was fully forgiven. The Organization reported the loan proceeds as a note payable in the financial statements during 2021 and will be recognized as income in 2022 as gain on forgiveness of debt when the loan was officially forgiven.

UNITED INNER CITY SERVICES, INC. DBA EARLYSTART

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 (Restated)

NOTE 6: NOTES PAYABLE (continued)

Mortgage Note

On September 2, 2016, the Organization signed a secured note payable with a local bank in the amount of \$1,237,500, bearing interest at 4.26% and required fifty-nine monthly principal and interest payments of \$7,713 and a balloon payment due at maturity in September 2021. The note was amortized over 240 months. Proceeds from this note were used to refinance existing debt and fund the purchase of land and property. The loan origination cost incurred by the Organization was \$28,078 and is amortized over the same 240 months. Effective October 1, 2021, the Organization refinanced the existing note by signing a secured promissory note agreement with the same local bank for \$1,024,331 at a fixed interest rate of 3.99% with a maturity date of October 1, 2026 collateralized by the organization's capital assets. The note calls for 59 monthly principal and interest payments of \$7,601 beginning on November 1, 2021, with all remaining unpaid principal and interest due at maturity. The refinanced note is amortized over 180 months. The balance on the note as of December 31, 2021 was \$1,016,039.

The refinanced loan fees incurred by the Organization was \$1,500 and is amortized over the same 180 months as the note. Amortization of the combined loan costs is reported as interest expense in the statement of activities and totaled \$1,429 for the year ended December 31, 2021. The outstanding debt obligation is reduced by the unamortized issuance costs. The carrying amount of the liability reported in the statement of financial position as of December 31, 2021 was \$993,974.

Line of Credit Note Agreement

Effective December 21, 2021, the Organization signed an agreement for a \$750,000 line of credit at a variable interest rate of U.S. Prime index plus 0.25% with minimum rate of 4.00%. Accrued interest payments are due monthly beginning January 21, 2022 for 24 months followed by principal and interest for 36 months with all remaining unpaid principal and interest due at expiration of agreement on December 21, 2026. The outstanding debt balance on the line of credit note was \$0 as of December 31, 2021.

The scheduled principal payments on the outstanding debt are as follows for year ending December 31:

	Total
2022	\$ 51,619
2023	53,717
2024	55,900
2025	58,172
2026	796,631
Total mortgage principal	1,016,039
Less unamortized loan fees	(22,065)
Total mortgage note, net	993,974
PPP loan	598,690
Total notes payable	\$ 1,592,664

UNITED INNER CITY SERVICES, INC. DBA EARLYSTART

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 (Restated)

NOTE 7: OPERATING LEASES

On May 30, 2019, the Organization entered into an operating lease for an early education program facility. The initial term of the lease was July 1, 2019 through December 31, 2020 with the right to a five year renewal term through December 31, 2025 that was exercised in 2021. During the renewal term, the lease requires monthly lease payments of \$7,803 from 2021 through 2025.

On August 1, 2020, the Organization entered into an operating lease for a second early education program facility. The initial term of the lease was August 1, 2020 through July 31, 2021 for three office suites with monthly lease payments of \$7,975. Effective May 1, 2021, the Organization signed a new office lease for two additional office suites within the same building with monthly lease payments of \$2,126 through July 31, 2021. Commencing on August 1, 2021, the combined office suites lease required monthly lease payments of \$11,677 through September 30, 2021. Effective October 1, 2021, the Organization signed a new office lease for four additional office suites within the same building. The newly combined office lease agreement for all occupied suites within the office building requires monthly lease payments of \$15,950 beginning October 2021 through July 31, 2024.

Lease expense for the year ended December 31, 2021 was \$221,361. Minimum lease payments under the non-cancellable leases as of December 31, 2021, comprise the following:

<u>Year ending December 31,</u>	
2022	\$ 276,400
2023	276,400
2024	196,650
2025	<u>85,000</u>
Total	\$ <u>834,450</u>

NOTE 8: NET ASSETS WITH DONOR RESTRICTIONS

The Organization receives gifts and grant awards that are restricted for a specific purpose or due to the passage of time. Net assets with donor restrictions are restricted for the following purposes or periods as of December 31, 2021:

Subject to the passage of time	\$ 483,000
Subject to expenditures for specified purpose:	
Mental health intervention program	<u>44,500</u>
Total Net assets with donor restrictions	\$ <u>527,500</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended December 31, 2021:

Literacy program	\$ 3,695
Mental health intervention program	57,627
Promises to give received	<u>204,500</u>
	\$ <u>265,822</u>

UNITED INNER CITY SERVICES, INC. DBA EARLYSTART

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 (Restated)

NOTE 9: RETIREMENT PLAN

The Organization sponsors a 403(b) retirement plan covering substantially all employees. Under the terms of the Plan, employees become eligible immediately and are eligible to receive employer contributions upon completion of 90 consecutive days of employment. The Organization matches employee contributions to the plan up to \$100 per month based on the following schedule:

<u>Years of Service</u>	<u>Matching %</u>
Less than 6	25%
6 to 10	50%
11 – 15	75%
16 or more	100%

During the year ended December 31, 2021, employer contributions to the plan totaled \$12,937.

NOTE 10: SUBSEQUENT EVENT

The CARES Act provides an employee retention credit (“CARES ERC”), which is a refundable tax credit against certain employment taxes of up to \$5,000 per employee for eligible employers. In calendar year 2020, the tax credit is equal to 50% of qualified wages paid to employees during a quarter, capped at \$10,000 of qualified wages per employee. In calendar year 2021, the tax credit is equal to 70% of the qualified wages paid to employees after December 31, 2020, through September 30, 2021. These qualified wages are capped to \$10,000 per employee per calendar quarter in 2021. The maximum employee retention credit available is \$7,000 per employee per calendar quarter, for a total of \$21,000 for the first three calendar quarters of 2021. The Organization qualified for the tax credits and filed amended payroll tax forms in 2022 for three quarters from 2020 totaling \$504,233 and one quarter from 2021 totaling \$468,051 for a total anticipated approved credit refund of \$972,284.

NOTE 11: RESTATEMENT

As a result of the pass-through entity’s review of the Organization’s reporting of federal grant revenues and related expenditures, the Organization discovered the outstanding grant receivable balance of \$537,262 as of December 31, 2021 did not properly include \$134,958 of federal pass-through grant revenues that were collected in 2022 and should have been recognized in 2021. Accordingly, the Organization has restated its results for 2021. As a result, grants receivable and federal pass-through grant revenues were understated by \$134,958 as of December 31, 2021 and for the year then ended.

UNITED INNER CITY SERVICES, INC. DBA EARLYSTART

NOTES TO FINANCIAL STATEMENTS
December 31, 2021 (Restated)

NOTE 11: RESTATEMENT (continued)

The effect of the restatement on the change in net assets without donor restrictions, financial position, and cash flows from operating activities as of and for the year ended December 31, 2021 are as follows:

	As previously <u>reported</u>	<u>Restated</u>
<u>Statement of Financial Position</u>		
Total federal and pass-through grants revenue	\$ 1,925,910	\$ 2,060,868
Change in net assets without donor restrictions	583,126	718,084
 <u>Statement of Activities</u>		
Grants receivable	\$ 537,262	\$ 672,220
Net assets without donor restrictions	3,636,893	3,771,851
 <u>Statement of Cash Flows</u>		
Change in net assets	\$ 920,304	\$ 1,055,262
Change in operating assets: Grants receivable	(36,200)	(171,158)

SUPPLEMENTARY INFORMATION

UNITED INNER CITY SERVICES, INC. DBA EARLYSTART

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2021 (Restated)**

Federal Grantor / Pass-through Grantor / Program Title	Federal Assistance Listing Number	Grant Award or Project Identifier	Federal Expenditures
<u>U.S. Department of Agriculture</u>			
<i>Pass-through Missouri Dept of Health and Senior Services</i>			
Child and Adult Care Food Program (CACFP)	10.558	ERS4611-174	\$ 204,452
COVID-19: Child and Adult Care Food Program (CACFP)	10.558	EOCR-0821	<u>9,181</u>
Total U.S. Department of Agriculture			213,633
<u>U.S. Department of Health and Human Services</u>			
<i>Pass-through Missouri Dept of Elementary and Secondary Education (Office of Childhood):</i>			
COVID-19: Child Care and Development Fund (CCDF) appropriated in the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act	93.575	Payroll Protection	130,000
<i>Pass-through Mid-America Regional Council (MARC)</i>			
Head Start and Early Head Start	93.600	07CH010610-05-00, 07CH010610-04-02	1,224,047
Early Head Start Expansion	93.600	07HP000084-04-01	145,002
COVID-19: Head Start and Early Head Start	93.600	07HE000358-01-00, 07CH010610-04-02	329,541
COVID-19: Early Head Start Expansion	93.600	07HP000467-01-00	<u>8,644</u>
Total Head Start program			<u>1,707,234</u>
Total U.S. Department of Health and Human Services			<u>1,837,234</u>
Total Expenditures of Federal Awards			\$ <u>2,050,867</u>

See Accompanying Independent Auditor's Report and Notes to Schedule of Expenditures of Federal Awards.

UNITED INNER CITY SERVICES, INC. DBA EARLYSTART

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended December 31, 2021 (Restated)

NOTE 1: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of United Inner City Services, Inc. dba EarlystART (the “Organization”) under programs of the federal government for the year ended December 31, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 2 to the Organization’s financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

The Schedule presents both Type A and Type B federal assistance programs administered by the Organization. The Uniform Guidance establishes the formula for determining the level of expenditures of disbursements to be used in defining Type A and Type B federal financial assistance programs. For the Organization, Type A programs are those which exceed \$750,000 in disbursements, expenditures, or distributions. The determination of major and nonmajor programs is based on the risk-based approach outlined in Uniform Guidance.

NOTE 3: SUBRECIPIENTS

The Organization did not provide funds to subrecipients in the current fiscal year.

NOTE 4: INDIRECT COST RATE

The Organization elected not use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 5: RESTATEMENT

As further described in Note 11 in the Notes to the Financial Statements, the effect in the Schedule for restating the expenditures of federal awards for the year ended December 31, 2021 are as follows:

	As previously <u>reported</u>	<u>Restated</u>
COVID-19: Head Start and Early Head Start	\$ 194,583	\$ 329,541
Total Expenditures of Federal Awards	1,915,910	2,050,867

INTERNAL CONTROL AND COMPLIANCE



**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
United Inner City Services, Inc.
Kansas City, Missouri

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 United Inner City Services, Inc. dba EarlystART (the “Organization”) (a nonprofit organization), which comprise the statement of financial position as of December 31, 2021, 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 September 28, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization’s internal control over financial reporting (internal control) as a basis for designing 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 the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors
United Inner City Services, Inc.
Kansas City, Missouri

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization’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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Marr and Company, P.C.
Certified Public Accountants

Kansas City, Missouri
September 28, 2022



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

Board of Directors
United Inner City Services, Inc.
Kansas City, Missouri

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited United Inner City Services, Inc. dba EarlystART's (the nonprofit "Organization") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2021. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, 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 a 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. *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.

Board of Directors
United Inner City Services, Inc.
Kansas City, Missouri

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Marr and Company

Marr and Company, P.C.
Certified Public Accountants

Kansas City, Missouri
September 28, 2022

UNITED INNER CITY SERVICES, INC. DBA EARLYSTART

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2021**

SECTION I: SUMMARY OF AUDITOR'S RESULTS

Financial Statement:

- 1) The type of report issued on the basic financial statements. Unmodified opinion
- 2) Internal Control over Financial Reporting:
 - a) Significant deficiencies were disclosed. None
 - b) Material weaknesses were disclosed. None
- 3) Noncompliance, which is material to the basic financial statements, was disclosed. None

Federal Awards:

- 1) Internal Control over Major Programs:
 - a) Significant deficiencies were disclosed. None
 - b) Material weaknesses were disclosed. None
- 2) The type of report issued on compliance for major programs. Unmodified opinion
- 3) Any audit findings which are required to be reported under Section 200.516(a) of the Uniform Guidance. None
- 4) The Organization's major federal program(s):

Assistance Listing Number(s)	Federal Program or Cluster
93.600	Head Start / Early Head Start
- 5) Dollar threshold used to distinguish between Type A and Type B programs: \$750,000
- 6) Auditee qualified as a low-risk auditee specified in Section 200.520 of the Uniform Guidance: Yes

SECTION II: FINANCIAL STATEMENT FINDINGS

No financial statement findings were reported.

SECTION III: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No federal award findings and questioned costs were reported.

SECTION IV: RESOLUTIONS OF PRIOR YEAR AUDIT FINDINGS

No audit findings were noted from the prior year.