

Head Start of Greater Dallas, Inc.

Dallas, Texas

Financial Statements and Supplementary Information
Year Ended February 28, 2019

Head Start of Greater Dallas, Inc.

Financial Statements and Supplementary Information
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Independent Auditor's Report

Board of Directors
Head Start of Greater Dallas, Inc.
Dallas, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Head Start of Greater Dallas, Inc. (a not-for-profit organization), which comprise the statement of financial position as of February 28, 2019, and the related statement of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Head Start of Greater Dallas, Inc. as of February 28, 2019, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, Head Start of Greater Dallas, Inc. adopted the amendments in Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities – Presentation of Financial Statements for Not-for-Profit Entities*, as of and for the year ended February 28, 2019.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Program Activity, Schedules A-1 to A-2, and the Notes to the Schedule of Program Activity, as well as the Schedule of Expenditures of Federal Awards, Schedule B, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*; and the *State of Texas Single Audit Circular* (the "Circular"), issued by the Texas Office of the Inspector General, are presented for purposes of additional analysis, and are 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. Such 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. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2019, on our consideration of Head Start of Greater Dallas, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing on the effectiveness of Head Start of Greater Dallas, Inc.'s internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Head Start of Greater Dallas, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Head Start of Greater Dallas, Inc.'s internal control over financial reporting and compliance.



Wipfli LLP

November 22, 2019
Madison, Wisconsin

Head Start of Greater Dallas, Inc.

Statement of Financial Position Year Ended February 28, 2019

<i>Assets</i>	
Current assets:	
Cash	\$ 203,865
Grants receivable	1,874,900
Accounts receivable	1,515
Prepaid expenses	20,767
Total current assets	2,101,047
Long-term assets:	
Property and equipment, net	10,448,866
Total long-term assets	10,448,866
TOTAL ASSETS	\$ 12,549,913
<i>Liabilities and Net Assets</i>	
Current liabilities:	
Current maturities of notes payable	\$ 378,370
Accounts payable	572,889
Accrued expenses	430,419
Accrued payroll	795,084
Total current liabilities	2,176,762
Long-term liabilities:	
Notes payable, net	4,713,671
Total long-term liabilities	4,713,671
Total liabilities	6,890,433
Net assets:	
Without donor restrictions	5,638,579
With donor restrictions	20,901
Total net assets	5,659,480
TOTAL LIABILITIES AND NET ASSETS	\$ 12,549,913

See accompanying notes to financial statements.

Head Start of Greater Dallas, Inc.

Statement of Activities

Year Ended February 28, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:			
Grant revenue	\$ 42,884,008	\$ 54,024	\$ 42,938,032
Contributions and other income	22,865	7,422	30,287
In-kind contributions	12,789,410	0	12,789,410
Loss on disposal of property and equipment	(35,332)	0	(35,332)
Net assets released from restriction through satisfaction of program restrictions	83,380	(83,380)	0
Total revenue and support	55,744,331	(21,934)	55,722,397
Expenses:			
Program activities:			
Child education	48,795,680	0	48,795,680
Food programs	1,918,642	0	1,918,642
Community	70,520	0	70,520
Discretionary	113,106	0	113,106
Total program expenses	50,897,948	0	50,897,948
Supportive services:			
Management and general	5,068,212	0	5,068,212
Total expenses	55,966,160	0	55,966,160
Change in net assets	(221,829)	(21,934)	(243,763)
Net assets - Beginning of year	5,860,408	42,835	5,903,243
Net assets - End of year	\$ 5,638,579	\$ 20,901	\$ 5,659,480

See accompanying notes to financial statements.

Head Start of Greater Dallas, Inc.

Statement of Functional Expenses Year Ended February 28, 2019

	Program Services	Management and General	Total
Salaries and employee benefits	\$ 23,404,515	\$ 2,258,630	\$ 25,663,145
Payroll taxes	1,492,261	144,170	1,636,431
Professional fees and contract services	3,371,636	682,146	4,053,782
Rent and storage	497,010	31,941	528,951
Utilities	430,864	47,608	478,472
Telecommunications	300,417	209,700	510,117
Local travel	47,276	8,672	55,948
Food	1,403,893	38,900	1,442,793
Program expenses	720,498	24,505	745,003
Office supplies	424,972	39,709	464,681
Minor equipment and equipment rental	135,515	222,226	357,741
Repairs and maintenance	688,378	107,668	796,046
Vehicle expenses	100,709	3,637	104,346
Insurance	1,631	162,164	163,795
Interest	125,929	93,212	219,141
Out of town travel	2,039	66,025	68,064
Printing and publications	293	15,022	15,315
Conference and membership fees	(8,730)	151,147	142,417
Depreciation and amortization	0	634,768	634,768
Other expenses	42,263	126,362	168,625
Subrecipient expenses	4,927,169	0	4,927,169
In-kind expenses	12,789,410	0	12,789,410
Total expenses	\$ 50,897,948	\$ 5,068,212	\$ 55,966,160

See accompanying notes to financial statements.

Head Start of Greater Dallas, Inc.

Statement of Cash Flows

Year Ended February 28, 2019

Increase (decrease) in cash:

Cash flows from operating activities:

Change in net assets (\$ 243,763)

Adjustments to reconcile change in net assets
to net cash provided by operating activities:

Depreciation 622,804

Amortization of debt issuance costs 11,964

Loss on disposal of property and equipment 35,332

Changes in operating assets and liabilities:

Grants receivable 160,499

Accounts receivable 4,534

Prepaid expenses 19,716

Book overdraft (62,867)

Accounts payable 45,157

Accrued expenses 28,235

Accrued payroll 60,989

Net cash provided by operating activities 682,600

Cash flows from investing activities:

Capital expenditures (115,534)

Net cash used in investing activities (115,534)

Cash flows from financing activities:

Payments on notes payable (363,201)

Net cash used in financing activities (363,201)

Change in cash 203,865

Cash - Beginning of year 0

Cash - End of year \$ 203,865

Supplemental schedule of other cash activity:

Interest paid and expensed \$ 219,141

Head Start of Greater Dallas, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Nature of Operations

Head Start of Greater Dallas, Inc. (HSGD) is a not-for-profit corporation organized in 1988 under the laws of the state of Texas. HSGD was formed to perform charitable or educational services, specifically to provide support or relief to the impoverished without regard to the beneficiaries' ability to pay. HSGD receives 95% of its grant revenue from the U.S. Department of Health and Human Services (DHHS), under an annual grant, to operate the Head Start, Early Head Start, and Early Head Start-Child Care Partnerships programs in Dallas County. Services provided by HSGD include child development, social, health, nutrition, and special needs services to families enrolled in the Head Start programs. HSGD has delegated a portion of the program services to two other not-for-profit agencies. HSGD's federal identification number is #75-2247281.

Basis of Presentation

The basic financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States.

Classification of Net Assets

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

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations or where donor-imposed stipulations are met in the year of the contribution.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that may or may not be met, either by actions of HSGD and/or the passage of time. 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 explicit donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor imposed restrictions are released when a restriction expires, that is when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue Recognition/Grant Funds Received in Advance

Contributions are recognized when the donor makes a promise to give to HSGD that is, in substance, unconditional. Contributions received are recorded as with or without donor restrictions, depending on the existence and nature of any donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of activities as released from restrictions.

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized.

Head Start of Greater Dallas, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Revenue Recognition/Grant Funds Received in Advance (Continued)

Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Grants are either recorded as contributions or exchange transactions based on criteria contained in the grant award.

A. Grant Awards That Are Contributions

Grants that qualify as contributions are recorded as invoiced to the funding sources. Revenue is recognized in the accounting period when the related allowable expenses are incurred. Amounts received in excess of expenses are reflected as grant funds received in advance.

B. Grant Awards That Are Exchange Transactions

Exchange transactions reimburse based on a predetermined rate for services performed. The revenue is recognized in the period the service is performed.

In-Kind Contributions

HSGD has recorded in-kind contributions for space and professional services in the statement of activities in accordance with financial accounting standards. These accounting standards require that only contributions of services received that create or enhance a nonfinancial asset or require a specialized skill by the individual possessing those skills and would typically need to be purchased if not provided by donation be recorded. The requirements of these financial standards are different than the in-kind requirements of HSGD's grant awards. HSGD received contributions of nonprofessional volunteers, during the year with a value of \$2,721,155 for its Head Start program which are not recorded in the statement of activities.

Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful life of the asset. HSGD capitalizes equipment purchased with a cost greater than \$5,000 and a useful life of more than two years. Leasehold improvements are depreciated over the shorter of the lease term or useful life. Donations of property and equipment are recorded as support at their estimated fair value on the date of donation. If there are no donor restrictions, regarding how long a donated asset must be maintained, the Organization reports expirations of donor restrictions when the donated assets are placed in service.

Property and equipment purchased with grant funds are owned by HSGD while used in the program for which it was purchased or in other future authorized programs. However, the various funding sources have a reversionary interest in the property and equipment purchased with grant funds. Its disposition, as well as the ownership of any proceeds there from, is subject to funding source regulations. The net book value of the grant-funded property and equipment is \$9,977,404.

Head Start of Greater Dallas, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Debt Issuance Costs

Debt issuance costs represent costs associated with obtaining debt to finance the purchase of buildings. Unamortized financing fees have been recorded as a reduction to the related debt obligation. The costs are being amortized over the maximum term provided in the debt agreement using the straight-line method, which approximates the effective interest method.

Use of Estimates

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

Functional Allocation

The costs of providing the various programs and 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. Shared costs are allocated based on time spent to support the program, square footage of building used or number of children served.

Income Taxes

HSGD is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

HSGD is required to assess whether it is more likely than not that a tax position will be sustained upon examination on the technical merits of the position assuming the taxing authority has full knowledge of all information. If the tax position does not meet the more likely than not recognition threshold, the benefit of that position is not recognized in the financial statements. HSGD has determined there are no amounts to record as assets or liabilities related to uncertain tax positions.

Change in Accounting Policy

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities* (Topic 958). This ASU provides certain improvements in financial reporting for not-for-profit organizations and requires changes to net asset classification, enhancements to liquidity presentation and disclosures, presentation of an analysis of expenses by function and by nature, netting of investment expenses with return, among other changes.

Head Start of Greater Dallas, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements

In 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU, as amended, provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services, guidance on accounting for certain contract costs, and new disclosures. The new standard replaces the current revenue recognition requirements and most industry-specific guidance. When adopted, the amendments in this ASU must be applied using one of two retrospective methods. ASU No. 2014-09 is effective for nonpublic entities for annual periods beginning after December 15, 2018. HSGD is currently evaluating the impact of the provisions of ASU Topic 606.

On June 21, 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update will assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and determining whether a transaction is conditional. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2018, for transactions in which the entity serves as the resource recipient, and for fiscal years beginning after December 15, 2019, for transactions in which the entity services as the resource provider. Early application of the amendments in this update is permitted. HSGD is currently evaluating the impact of the provisions of ASU Topic 958.

In 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which is intended to improve financial reporting on leasing transactions. ASU No. 2016-02 will require lessees to recognize right of use assets and lease obligations for operating and finance leases under terms greater than 12 months. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2020, with early adoption permitted. ASU No. 2016-02 must be applied modified retrospectively. HSGD is currently evaluating the impact of the provisions of ASU Topic 842.

Subsequent Events

Subsequent events have been evaluated through November 22, 2019, which is the date the financial statements were available to be issued.

Note 2: Concentration of Credit Risk

HSGD maintains cash balances at two banks. Accounts at these banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. HSGD has a letter of credit agreement with BBVA Compass Bank. Bank balances in excess of FDIC coverage are collaterally secured by letters of credit.

Note 3: Liquidity and Availability

As of February 28, 2019, HSGD has no financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures. The financial assets on hand, including cash, grants receivable and accounts receivable, are restricted by its funding sources for use to pay current accounts payable and accrued payroll and related expenses. HSGD has no formal liquidity policy and relies on available grant funding that is drawn down and received the following day to ensure it has cash available to meet its current obligations to vendors and employees. HSGD has grant commitments for future expenses of approximately \$1,672,000 as further described in Note 12.

Head Start of Greater Dallas, Inc.

Notes to Financial Statements

Note 4: Grants Receivable

The grants receivable balance represents amounts due as of February 28, 2019, as follows:

U.S. Department of Health and Human Services	\$ 1,653,623
Texas Department of Agriculture	221,277
<u>Total grants receivable</u>	<u>\$ 1,874,900</u>

Note 5: Property and Equipment

The balance consists of the following:

Land	\$ 1,163,816
Buildings	13,583,689
Leasehold improvements	4,910,176
Equipment	3,038,141
Vehicles	775,348
Total property and equipment	23,471,170
Accumulated depreciation	(13,022,304)
<u>Property and equipment, net</u>	<u>\$ 10,448,866</u>

Note 6: Leases

HSGD is committed under several operating leases related to its centers. Rent expense for these operating leases amounted to \$458,081 for the year ended February 28, 2019.

Future rental commitments under operating leases with terms of greater than one year are as follows:

2020	\$ 361,643
2021	242,245
2022	86,400
2023	86,400
2024	86,400
<u>Total</u>	<u>\$ 863,088</u>

Note 7: Notes Payable

Notes payable are as follows:

Note payable to Bank of Texas with monthly payments of approximately \$4,120, including interest at 3.74%. The note is due January 2031 and is collateralized by real estate.

\$ 473,419

Note payable to Bank of Texas with monthly payments of approximately \$9,130, including interest at 3.76%. The note is due January 2031 and is collateralized by real estate.

1,047,570

Head Start of Greater Dallas, Inc.

Notes to Financial Statements

Note 7: Notes Payable (Continued)

Note payable to Bank of Texas with monthly payments of approximately \$20,600, including interest at 3.76%. The note is due January 2031 and is collateralized by real estate. \$ 2,361,803

Note payable to Bank of Texas with monthly payments of approximately \$14,678, including interest at 4.66%. This note is due August 2028 and is collateralized by real estate. 1,337,535

Total notes payable	5,220,327
Unamortized debt issuance costs	(128,286)
Current maturities	(378,370)

Notes payable, net of debt issuance costs and current maturities \$ 4,713,671

The original cost of financing fees was \$179,457 and accumulated amortization at February 28, 2019 was \$51,171.

Scheduled principal payments on notes payable at February 28, 2019, including current maturities, are summarized as follows:

2020	\$ 378,370
2021	393,582
2022	410,548
2023	427,672
2024	445,518
Thereafter	3,164,637
<u>Total</u>	<u>\$ 5,220,327</u>

The terms of HSGD's notes described above are subject to performance and financial covenants. As of February 28, 2019, HSGD was out of compliance with its covenant; however, HSGD obtained a waiver from the Bank of Texas.

Note 8: Net Assets With Donor Restrictions

Net assets with donor restrictions at February 28, 2019 are available for the following purposes:

Dual Language, Literacy and Fellowship Programs	\$ 5,046
Early Head Start Garland, Davids' Place and Buckeye Centers	1,506
Other	14,349
<u>Total</u>	<u>\$ 20,901</u>

Head Start of Greater Dallas, Inc.

Notes to Financial Statements

Note 8: Net Assets With Donor Restrictions (Continued)

Net assets with donor restrictions released to net assets without donor restrictions during 2019 were for the following purposes:

Dual Language, Literacy and Fellowship Programs	\$ 19,736
Early Head Start Garland, Davids' Place and Buckeye Centers	30,917
Other	<u>32,727</u>
Total	<u>\$ 83,380</u>

Note 9: Retirement Plan

HSGD has a defined contribution retirement plan authorized under Section 403(b) of the Internal Revenue Code. The plan covers all employees of HSGD. HSGD matches the lesser of 50% of the employees' contributions up to 6% or 3% of salary following the completion of one year of service, in which the employee works 1,000 hours within that 12-month period. Employer contributions charged to expense for the year ended February 28, 2019, were \$209,523.

Note 10: Subrecipient Expenses

HSGD delegated a portion of the Head Start program for the year ended February 28, 2019, to two other not-for-profit agencies. The expenditures of these agencies have been included in the accompanying statement of activities and total \$4,927,169. Other independent auditors audited those agencies.

Subrecipient expenses for the year ended February 28, 2019, were as follows:

Salaries and employee benefits	\$ 3,806,088
Payroll taxes	236,620
Professional fees and contract services	190,899
Local travel	10,762
Occupancy	126,354
Telecommunications	47,753
Utilities	128,557
Office supplies	61,377
Program supplies	52,601
Food	21,623
Equipment and equipment rental	42,014
Repairs and maintenance	152,228
Insurance	28,731
Conferences	15,860
Other expenses	<u>5,702</u>
Total expenses	<u>\$ 4,927,169</u>

Head Start of Greater Dallas, Inc.

Notes to Financial Statements

Note 11: Commitments and Contingencies

HSGD participates in a number of federally assisted and state grant programs. These programs are subject to program compliance audits by the grantors and their representatives. Any disallowed costs may constitute a liability of HSGD. HSGD is also required to match 25% of the grant funds received from the Head Start program with local resources. HSGD believes that it is in substantial compliance with all grant requirements, including those related to matching and disallowed costs, and any noncompliance, if any, would not be significant.

Note 12: Grant Awards

At February 28, 2019, HSGD had received a commitment for a grant award of approximately \$1,672,000. This commitment is not recognized in the accompanying financial statements as it is a conditional award.

Supplementary Information

Head Start of Greater Dallas, Inc.

Schedule A-1
 Schedule of Program Activity
 Year Ended February 28, 2019

	FEDERAL PROGRAMS									Total Federal Programs
	Department of Agriculture				Department of Health and Human Services					
	10.558				93.600					
	Total	Child Care Food Program TX-057-0054 17/18 (1)	Child Care Food Program TX-057-0054 18/19 (2)	10.558 Subtotal	Head Start Program 06CH7106/05 (3)	Early Head Start 06CH7106/05 (4)	Early Head Start 06HP0021/03 (5)	Early Head Start 06HP0021/04 (6)	93.600 Subtotal	
REVENUE AND SUPPORT										
Grant revenue	\$ 42,938,032	\$ 1,059,132	\$ 1,050,561	\$ 2,109,693	\$ 35,125,005	\$ 3,541,313	\$ 1,127,643	\$ 980,354	\$ 40,774,315	\$ 42,884,008
Contributions and other income	30,287	0	0	0	0	0	0	0	0	0
Loss on disposal of property and equipment	(35,332)	0	0	0	0	0	0	0	0	0
In-kind contributions	12,789,410	0	0	0	13,724,726	1,117,811	330,355	337,673	15,510,565	15,510,565
Total Revenue	55,722,397	1,059,132	1,050,561	2,109,693	48,849,731	4,659,124	1,457,998	1,318,027	56,284,880	58,394,573
EXPENSES										
Salaries and employee benefits	25,663,145	473,152	539,421	1,012,573	20,500,177	2,486,422	878,848	783,527	24,648,974	25,661,547
Payroll taxes	1,636,431	33,710	25,893	59,603	1,300,227	157,473	64,356	54,650	1,576,706	1,636,309
Professional fees and contract services	4,053,782	0	0	0	3,619,910	309,222	45,037	72,339	4,046,508	4,046,508
Rent and storage	528,951	0	0	0	423,842	93,109	6,000	6,000	528,951	528,951
Mortgage principal	0	0	0	0	363,201	0	0	0	363,201	363,201
Utilities	478,472	0	0	0	386,189	85,586	2,369	1,844	475,988	475,988
Telecommunications	510,117	0	0	0	453,145	53,054	1,567	1,605	509,371	509,371
Local travel	55,948	0	0	0	50,871	3,589	767	721	55,948	55,948
Food	1,442,793	552,270	485,247	1,037,517	333,633	38,058	13,730	17,803	403,224	1,440,741
Program expenses	745,003	0	0	0	518,768	94,593	75,781	13,516	702,658	702,658
Office supplies	464,681	0	0	0	392,035	67,656	2,300	1,791	463,782	463,782
Minor equipment and equipment rental	357,741	0	0	0	307,435	22,429	5,091	4,487	339,442	339,442
Capitalized expenses	0	0	0	0	115,534	0	0	0	115,534	115,534
Repairs and maintenance	796,046	0	0	0	682,314	101,722	7,359	3,792	795,187	795,187
Vehicle expenses	104,346	0	0	0	104,346	0	0	0	104,346	104,346
Insurance	163,795	0	0	0	149,779	0	494	776	151,049	151,049
Interest	219,141	0	0	0	219,141	0	0	0	219,141	219,141
Out of town travel	68,064	0	0	0	49,612	3,982	4,912	7,519	66,025	66,025
Printing and publications	15,315	0	0	0	14,821	0	20	0	14,841	14,841
Conference and membership fees	142,417	0	0	0	91,298	22,198	17,506	7,246	138,248	138,248
Depreciation and amortization	634,768	0	0	0	0	0	0	0	0	0
Other expenses	168,625	0	0	0	121,558	2,220	1,506	2,738	128,022	128,022
Subrecipient expenses	4,927,169	0	0	0	4,927,169	0	0	0	4,927,169	4,927,169
In-kind expenses	12,789,410	0	0	0	13,724,726	1,117,811	330,355	337,673	15,510,565	15,510,565
Total Expenses	55,966,160	1,059,132	1,050,561	2,109,693	48,849,731	4,659,124	1,457,998	1,318,027	56,284,880	58,394,573
Transfers	0	0	0	0	0	0	0	0	0	0
Change in Net Assets	(243,763)	0	0	0	0	0	0	0	0	0
Net assets - Beginning of year	5,903,243	0	0	0	0	0	0	0	0	0
NET ASSETS - END OF YEAR	\$ 5,659,480	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

See Independent Auditor's Report.

Head Start of Greater Dallas, Inc.

Schedule A-2

Schedule of Program Activity

Year Ended February 28, 2019

	STATE AND LOCAL PROGRAMS						DISCRETIONARY		
	Dual Language, Fellowship Programs (7)	STEM Program (8)	EHS-Garland, Davids' Place, Buckeye (9)	Parent Engagement (10)	Other Grants and Donations (11)	Total State and Local Programs	TOTAL PROGRAMS	GAAP Adjustments (12)	Corporate (13)
REVENUE AND SUPPORT									
Grant revenue	\$ 1,824	\$ 0	\$ 0	\$ 27,200	\$ 25,000	\$ 54,024	\$ 42,938,032	\$ 0	\$ 0
Contributions and other income	0	0	0	0	3,200	3,200	3,200	0	27,087
Loss on disposal of property and equipment	0	0	0	0	0	0	0	0	(35,332)
In-kind contributions	0	0	0	0	0	0	15,510,565	(2,721,155)	0
Total Revenue	1,824	0	0	27,200	28,200	57,224	58,451,797	(2,721,155)	(8,245)
EXPENSES									
Salaries and employee benefits	1,598	0	0	0	0	1,598	25,663,145	0	0
Payroll taxes	122	0	0	0	0	122	1,636,431	0	0
Professional fees and contract services	0	0	0	0	0	0	4,046,508	0	7,274
Rent and storage	0	0	0	0	0	0	528,951	0	0
Mortgage principal	0	0	0	0	0	0	363,201	(363,201)	0
Utilities	0	0	0	0	0	0	475,988	0	2,484
Telecommunications	0	0	0	0	0	0	509,371	0	746
Local travel	0	0	0	0	0	0	55,948	0	0
Food	446	0	0	0	0	446	1,441,187	0	1,606
Program expenses	3,607	0	1,976	27,200	1,090	33,873	736,531	0	8,472
Office supplies	153	0	0	0	0	153	463,935	0	746
Minor equipment and equipment rental	0	9,907	1,541	0	0	11,448	350,890	0	6,851
Capitalized expenses	0	0	0	0	0	0	115,534	(115,534)	0
Repairs and maintenance	0	0	0	0	0	0	795,187	0	859
Vehicle expenses	0	0	0	0	0	0	104,346	0	0
Insurance	0	0	0	0	0	0	151,049	0	12,746
Interest	0	0	0	0	0	0	219,141	0	0
Out of town travel	1,902	0	0	0	0	1,902	67,927	0	137
Printing and publications	0	0	0	0	0	0	14,841	0	474
Conference and membership fees	2,000	0	0	0	0	2,000	140,248	0	2,169
Depreciation and amortization	0	0	0	0	0	0	0	569,566	65,202
Other expenses	0	0	0	0	26,000	26,000	154,022	0	14,603
Subrecipient expenses	0	0	0	0	0	0	4,927,169	0	0
In-kind expenses	0	0	0	0	0	0	15,510,565	(2,721,155)	0
Total Expenses	9,828	9,907	3,517	27,200	27,090	77,542	58,472,115	(2,630,324)	124,369
Transfers	0	0	0	0	0	0	0	(8,487,851)	8,487,851
Change in Net Assets	(8,004)	(9,907)	(3,517)	0	1,110	(20,318)	(20,318)	(90,831)	(132,614)
Net assets - Beginning of year	13,050	9,907	5,023	0	6,781	34,761	34,761	8,578,682	(2,710,200)
NET ASSETS - END OF YEAR	\$ 5,046	\$ 0	\$ 1,506	\$ 0	\$ 7,891	\$ 14,443	\$ 14,443	\$ 0	\$ 5,645,037

See Independent Auditor's Report.

Head Start of Greater Dallas, Inc.

Schedule B

Schedule of Expenditures of Federal Awards

Year Ended February 28, 2019

Federal Grantor/ Program Title	CFDA Number	Pass-Through Entity Identifying Number	Passed-Through to Subrecipients	Federal Expenditures
DEPARTMENT OF AGRICULTURE				
Passed through Texas Department of Agriculture				
(1) Child Care Food Program	10.558	TX-057-0054 17/18	\$ 0	\$ 1,059,132
(2) Child Care Food Program		TX-057-0054 18/19	0	1,050,561
Total Federal Expenditures CFDA 10.558			0	2,109,693
DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Direct				
(3) Head Start Program	93.600	06CH7106/05	4,927,169	35,125,005
(4) Early Head Start		06CH7106/05	0	3,541,313
(5) Early Head Start Child Care Partnership		06HP0021/03	0	1,127,643
(6) Early Head Start Child Care Partnership		06HP0021/04	0	980,354
Total Federal Expenditures CFDA 93.600			4,927,169	40,774,315
TOTAL FEDERAL EXPENDITURES			\$ 4,927,169	\$ 42,884,008

Notes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Head Start of Greater Dallas, Inc. under programs of the federal government for the year ended February 28, 2019. 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) and the *State of Texas Single Audit Circular* (the "Circular"). Because the Schedule presents only a selected portion of the operations of Head Start of Greater Dallas, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Head Start of Greater Dallas, Inc.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 - Indirect Cost Rate

Head Start of Greater Dallas, Inc has not elected to use the 10-percent de minimis indirect cost rate as allowed under Uniform Guidance.

Head Start of Greater Dallas, Inc.

Notes to the Schedule of Program Activity

Note 1: Head Start Nonfederal Matching Requirement

The Head Start program funded by DHHS requires that the program receive a nonfederal share equal to 25% of total Head Start expenses. HSGD uses the following Head Start expenditures paid for from its nonfederal programs to fulfill its matching requirements as follows:

In-kind (A-1)	\$ 15,510,565
Dual Language, Literacy and Fellowship Programs (A-2)	9,828
Science Technology Engineering Math Program (A-2)	9,907
Early Head-Garland, Davids' Place and Buckeye (A-2)	3,517
Parent Engagement Initiatives (A-2)	27,200
Other Grants and Donations (A-2)	27,090
<u>Total nonfederal share</u>	<u>\$ 15,588,107</u>



Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Board of Directors
Head Start of Greater Dallas, Inc.
Dallas, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Head Start of Greater Dallas, Inc., which comprise the statement of financial position as of February 28, 2019, 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 November 22, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Head Start of Greater Dallas, Inc.'s internal control over financial reporting (“internal control”) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Head Start of Greater Dallas, Inc.’s internal control. Accordingly, we do not express an opinion on the effectiveness of Head Start of Greater Dallas, Inc.’s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that 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 Head Start of Greater Dallas, Inc.’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 Head Start of Greater Dallas, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Head Start of Greater Dallas, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wipfli LLP

Wipfli LLP

November 22, 2019
Madison, Wisconsin



Independent Auditor’s Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance

Board of Directors
Head Start of Greater Dallas, Inc.
Dallas, Texas

Report on Compliance for Each Major Federal Program

We have audited Head Start of Greater Dallas, Inc.’s compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* and the *State of Texas Single Audit Circular* (the “*Circular*”), issued by the Texas Office of the Inspector General, that could have a direct and material effect on each major federal program for the year ended February 28, 2019. Head Start of Greater Dallas, Inc.’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility for Compliance

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

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for Head Start of Greater Dallas, Inc.’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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); and the *State of Texas Single Audit Circular*, issued by the Texas Office of the Inspector General. Those standards, the Uniform Guidance and the *Circular* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Head Start of Greater Dallas, Inc.’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Head Start of Greater Dallas, Inc.’s compliance.

Opinion

In our opinion, Head Start of Greater Dallas, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended February 28, 2019.

Report on Internal Control Over Compliance

Management of Head Start of Greater Dallas, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Head Start of Greater Dallas, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance and the *Circular*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Head Start of Greater Dallas, Inc.'s 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.

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

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 and the *Circular*. Accordingly, this report is not suitable for any other purpose.

Wipfli LLP

Wipfli LLP

November 22, 2019
Madison, Wisconsin

Head Start of Greater Dallas, Inc.

Schedule of Findings and Questioned Costs
Year Ended February 28, 2019

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued?	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major federal program:	
Material weakness identified?	No
Significant deficiency identified?	No
Type of auditor's report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance [2 CFR 200.516(a)]?	No

Identification of major federal programs:

<u>Name of Federal Major Program or Cluster</u>	<u>CFDA No.</u>
Child Care Food Program	10.558
Head Start	93.600

<u>Name of State Major Program or Cluster</u>	<u>State ID No.</u>
None	N/A

Dollar threshold used to distinguish between Type A and Type B programs:	
Federal	\$1,286,520

Auditee qualified as low-risk auditee?	Yes
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Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Head Start of Greater Dallas, Inc.

Schedule of Findings and Questioned Costs
Year Ended February 28, 2019

Section IV - Status of Prior Audit Findings

Finding: Prior Period Adjustment (2018-001)

Current Year Status: No such adjustment was necessary in the current audit; therefore, this finding has been resolved.

Finding: Non-Federal Match (2018-002)

Current Year Status: When testing the non-federal match requirements in the current audit there were no instances noted that HSGD did not meet the non-federal matching requirements, therefore this finding has been resolved.