

South Central Child Development, Inc.

**Independent Auditor's Report
and Financial Statements**

**For the Years Ended
December 31, 2023 and 2022**

South Central Child Development, Inc.

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

To the Board of Directors
South Central Child Development, Inc.

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 South Central Child Development, Inc., which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated May 17, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered South Central Child Development, Inc.'s internal control over financial reporting (internal control) as a basis for designing 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 South Central Child Development, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of South Central Child Development, 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 organization'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 or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Central Child Development, 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 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.

A handwritten signature in cursive script that reads "CIO of LLC".

Mitchell, South Dakota
May 17, 2024



Independent Auditor’s Report on Compliance for each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors
South Central Child Development, Inc.

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited South Central Child Development, Inc.’s compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of South Central Child Development, Inc.’s major federal programs for the years ended December 31, 2023 and 2022. South Central Child Development, Inc.’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, South Central Child Development, Inc. 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 years ended December 31, 2023 and 2022.

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 (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); 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 South Central Child Development, Inc. 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 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 GAAS, *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 GAAS, *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 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.

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. 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.

Purpose of this Report

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.

Handwritten signature in cursive script that reads "C10 Prof LLC".

Mitchell, South Dakota
May 17, 2024

South Central Child Development, Inc.
 Schedule of Findings and Questioned Costs
 December 31, 2023

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified not considered to be material weakness? _____ Yes X None reported

Noncompliance material to financial statements: _____ Yes X No

Federal Awards

Internal Control over Major Programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiency identified not considered to be material weakness? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ Yes X No

Identification of Major Programs:

FALN	Name of Federal Program or Cluster
93.600	Headstart

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? _____ Yes X No



Independent Auditor's Report

To the Board of Directors
South Central Child Development, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of South Central Child Development, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Central Child Development, Inc. as of December 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 South Central Child Development, Inc. 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 the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards 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 South Central Child Development, Inc.'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 South Central Child Development, Inc.'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 combining statement of financial position (by grant award), combining statement of activities (by grant award), and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations 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.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2024, on our consideration of South Central Child Development, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Central Child Development Center, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CLO of LLC".

Mitchell, South Dakota
May 17, 2024

South Central Child Development, Inc.
Statements of Financial Position

	December 31,	
	2023	2022
Assets		
Current Assets		
Cash and cash equivalents	\$ 29,234	\$ 38,993
Certificates of deposit	25,268	15,028
Program receivables	498,265	383,964
Prepaid insurance	15,716	12,167
Accounts receivable	2,671	8
Total Current Assets	571,154	450,160
Non Current Assets		
Property and Equipment, at cost		
Office furniture and equipment	594,901	594,901
Vehicles	676,600	632,952
Total property and equipment	1,271,501	1,227,853
Less: accumulated depreciation	(892,651)	(753,469)
Net property and equipment	378,850	474,384
Right of use assets	548,528	606,855
Total Non Current Assets	927,378	1,081,239
Total Assets	\$ 1,498,532	\$ 1,531,399
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term operating leases	\$ 84,683	\$ 82,216
Accounts payable	311,874	279,971
Accrued expenses	204,368	116,205
Total Current Liabilities	600,925	478,392
Non Current Liabilities		
Long-term operating leases, less current maturities	463,845	524,639
Total Liabilities	1,064,770	1,003,031
Net Assets		
Without donor restrictions	433,762	528,368
Total Liabilities and Net Assets	\$ 1,498,532	\$ 1,531,399

The accompanying Notes to Financial Statements are an integral part of this statement.

South Central Child Development, Inc.
Statements of Activities

	For the Years Ended	
	December 31,	
	2023	2022
Net Assets without Donor Restrictions		
Revenue		
Federal revenue	\$ 3,656,975	\$ 3,784,443
Interest earned	1,060	211
Miscellaneous revenues	4,852	549
Gain on sale of fixed assets	--	5,649
Total Revenue	<u>3,662,887</u>	<u>3,790,852</u>
Expenses		
Program Services		
Early childhood development	<u>3,162,417</u>	<u>3,289,743</u>
Total Program Services	<u>3,162,417</u>	<u>3,289,743</u>
Supporting Services		
Early childhood development administration	450,909	402,802
General administration	<u>144,167</u>	<u>152,113</u>
Total Supporting Services	<u>595,076</u>	<u>554,915</u>
Total Expenses	<u>3,757,493</u>	<u>3,844,658</u>
Change in Net Assets	(94,606)	(53,806)
Net Assets, Beginning of Year	<u>528,368</u>	<u>582,174</u>
Net Assets, End of Year	<u>\$ 433,762</u>	<u>\$ 528,368</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

South Central Child Development, Inc.

Statements of Functional Expenses

Year Ended December 31, 2023

	<u>Program Services</u>	<u>Supporting Services</u>		<u>2023 Totals</u>
	<u>Early Childhood Development</u>	<u>Early Childhood Development</u>	<u>General Administration</u>	
Expenses				
Salaries	\$ 1,779,769	\$ 265,320	\$ --	\$ 2,045,089
Contractual	449,972	30,945	--	480,917
Retirement	197,717	31,065	--	228,782
Occupancy	144,797	22,129	--	166,926
Payroll tax	136,608	19,899	--	156,507
Employee benefits	130,643	9,639	--	140,282
Depreciation	--	--	139,183	139,183
Food	103,897	--	--	103,897
Insurance	43,020	22,041	--	65,061
Travel	42,270	8,934	--	51,204
Supplies	25,133	3,666	4,984	33,783
Maintenance - equipment	28,337	338	--	28,675
Medical and dental exams	20,342	--	--	20,342
Telephone	13,892	5,380	--	19,272
Accounting	--	16,709	--	16,709
Professional fees	8,288	4,538	--	12,826
Training	10,561	--	--	10,561
Printing and publications	6,343	1,582	--	7,925
Registrations	7,083	--	--	7,083
Dues	2,136	3,727	--	5,863
Miscellaneous	5,084	--	--	5,084
Postage and shipping	2,493	2,361	--	4,854
Conferences, conventions and meetings	3,311	--	--	3,311
Legal	--	2,636	--	2,636
Child care	721	--	--	721
Total Expenses	<u>\$ 3,162,417</u>	<u>\$ 450,909</u>	<u>\$ 144,167</u>	<u>\$ 3,757,493</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

South Central Child Development, Inc.
Statements of Functional Expenses (Continued)
Year Ended December 31, 2022

	<u>Program Services</u>		<u>Supporting Services</u>		<u>2022 Totals</u>
	<u>Early Childhood Development</u>	<u>Early Childhood Development</u>	<u>General Administration</u>		
Expenses					
Salaries	\$ 1,727,142	\$ 206,124	\$ --	\$ 1,933,266	
Contractual	456,957	14,345	--	471,302	
Retirement	202,210	28,655	--	230,865	
Supplies	207,643	5,401	6,103	219,147	
Occupancy	135,852	22,650	--	158,502	
Payroll tax	132,504	15,426	--	147,930	
Depreciation	--	--	146,010	146,010	
Employee benefits	124,236	10,535	--	134,771	
Food	96,029	--	--	96,029	
Travel	53,786	8,174	--	61,960	
Insurance	40,661	20,975	--	61,636	
Professional fees	8,398	42,352	--	50,750	
Maintenance - equipment	29,062	--	--	29,062	
Telephone	14,275	5,324	--	19,599	
Medical and dental exams	16,664	--	--	16,664	
Printing and publications	11,656	2,120	--	13,776	
Accounting	--	12,535	--	12,535	
Registrations	9,759	--	--	9,759	
Miscellaneous	8,298	--	--	8,298	
Training	6,561	--	--	6,561	
Postage and shipping	3,236	2,429	--	5,665	
Dues	1,601	3,601	--	5,202	
Conferences, conventions and meetings	2,289	--	--	2,289	
Legal	--	2,133	--	2,133	
Child care	924	23	--	947	
Total Expenses	<u><u>\$ 3,289,743</u></u>	<u><u>\$ 402,802</u></u>	<u><u>\$ 152,113</u></u>	<u><u>\$ 3,844,658</u></u>	

The accompanying Notes to Financial Statements are an integral part of this statement.

South Central Child Development, Inc.
Statements of Cash Flows

	For the Years Ended	
	December 31,	
	2023	2022
Cash Flows from Operating Activities		
Increase (decrease) in net assets without donor restrictions	\$ (94,606)	\$ (53,806)
Adjustments to reconcile change in net assets without donor restrictions to net cash provided by operating activities:		
Depreciation	139,183	146,010
Gain on sale of fixed assets	--	(5,649)
(Increase) decrease in receivables	(116,964)	137,372
(Increase) decrease in prepaids	(3,549)	(883)
(Increase) decrease in payables and accruals	120,066	(138,147)
	<u>44,130</u>	<u>84,897</u>
Net Cash Provided by Operating Activities	<u>44,130</u>	<u>84,897</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	(43,649)	(91,898)
Purchase of certificates of deposit	(25,268)	(15,028)
Redemption of certificates of deposit	15,028	23,126
Proceeds from the sale of property and equipment	--	5,649
	<u>(53,889)</u>	<u>(78,151)</u>
Net Cash (Used) by Investing Activities	<u>(53,889)</u>	<u>(78,151)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(9,759)	6,746
Cash and Cash Equivalents, Beginning of Year	<u>38,993</u>	<u>32,247</u>
Cash and Cash Equivalents, End of Year	<u>\$ 29,234</u>	<u>\$ 38,993</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

South Central Child Development, Inc.

Notes to the Financial Statements

December 31, 2023 and 2022

1. Significant Accounting Policies:

Nature of Operations: South Central Child Development, Inc. was created in 1986, as a South Dakota non-profit federal grantee and operates a full-year Headstart Program and sponsors a full-year Child and Adult Care Food Program. The Headstart Program provides comprehensive early child development for disadvantaged preschool children and their families. The Child and Adult Care Food Program sponsors family day care centers in which meals are provided to all enrolled children. Roughly 80% of funding is provided by the Headstart Program.

Estimates: The preparation of financial statements in conformity 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.

Property and Equipment: Property and equipment is recorded at cost and is depreciated over its estimated useful life using the straight-line method. Depreciation expense is recorded in the General Fund. The Organization's policy is to capitalize all purchases greater than \$5,000 with a useful life exceeding one year. The federal government may have a reversionary interest in property and equipment purchased with grant funds.

Revenue Recognition: Substantially all of the Organization's revenues are derived from contracts with various governmental agencies to provide a variety of program services to the public based on contract requirements. Such contracts from government agencies are recorded as revenue as performance obligations are satisfied, which is generally when the related expenditures are incurred over the period the service is provided. Advances are recorded as deferred revenue from government contracts upon receipt.

In-Kind Contributions: The Organization receives a significant amount of its support in the form of in-kind contributions (i.e. donated time, material and supplies, etc.). No amounts have been reflected in the financial statements for these items because they do not meet the criteria for recognition under FASB ASC 958-605-25-16.

In-kind was valued as follows:

	2023	2022
Headstart Grant 08CH010770	<u>\$ 1,241,901</u>	<u>\$ 1,042,525</u>

Income Taxes: The Organization is exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code. The State of South Dakota does not levy an income tax.

Cash and Cash Equivalents: For purposes of the statement of cash flows, the Organization considers all unrestricted highly liquid investments and deposits with a term to maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable: The Organization carries its accounts receivable at cost less an estimate made for credit losses. Changes in the allowance for credit losses are classified in the statement of activities netted against federal revenues.

South Central Child Development, Inc.

Notes to the Financial Statements

December 31, 2023 and 2022

1. Significant Accounting Policies: (Continued)

The Organization assesses collectability by reviewing accounts receivable on a collective basis where similar characteristics exist and on an individual basis when we identify specific customers with known disputes or collectability issues. In determining the amount of the allowance for credit losses, we consider historical collectability based on past due status and make judgements about the credit-worthiness of customers based on ongoing credit evaluations. We also consider customer-specific information, current market conditions, and reasonable and supportable forecasts of future economic conditions to inform adjustments to historical loss data. The allowance for credit losses on accounts receivable as of December 31, 2023 and 2022 was \$0.

Functional Expenses: Expenses are allocated among program services and supporting services by direct identification of expenses if possible and estimated by management when direct identification is not possible. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits, which are allocated on the basis of estimates of time and effort.

Subsequent Events: Subsequent events have been evaluated for potential recognition or disclosure in the financial statements through May 17, 2024, the date the financial statements were available to be issued.

Leases: The Organization leases certain buildings, equipment, and vehicles. The determination of whether an arrangement is a lease is made at the lease's inception. Under ASC 842, a contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed.

The Organization has elected the short-term lease recognition exemption for all applicable classes of underlying assets. Leases with an initial term of 12 months or less, that do not include an option to purchase the underlying asset that we are reasonably certain to exercise, are not recorded on the statement of financial position. Long-term operating leases are included in operating lease right-of-use ("ROU") assets, other current liabilities, and operating lease liabilities in our statement of financial position. Finance leases are included in property and equipment, other current liabilities, and other long-term liabilities in our statement of financial position. The Organization recognizes lease liabilities and corresponding assets with an initial, individual value of \$30,000 or more.

ROU assets represent our right to use an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Organization uses the implicit rate when it is readily determinable. Since most of the Organization's leases do not provide an implicit rate, to determine the present value of lease payments, management uses the Organization's incremental borrowing rate based on the information available at lease commencement. Operating lease ROU assets also includes any lease payments made and excludes any lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Organization's lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise the option.

South Central Child Development, Inc.

Notes to the Financial Statements

December 31, 2023 and 2022

1. Significant Accounting Policies: (Continued)

The Organization has lease agreements with lease and non-lease components, which are generally accounted for separately with amounts allocated to the lease and non-lease components based on stand-alone prices. For certain equipment leases, like vehicles, the Organization accounts for the lease and non-lease components as a single lease. Additionally, for certain equipment leases, we apply a portfolio approach to account for the operating lease ROU assets and liabilities.

Certain of our building lease agreements may include provisions for variable rent payments, which are adjusted periodically for inflation. None of our lease agreements contain any material residual value guarantees.

2. Economic Dependence:

The Organization's sole source of revenue is federal grants. These grants are subject to renewal on an annual basis. The Organization's future success is, therefore, dependent upon continued funding from the federal government. The Organization has received notice from the Department of Health and Human Services that their application for funding of its Headstart Program has been approved for the year ended December 31, 2023, at a level of \$4,397,391.

During the years ended December 31, 2023 and 2022 the Organization received funding from the following sources:

<u>Source</u>	2023	2022
US Department of Health Human Services	<u>\$ 3,573,317</u>	<u>\$ 3,630,083</u>
US Department of Agriculture (Pass through from SD Department of Education)	<u>\$ 83,625</u>	<u>\$ 77,180</u>

As of December 31, 2023 and 2022 the Organization had receivables due from the following federal sources:

<u>Source</u>	2023	2022
US Department of Health & Human Services	<u>\$ 498,265</u>	<u>\$ 383,964</u>

South Central Child Development, Inc.

Notes to the Financial Statements

December 31, 2023 and 2022

3. Retirement Plan:

The Organization has a non-contributory profit-sharing plan covering substantially all of its employees. Annual employer contributions to the plan are set by the Board of Directors. Contributions for the years ended December 31, 2023 and 2022, were \$228,782 and \$230,865, respectively.

4. Accounting for Uncertain Tax Positions:

The Organization files income tax returns in the U.S. federal jurisdictions. With few exceptions, the Organization is no longer subject to U.S. federal, state, or local tax examinations by tax authorities for years before 2020.

The Organization includes all penalties and interest assessed by income taxing authorities in operating expenses. The Organization did not have penalties and interest expenses for the years ended December 31, 2023 and 2022, respectively.

5. Liquidity and Availability of Financial Assets:

The following reflects the Organization's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

	December 31,	
	2023	2022
Cash and cash equivalents	\$ 29,234	\$ 38,993
Certificates of deposits	25,268	15,028
Program receivables	498,265	383,964
Accounts receivable	2,671	8
Total	<u>\$ 555,438</u>	<u>\$ 437,993</u>

As part of the Organization's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term investments.

South Central Child Development, Inc.

Notes to the Financial Statements

December 31, 2023 and 2022

6. Leasing Arrangements:

The Organization has elected the short-term lease recognition exemption for all applicable classes of underlying assets. Leases with an initial term of 12 months or less, that do not include an option to purchase the underlying asset that we are reasonably certain to exercise, are not recorded on the statement of financial position.

The Organization has long-term operating and financing leases of buildings and equipment. The leases have remaining lease terms of 5 to 10 years, some of which include options to extend the leases for up to an additional year, and some of which include options to terminate the leases within 1 year. Only lease options that the Organization believes are reasonably certain to exercise are included in the measurement of the lease assets and liabilities.

The following summarizes the line items in the balance sheets which include amounts for leases as of December 31:

	<u>2023</u>	<u>2022</u>
Assets:		
Operating leases		
Right of use assets (ROU)	\$ 548,528	\$ 606,855
Total lease assets	<u>\$ 548,528</u>	<u>\$ 606,855</u>
Liabilities		
Operating leases		
Current operating lease liability	\$ 84,683	\$ 82,216
Noncurrent operating lease liability	463,845	524,639
Total lease liabilities	<u>\$ 548,528</u>	<u>\$ 606,855</u>

The following summarizes the line items in the statements of activities which include the components of lease expense for the year ended December 31:

	<u>2023</u>	<u>2022</u>
Operating Leases:		
Lease costs included in operating expenses	\$ 84,683	\$ 82,216
	<u>\$ 84,683</u>	<u>\$ 82,216</u>

South Central Child Development, Inc.

Notes to the Financial Statements

December 31, 2023 and 2022

6. Leasing Arrangements: (Continued)

The following summarizes the line items in the statements of cash flows which include the components of leases for the year ended December 31:

	2023	2022
Cash Flow Information:		
Cash paid for amounts included		
in the measurement of lease liabilities:		
Operating cash flows for operating leases	(84,683)	(82,216)
Lease assets obtained in exchange for lease liabilities:		
Operating leases	--	679,330

The following summarizes additional information related to the Organization's leases as of December 31:

	2023	2022
Lease Term and Discount Rate:		
Weighted Average Remaining Lease Terms (years)		
Operating leases	7.02	8.01
Weighted Average Discount Rate		
Operating leases	1.52%	1.52%

Maturities of lease liabilities as of December 31, 2023:

	Operating
2024	\$ 84,683
2025	83,007
2026	82,449
2027	81,033
2028	81,033
Thereafter	165,751
Total lease payments	577,956
Less: interest	(29,428)
Present value of lease liabilities	\$ 548,528

South Central Child Development, Inc.

Notes to the Financial Statements

December 31, 2023 and 2022

7. Recently Issued Accounting Standards:

June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2016-13 (“ASU 2016-13”) “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”, which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss model which requires the use of forward-looking information to calculate credit loss estimates. It also eliminates the concept of other-than-temporary impairment and requires credit losses related to certain available-for-sale debt securities to be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. These changes result in earlier recognition of credit losses. We adopted ASU 2016-13 using the modified retrospective approach as of January 1, 2023. The cumulative effect upon adoption was not material to our financial statements. See “Accounts Receivable” in Note 1, as well.

8. Reclassifications:

Certain items in the financial statements for 2022 have been reclassified to conform with the current year presentation. Such reclassifications had no effect on the changes in net assets.

Supplemental Information

South Central Child Development, Inc.
Combining Statement of Financial Position
December 31, 2023

	Without Donor Restrictions		
	Headstart Fund	General Fund	Total
Assets			
Cash	\$ 2,261	\$ 26,973	\$ 29,234
Certificates of deposit	--	25,268	25,268
Program receivables	498,265	--	498,265
Prepaid insurance	15,716	--	15,716
Accounts receivable	--	2,671	2,671
Right of use assets	--	548,528	548,528
Property and equipment - net	--	378,850	378,850
	<u>\$ 516,242</u>	<u>\$ 982,290</u>	<u>\$ 1,498,532</u>
Total Assets	<u>\$ 516,242</u>	<u>\$ 982,290</u>	<u>\$ 1,498,532</u>
Liabilities			
Accounts payable	\$ 311,874	\$ --	\$ 311,874
Accrued expenses	204,368	--	204,368
Operating lease liabilities	--	548,528	548,528
	<u>516,242</u>	<u>548,528</u>	<u>1,064,770</u>
Total Liabilities	<u>516,242</u>	<u>548,528</u>	<u>1,064,770</u>
Net Assets			
Without donor restrictions	--	433,762	433,762
	<u>--</u>	<u>433,762</u>	<u>433,762</u>
Total Liabilities and Net Assets	<u>\$ 516,242</u>	<u>\$ 982,290</u>	<u>\$ 1,498,532</u>

South Central Child Development, Inc.

Combining Statement of Activities

Year Ended December 31, 2023

	Without Donor Restrictions			Total
	Headstart Fund	General Fund	Eliminations	
Support				
Federal revenue	\$ 3,656,975	\$ --	\$ --	3,656,975
Interest earned	--	1,060	--	1,060
Miscellaneous revenues	--	4,852	--	4,852
Property and equipment additions	--	43,649	(43,649)	--
Total Support	3,656,975	49,561	(43,649)	3,662,887
Expenses				
Program Services				
Personnel	2,244,737	--	--	2,244,737
Travel	42,270	--	--	42,270
Supplies	25,133	--	--	25,133
Contractual Services	529,201	--	--	529,201
Other	321,076	--	--	321,076
Property and Equipment	43,649	--	(43,649)	--
Depreciation	--	139,183	--	139,183
Supporting Services				
Personnel	325,923	--	--	325,923
Travel	8,934	--	--	8,934
Supplies	3,666	4,984	--	8,650
Contractual services	41,346	--	--	41,346
Other	71,040	--	--	71,040
Total Expenses	3,656,975	144,167	(43,649)	3,757,493
Increase (Decrease) in Net Assets Without Donor Restrictions	--	(94,606)	--	(94,606)
Net Assets, Beginning of Year	--	528,368	--	528,368
Net Assets, End of Year	\$ --	\$ 433,762	\$ --	\$ 433,762

South Central Child Development, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2023

<u>Federal Grant or/ Pass - Through Grant or/ Program Title</u>	<u>Federal Assistance Listing Number</u>	<u>Pass -Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture:			
Pass-Through Programs (State of South Dakota)			
Child and Adult Care Food Program	10.558	--	\$ 83,625
U.S. Department of Health and Human Services:			
Headstart	93.600	08CH010770/05	<u>3,573,317</u>
Total Headstart			<u>3,573,317</u>
Grand Total			<u><u>\$ 3,656,942</u></u>

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards “the schedule” includes the federal award activity of South Central Child Development, Inc. under program of the federal government for the year ended December 31, 2023. 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 positions, changes in net assets, or cash flows of South Central Child Developments, Inc.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the cash 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. 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.

Note 3: Indirect Cost Rate

South Central Child Development, Inc. does not use an indirect cost rate as allowed under the Uniform Guidance.