

KINGSLEY HOUSE, INC.  
AND AFFILIATES  
CONSOLIDATED FINANCIAL STATEMENTS

**June 30, 2021 and 2020**



Educates children, strengthens families and builds community

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Kingsley House, Inc. and Affiliates  
New Orleans, Louisiana

### **Report on the Consolidated Financial Statements**

#### **Opinion**

We have audited the accompanying consolidated financial statements of Kingsley House, Inc. and Affiliates (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kingsley House, Inc. and Affiliates as of June 30, 2021 and 2020, 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 audits in accordance with auditing standards generally accepted in the United States of America (GAAS) 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 Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Kingsley House, 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 opinion.

#### **2020 Consolidated Financial Statements Restated**

As discussed in Note 28 to the consolidated financial statements, during the year-end audit, management became aware that it had improperly applied Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 985-605-25-16 *Contributed Services* in fiscal year 2020. Note 28 shows the effects of the correction of this error. Our opinion is not modified with respect to this correction.

#### **Responsibilities of Management for the Consolidated Financial Statements**

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

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

## **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 Kingsley House, Inc. and Affiliates' 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Kingsley House, Inc. and Affiliates' 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.

### **Other Matters**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the accompanying schedule of compensation, benefits and other payments to agency heads are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally

accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated 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 September 29, 2022, on our consideration of Kingsley House, Inc. and Affiliate'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 Kingsley House, Inc. and Affiliates' internal control over financial reporting and compliance.

Metairie, Louisiana  
September 29, 2022

*Wegmann Dazet, APC*

KINGSLEY HOUSE, INC. AND AFFILIATES  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2021 and 2020

	Without Donor Restrictions	With Donor Restrictions	2021	2020
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 2,517,885	\$ -	\$ 2,517,885	\$ 2,087,400
Promises to give	87,155	1,184,877	1,272,032	113,539
Accounts receivable				
Government contracts	190,940	-	190,940	457,864
Other	106	275,000	275,106	748,625
Investments	2,338,313	-	2,338,313	1,813,493
Prepaid expenses	318,182	-	318,182	388,750
Total current assets	5,452,581	1,459,877	6,912,458	5,609,671
Cash held for acquisition of property	38,610	-	38,610	85,090
Promises to give, long term, net	-	720,433	720,433	734,662
Long-term investments				
Endowment	-	354,293	354,293	263,173
Beneficial interest in assets held by GNOF	-	98,940	98,940	81,898
Notes receivable	5,348,000	-	5,348,000	5,348,000
Property and equipment, net	12,252,672	-	12,252,672	13,068,176
Total assets	\$ 23,091,863	\$ 2,633,543	\$ 25,725,406	\$ 25,190,670
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable and accrued liabilities	\$ 709,921	\$ -	\$ 709,921	\$ 629,370
Accrued payroll and related liabilities	413,895	-	413,895	431,073
Current portion of long-term debt	258,115	-	258,115	149,200
Refundable advances	619,095	-	619,095	541,610
Total current liabilities	2,001,026	-	2,001,026	1,751,253
Long-term debt, less current portion	8,908,760	-	8,908,760	9,182,851
Total liabilities	10,909,786	-	10,909,786	10,934,104
<b>NET ASSETS</b>				
Without donor restrictions				
Undesignated	9,843,764	-	9,843,764	10,993,562
Designated by the Board	2,338,313	-	2,338,313	1,813,493
With donor restrictions				
Perpetual in nature	-	453,233	453,233	345,071
Purpose restrictions	-	2,180,310	2,180,310	1,104,440
Total net assets	12,182,077	2,633,543	14,815,620	14,256,566
Total liabilities and net assets	\$ 23,091,863	\$ 2,633,543	\$ 25,725,406	\$ 25,190,670

See accompanying Notes to Consolidated Financial Statements.

KINGSLEY HOUSE, INC. AND AFFILIATES  
CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues</b>			
Governmental contracts	\$ 11,723,381	\$ -	\$ 11,723,381
Contributions	563,388	1,054,883	1,618,271
In-kind donations	19,606	250,427	270,033
Foundation and corporate grants	1,113,418	113,294	1,226,712
Fundraising	47,583	-	47,583
Investment income	534,866	112,245	647,111
Program fees	49,928	-	49,928
United Way funding	65,090	102,236	167,326
Other income	343,291	-	343,291
<b>Net assets released from restrictions</b>			
United Way	97,983	(97,983)	-
Release from restrictions - foundation grants	92,033	(92,033)	-
Restrictions satisfied by payments	259,037	(259,037)	-
<b>Total revenues</b>	<b>14,909,604</b>	<b>1,184,032</b>	<b>16,093,636</b>
<b>Expenses</b>			
<b>Program services</b>			
Head Start	4,462,067	-	4,462,067
Youth Program	132,704	-	132,704
Adult Day Health Care	629,252	-	629,252
2 Gen	482,128	-	482,128
Early Head Start	6,622,648	-	6,622,648
Community and Supportive Services	212,126	-	212,126
Participant Meal Program	406,679	-	406,679
<b>Supporting services</b>			
General and administrative	2,216,534	-	2,216,534
Fundraising	370,444	-	370,444
<b>Total expenses</b>	<b>15,534,582</b>	<b>-</b>	<b>15,534,582</b>
<b>Change in net assets</b>	<b>(624,978)</b>	<b>1,184,032</b>	<b>559,054</b>
<b>Net assets</b>			
Beginning of year	12,807,055	1,449,511	14,256,566
End of year	\$ 12,182,077	\$ 2,633,543	\$ 14,815,620

See accompanying Notes to Consolidated Financial Statements.

KINGSLEY HOUSE, INC. AND AFFILIATES  
CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues</b>			
Governmental contracts	\$ 12,181,136	\$ -	\$ 12,181,136
Contributions	602,187	-	602,187
In-kind donations	55,112	-	55,112
Grant, Paycheck Protection Program	-	1,739,400	1,739,400
Foundation and corporate grants	938,911	425,000	1,363,911
Fundraising	183,559	-	183,559
Investment (loss) income	(7,864)	5,573	(2,291)
Program fees	85,907	-	85,907
United Way funding	55,537	97,983	153,520
Other income	547,153	-	547,153
<b>Net assets released from restrictions</b>			
United Way	102,532	(102,532)	-
Release from restrictions - Paycheck Protection	1,739,400	(1,739,400)	-
Restrictions satisfied by payments	259,257	(259,257)	-
<b>Total revenues</b>	<b>16,742,827</b>	<b>166,767</b>	<b>16,909,594</b>
<b>Expenses</b>			
<b>Program services</b>			
Head Start	4,533,713	-	4,533,713
Youth Program	156,094	-	156,094
Adult Day Health Care	765,353	-	765,353
2 Gen	204,035	-	204,035
Early Head Start	6,805,530	-	6,805,530
Community and Supportive Services	214,953	-	214,953
Participant Meal Program	448,626	-	448,626
<b>Supporting services</b>			
General and administrative	2,032,578	-	2,032,578
Fundraising	255,795	-	255,795
<b>Total expenses</b>	<b>15,416,677</b>	<b>-</b>	<b>15,416,677</b>
<b>Change in net assets</b>	<b>1,326,150</b>	<b>166,767</b>	<b>1,492,917</b>
<b>Net assets</b>			
Beginning of year	11,480,905	1,282,744	12,763,649
End of year	<u>\$ 12,807,055</u>	<u>\$ 1,449,511</u>	<u>\$ 14,256,566</u>

See accompanying Notes to Consolidated Financial Statements.

KINGSLEY HOUSE, INC. AND AFFILIATES  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2021

	Program Services							Supporting Services			
	Head Start	Youth Program	Adult Day Health Care	2 Gen	Early Head Start	Community & Supportive Services	Participant Meal Program	Total Program Services	General and administrative	Fundraising	Total
Personnel	\$ 2,342,950	\$ 8,410	\$ 312,261	\$ 130,123	\$ 3,560,030	\$ 101,850	\$ 82,720	\$ 6,538,344	\$ 680,210	\$ 74,140	\$ 7,292,694
Employee benefits											
Health insurance	190,770	13,540	47,497	6,670	290,570	14,500	18,570	582,117	71,360	8,060	661,537
Retirement	67,770	290	9,397	106	102,300	3,260	2,820	185,943	22,400	2,460	210,803
Other	11,400	320	1,984	573	17,340	610	610	32,837	4,980	360	38,177
Payroll taxes	214,610	4,700	34,304	12,246	339,390	11,810	9,950	627,010	81,580	7,710	716,300
Total personnel and related expenses	2,827,500	27,260	405,443	149,718	4,309,630	132,030	114,670	7,966,251	860,530	92,730	8,919,511
Conferences, conventions, and meetings	36,260	60	2,120	9,980	39,230	100	20	87,770	23,370	1,260	112,400
Food	9,860	70	1,430	780	12,680	3,480	249,800	278,100	2,110	90	280,300
Membership dues	2,570	-	10	-	4,070	-	-	6,650	15,620	120	22,390
Occupancy											
Utilities	99,050	15,790	39,080	-	139,250	2,450	4,450	300,070	70,120	3,540	373,730
Rent	200	-	-	-	5,940	-	-	6,140	(2,750)	-	3,390
Repairs and maintenance	56,660	1,120	2,750	-	58,090	350	1,950	120,920	5,650	5,940	132,510
Janitorial and housekeeping	149,250	27,971	30,275	-	153,330	4,973	18,269	384,068	123,750	6,250	514,068
Insurance	62,620	(1,780)	31,430	-	71,000	(3,370)	(6,190)	153,710	15,780	4,180	173,670
Professional services	776,590	25,040	47,080	311,550	1,358,750	14,050	16,970	2,550,030	204,510	107,500	2,862,040
Program and office expense	248,074	9,170	37,730	10,040	398,390	18,740	6,740	728,884	82,510	69,640	881,034
Travel and Transportation	180	-	11,700	60	13,280	-	-	25,220	4,690	690	30,600
Specific assistance to individuals	1,180	-	-	-	1,590	33,500	-	36,270	-	1,080	37,350
Field trips	-	-	-	-	300	-	-	300	-	-	300
Interest Expense	-	-	-	-	-	-	-	-	121,400	-	121,400
Bad debt expense	-	-	-	-	-	-	-	-	117,930	-	117,930
Total expense before depreciation	4,269,994	104,701	609,048	482,128	6,565,530	206,303	406,679	12,644,383	1,645,220	293,020	14,582,623
Depreciation	192,073	28,003	20,204	-	57,118	5,823	-	303,221	571,314	77,424	951,959
Total expenses	\$ 4,462,067	\$ 132,704	\$ 629,252	\$ 482,128	\$ 6,622,648	\$ 212,126	\$ 406,679	\$ 12,947,604	\$ 2,216,534	\$ 370,444	\$ 15,534,582

See accompanying Notes to Consolidated Financial Statements.

KINGSLEY HOUSE, INC. AND AFFILIATES  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2020

	Program Services							Supporting Services			
	Head Start	Youth Program	Adult Day Health Care	2 Gen	Early Head Start	Community & Supportive Services	Participant Meal Program	Total Program Services	General and Administrative	Fundraising	Total
Personnel	\$ 2,530,739	\$ 40,988	\$ 442,529	\$ 15,320	\$ 3,484,107	\$ 97,448	\$ 83,894	\$ 6,695,025	\$ 722,287	\$ 90,720	\$ 7,508,032
Employee benefits											
Health insurance	172,250	3,462	35,603	129	240,967	9,132	10,025	471,568	26,600	3,185	501,353
Retirement	57,848	(188)	9,983	-	94,991	3,153	2,316	168,103	25,468	2,448	196,019
Other	31,734	4,393	19,522	307	133,806	5,278	5,052	200,092	2,565	4,199	206,856
Payroll taxes	186,282	3,453	32,467	1,029	261,567	6,998	6,434	498,230	48,689	6,347	553,266
Total personnel and related expenses	2,978,853	52,108	540,104	16,785	4,215,438	122,009	107,721	8,033,018	825,609	106,899	8,965,526
Conferences, conventions, and meetings	17,641	107	1,760	-	37,679	1,184	617	58,988	10,239	1,022	70,249
Food	65,192	895	1,602	1,129	66,741	6,703	307,583	449,845	9,297	924	460,066
General insurance	2,343	128	1,582	-	3,139	24	-	7,216	997	175	8,388
Membership dues	4,136	12	24	15	8,822	7	11	13,027	8,904	366	22,297
Occupancy											
Utilities	88,080	16,512	21,384	-	95,231	2,654	933	224,794	71,465	3,190	299,449
Rent	322	-	-	-	32,430	-	-	32,752	-	-	32,752
Repairs and maintenance	137,418	22,264	33,560	-	162,608	4,730	1,843	362,423	97,002	5,007	464,432
Janitorial and housekeeping	256	14	97	-	343	3	6,610	7,323	109	19	7,451
Building insurance	47,816	7,679	15,509	-	74,885	4,680	-	150,569	34,899	3,483	188,951
Professional services	700,586	9,845	32,563	158,992	251,351	6,051	7,196	1,166,584	175,730	27,306	1,369,620
Program and office expense	353,401	13,050	58,775	15,970	1,687,301	31,761	15,948	2,176,206	230,943	29,577	2,436,726
Travel and transportation	19,927	2,389	25,049	11,144	59,497	1,109	164	119,279	6,869	930	127,078
Specific assistance to individuals	4,307	-	-	-	122	29,228	-	33,657	-	-	33,657
Field trips	1,469	3,579	-	-	-	-	-	5,048	-	-	5,048
Bad debt expense	-	-	15,362	-	-	3	-	15,365	5,195	-	20,560
Total expense before depreciation	4,421,747	128,582	747,371	204,035	6,695,587	210,146	448,626	12,856,094	1,477,258	178,898	14,512,250
Depreciation	111,966	27,512	17,982	-	109,943	4,807	-	272,210	555,320	76,897	904,427
Total expenses	\$ 4,533,713	\$ 156,094	\$ 765,353	\$ 204,035	\$ 6,805,530	\$ 214,953	\$ 448,626	\$ 13,128,304	\$ 2,032,578	\$ 255,795	\$ 15,416,677

See accompanying Notes to Consolidated Financial Statements.

KINGSLEY HOUSE, INC. AND AFFILIATES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 559,054	\$ 1,492,917
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	951,959	904,427
Donated securities	(250,427)	-
Interest and dividends reinvested, net of fees	(18,929)	(44,136)
Realized and unrealized (gain) loss on investments	(627,473)	31,909
Bad debt expense	117,930	20,560
(Increase) decrease in operating assets:		
Accounts receivable	740,443	(383,989)
Promises to give	(1,262,194)	254,214
Prepaid expenses	70,568	(102,919)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	80,551	(365,629)
Accrued payroll and related liabilities	(17,178)	74,555
Refundable advance	77,485	384,574
Net cash provided by operating activities	<u>421,789</u>	<u>2,266,483</u>
Cash flows from investing activities:		
Purchase of land, buildings and equipment	(136,455)	(305,627)
Sales and maturities of investments	420,696	178,281
Purchase of investments	(156,849)	(46,460)
Net cash provided (used) by investing activities	<u>127,392</u>	<u>(173,806)</u>
Cash flows from financing activities:		
Borrowings under line of credit	149,046	-
Repayments of line of credit	(149,046)	(345,262)
Repayments of long-term debt	(165,176)	(145,954)
Net cash used by financing activities	<u>(165,176)</u>	<u>(491,216)</u>
Net increase in cash, cash equivalents and restricted cash	384,005	1,601,461
Cash, cash equivalents and restricted cash at beginning of year	<u>2,172,490</u>	<u>571,029</u>
Cash, cash equivalents and restricted cash at end of year	<u>\$ 2,556,495</u>	<u>\$ 2,172,490</u>

See accompanying Notes to Consolidated Financial Statements.

KINGSLEY HOUSE, INC. AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2021 and 2020

1) Nature of activities

Kingsley House, Inc. and Affiliates (the “Organization”) is a not-for-profit corporation and is a United Way agency serving Southeast Louisiana. The Organization obtains funds from state and federal governmental grants and private donor contributions. The affiliates of the Organization include Kingsley House Foundation, Inc. and 1542 Constance Street, Inc.

Kingsley House Foundation, Inc. (the “Foundation”) is a Louisiana not-for-profit entity which was organized on May 28, 2013 for the purpose of serving as the fundraising arm to Kingsley House, Inc. The Foundation is considered a supporting organization under Internal Revenue Code 509(a)(3). The Foundation is governed by a board of directors with at least 60% of the board being comprised of Kingsley House, Inc. board members.

1542 Constance Street, LLC was formed on August 6, 2013 for the purpose of building the Patrick F. Taylor campus (the “Project”) located at municipal address 901 Richard Street, directly across from the Organization’s main campus. The Organization serves as the sole member of the entity and is responsible for its management. During the fiscal year ended June 30, 2014, the Organization acquired 4.2 acres of land adjacent to the Organization’s main campus upon which it has constructed a 24,000 square foot facility at an estimated project cost, inclusive of the land acquisition, of approximately \$12.5 million to serve more than 300 infants, toddlers, seniors and medically fragile adults. The facility was opened in August 2016.

On January 23, 2015, 1542 Constance Street, LLC was changed to a corporation, 1542 Constance Street, Inc., for the purpose of securing New Markets Tax Credits (“NMTCs”) (Note 12) related to construction of a new facility to serve the community.

In anticipation of the Project, the Organization formed the Foundation discussed above. The Foundation began a 2013 Capital Campaign to fund, in part, the Project and also to provide for ongoing operational and maintenance costs of the Project and the Organization’s main campus. This Capital Campaign continued through 2017. The financing for the Project is a mixture of New Markets Tax Credits, a state Office Community Development Project-Based Recovery Opportunity Program Loan, and a grant from Kingsley House. Construction began in 2015 and was completed in August of 2016.

Programs provided by the Organization are as follows:

Head Start - A state licensed Head Start center is provided for 339 children.

Early Head Start – A state licensed Early Head Start center for 220 children. The Organization is an Early Head Start/Child Care Partnership Start grantee. Through a competitive grant process, in December of 2014 the Organization was selected as one of four grantees in the state of Louisiana. This established the Organization as a grantee for an additional 150 infants and toddler slots amongst 9 childcare partners. In addition, in July of 2015, the Organization was selected as one of three Head Start/Early Head Start grantees in the New Orleans Area. The consolidated grant allows the Organization to operate the most diverse model in the State of Louisiana.

Adult Day Health Care – The Organization operates an adult day health care program licensed for 158 elderly or disabled adults and a senior center for persons over 60 years old.

Participant Meals Program – The Organization operates two full kitchens to prepare and serve breakfast, lunch, and snacks to participants in the Head Start, Early Head Start, Youth Program and Adult Day Health Care programs.

KINGSLEY HOUSE, INC. AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2021 and 2020

1) Nature of activities (continued)

Community and Supportive Services – The Organization provides intensive case management services for former St. Bernard Housing Development residents as they resettle in a redeveloped mixed income community.

Youth Program – The Organization operates a full day summer camp program.

Whole Family – The Organization provides a whole family approach to mitigate poverty and provide employment opportunities for participants.

2) Summary of significant accounting policies

The significant accounting policies followed by the Organization are summarized as follows:

(a) Financial statement presentation

The accompanying consolidated financial statements present the consolidated statements of financial position, changes in net assets, functional expenses, and cash flows of Kingsley House, Inc., Kingsley House Foundation, Inc. and 1542 Constance Street, Inc. (together referred to as the “Organization”). All significant inter-company accounts and transactions have been eliminated.

(b) Basis of presentation

The financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Net assets and revenues and other support are classified as without donor restrictions, or with donor restrictions based on the existence or absence of donor-imposed restrictions. Expenses are classified as without donor restrictions.

Net assets without donor restrictions include all net assets over which the board of directors (the Board) has full discretion to use. From time to time, the Board may designate portions of net assets without donor restrictions to be used for specific purposes. Such amounts are typically included in net assets without donor restrictions.

Net assets with donor restrictions include all net assets over which third parties have imposed restrictions, which cannot be changed by the Board. Net assets with donor restrictions are held for purpose restrictions or in perpetuity.

(c) Impairment of long-lived assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. No impairments have been identified for the years ended June 30, 2021 and 2020.

(d) Revenue recognition

*Contributions:* The Organization reports gifts of cash and other assets as with donor restriction if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires—that is, when a stipulated time restriction ends, or purpose restriction is accomplished—with donor restriction net assets are reclassified to without donor-restriction net assets and reported in the consolidated statements of activities as net assets released from restrictions.

KINGSLEY HOUSE, INC. AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2021 and 2020

2) Summary of significant accounting policies (continued)

(d) Revenue recognition (continued)

Unconditional promises to give with payments due in future periods are presumed to be time restricted by the donor until received and are reported as with donor-restriction net assets.

Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Until that point, any amounts received are recorded as refundable advances.

*Government support and revenue:* The Organization has contracts with government and third parties for the performance of various services, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Government and other grants revenues are nonexchange transactions in which no commensurate value is exchanged. Accordingly, contribution accounting is applied under ASC Topic 958, Not-for-Profit Entities. Government and other grants are evaluated for contributions that are conditional. The Organization recognizes revenue as expenses are incurred, to a maximum of the grant award.

Program service fees and exchange-type grants and contracts revenue are recognized when services are provided. Program fees and payments under exchange-type grants and contracts received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

(e) In-kind donations

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair market values at the date of donation. Such donations are reported as net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as net assets with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions over the useful life of the donated asset. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions over such useful life.

The Organization recognizes the fair value of donated services received if such services a) create or enhance nonfinancial assets or b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not donated.

In-kind donations include:

	<u>2021</u>	<u>2020</u>
Equity securities for Capital Campaign	\$ 250,427	\$ -
Supplies for Head Start/Early Head Start	19,606	55,112
Total in-kind donations	\$ 270,033	\$ 55,112

The Organization receives services from a large number of volunteers who give significant amounts of their time to the Organization's programs, but which do not meet the criteria for financial statement recognition. The fair value of these hours for the years ended June 30, 2021 and 2020 was \$860,606 and \$1,408,354, respectively.

KINGSLEY HOUSE, INC. AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2021 and 2020

2) Summary of significant accounting policies (continued)

(f) Functional expenses

Expenses are charged to each program directly when the charge is identified to the program. Program expenditures which cannot be directly identified to a program are allocated based on square footage, usage statistics, employees, and ratio of program expenses to total expenses as appropriate. Supporting services include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization. Expenses are allocated among the various program services and general and administrative categories based on actual use or management's best estimate in the consolidated statements of functional expenses.

(g) Cash and cash equivalents

All cash-related items having a maturity of three months or less from the original maturity date are classified as cash and cash equivalents.

	2021	2020
Cash	\$ 2,517,885	\$ 2,087,400
Cash held for purchase of property	38,610	85,090
Total	\$ 2,556,495	\$ 2,172,490

(h) Investments

Investments in equity securities with readily determinable fair values are reported at their fair values in the consolidated statements of financial position. Unrealized gains and losses are included in the change in net assets. Investments with a maturity of one year or less are classified as current.

(i) Accounts receivable

Accounts receivable are reported in the statements of financial position at net realizable value. An allowance for doubtful accounts is recognized by the Organization based upon a review of specific customers' balances, historical losses (bad debts) incurred and general economic conditions. Allowances are provided for accounts receivable including grants when these are estimated to be uncollectible. Once accounts are determined to be uncollectible, they are written off to bad debt expense. No allowance for uncollectible account has been provided, as management has evaluated the accounts and believes they are all collectible.

(j) Promises to give

Promises to give consists of unconditional promises to give that are expected to be collected in future years and are recorded at the present value of their estimated future cash flows. An allowance for uncollectible accounts has been maintained for estimated losses resulting from the inability of its donors to make required payments and the present value discount recorded. The Organization's estimate for the allowance for doubtful accounts is based on a review of the current promises to give. There is no allowance recorded as of June 30, 2021 and 2020 as management believes all promises to give are collectible.

(k) Concentrations of credit risk

The Organization maintains a portion of their cash balances in several banks and investment firms. Accounts at each bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to specific limits and amounts at each investment firm are insured by the Securities Investor Protection Corporation (SIPC) up to specific limits. The Organization's cash balances at times exceed insured limits as designated by the FDIC and SIPC. Management has assessed the risk of potential loss due to these concentrations and believes that the risk is minimal.

KINGSLEY HOUSE, INC. AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2021 and 2020

2) Summary of significant accounting policies (continued)

(l) Property and equipment

Property and equipment are carried at cost. Depreciation of property is provided over the estimated useful lives of the assets using the straight-line method. Repairs and maintenance are expensed as incurred. Expenditures that increase the value or productive capacity of assets are capitalized. When property and equipment are retired, sold, or otherwise disposed of, the assets carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in operations. The estimated useful lives of depreciable assets are:

	<u>Useful Lives</u>
Building	5 to 25 years
Improvements	10 to 25 years
Transportation equipment	5 years
Furniture, fixtures and equipment	5 to 25 years

(m) Fundraising

All expenses associated with fundraising events are expensed as incurred.

(n) Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(o) Advertising costs

Advertising costs are expensed as incurred, and approximated \$62,363 and \$41,759 during the years ended June 30, 2021 and 2020, respectively.

(p) Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

3) Income taxes

Kingsley House, Inc. is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. Kingsley House Foundation, Inc. is exempt from income taxes under Section 509(a)(3) of the U.S. Internal Revenue Code. 1542 Constance Street, Inc. is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code.

The Organization adopted the provisions of ASC 740, Income Taxes. Management of the Organization believes it has no material uncertain tax positions and, accordingly it will not recognize any liability for unrecognized tax benefits. With few exceptions, the Organization is not subject to U.S. federal and state income tax examinations by tax authorities beyond three years from the filing of those returns.

4) Related party transactions

The Organization had a balance of \$167,947 and \$246,171 due from a related party include in accounts receivable at June 30, 2021 and 2020. The Organization paid an entity owned by a board member \$67,700 and \$-0- for services provided during the year ended June 30, 2021 and 2020, respectively..

KINGSLEY HOUSE, INC. AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2021 and 2020

5) Promises to give

Unconditional promises to give are estimated to be collected as follows at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Within one year	\$ 1,272,032	\$ 113,539
In one to five years	884,665	810,000
	<u>2,156,697</u>	<u>923,539</u>
Less discount to net present value at 4%	(164,232)	(75,338)
Promises to give, net	<u>\$ 1,992,465</u>	<u>\$ 848,201</u>

As of June 30, 2021 and 2020, promises to give consisted of:

	<u>2021</u>	<u>2020</u>
Promises to give, current	\$ 1,272,032	\$ 113,539
Promises to give, long term	720,433	734,662
	<u>\$ 1,992,465</u>	<u>\$ 848,201</u>

6) Property and equipment, net

Property and equipment is summarized as follows:

	<u>2021</u>	<u>2020</u>
Land	\$ 1,095,967	\$ 1,095,967
Building	20,494,594	20,494,594
Improvements	174,889	174,889
Furniture, fixtures and equipment	1,869,181	1,732,726
Transportation equipment	387,008	387,008
Total costs	<u>24,021,639</u>	<u>23,885,184</u>
Less: accumulated depreciation	11,768,967	10,817,008
Property and equipment	<u>\$ 12,252,672</u>	<u>\$ 13,068,176</u>

7) Noncurrent assets

As of June 30, 2021 and 2020, \$38,610 and \$85,090, respectively, of cash was held for acquisition of property and donor restricted purposes for the construction of the Patrick F. Taylor campus and related interest and fees.

8) Notes receivable

A leveraged loan agreement was executed on March 10, 2015 between an affiliate of the Federal NMTCs Investor and Kingsley House, Inc. and Affiliates in the amount of \$5,348,000 maturing June 30, 2039 with interest of 1.00%. Principal and interest are due quarterly beginning March 15, 2022. The Federal NMTCs Investor has pledged and granted a security interest to Kingsley House, Inc. and Affiliates for substantially all assets of its entities involved in the financing transactions on the closing date. The leveraged loan collaterally assigns all present and future payments, distributions (cash or otherwise), proceeds, profits, income, compensation, property, assets and rights due or to become due and payable to Kingsley House, Inc. and Affiliate in connection with all of the Federal NMTCs Investor's membership interest.

KINGSLEY HOUSE, INC. AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2021 and 2020

9) Investments

Investments are carried at fair value and consist of the following at June 30, 2021 and 2020:

	<u>Costs</u>	<u>2021 Fair Value</u>	<u>2020 Fair Value</u>
Endowment Fund Investments	\$ 59,035	\$ 98,940	\$ 81,898
Board Designated Endowment	129,412	354,293	263,173
Other investments	1,615,398	2,338,313	1,813,493
Total investments	<u>\$ 1,803,845</u>	<u>\$ 2,791,546</u>	<u>\$ 2,158,564</u>

A summary of return on investments consists of the following for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Endowment Fund Investments		
Investment income	\$ 795	\$ 874
Realized/unrealized gain	20,068	636
Board Designated Endowment		
Investment income	5,515	5,710
Realized/unrealized gain (loss)	85,605	(1,647)
Other Investments		
Investment income	13,328	37,511
Realized/unrealized gain (loss)	521,800	(30,898)

10) Long-term investments – beneficial interest in assets held by GNOF

The Organization’s endowment consists of donor restricted funds. The Organization has granted the Greater New Orleans Foundation (the “GNOF” or “GNO Foundation”) the authority to administer and manage the endowment funds in accordance with the Greater New Orleans Foundation’s investment policy and guidelines as noted below. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions – perpetual in nature: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization’s investment policies.

KINGSLEY HOUSE, INC. AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2021 and 2020

10) Long-term investments – beneficial interest in assets held by GNOF (continued)

*Investment Return Objectives, Risk Parameters and Strategies.* The primary financial objective for the GNO Foundation is to increase the real (inflation-adjusted) purchasing power of endowment assets and income after accounting for endowment spending, inflation, and costs of investment management. Endowment assets are invested in a well-diversified asset mix, which includes equity securities, fixed income securities and alternative investments that is intended to meet this objective. The GNO Foundation has established a 5% real rate of return objective for the GNO Foundation’s portfolio. Actual returns in any given year may vary from this amount. Investment assets and allocation between asset classes and strategies are managed to not expose the endowment assets to unacceptable levels of risk.

*Spending Policy.* The GNO Foundation follows a Total Return Spending Policy for its endowment funds. Endowment funds are invested for maximum total return (within acceptable risk parameters), without distinction between income and capital gains. The market value of the fund is measured over the past 12 quarters, and a percentage of the average of those values is made available for grants. This method appropriately puts the focus on the long-term growth of the fund. This, in turn, encourages the appropriate use of equities in the fund, helping the fund to grow at a rate greater than inflation. The annual percentage for 2021 and 2020 distributions were 4%. This percentage is evaluated each year and adjusted as necessary.

The composition of endowments by net asset with donor restriction – perpetual in nature at June 30, 2021 and 2020 was:

	2021	2020
Endowment net assets, beginning of year	\$ 81,898	\$ 84,328
Investment income	795	874
Realized/unrealized gain	20,068	636
Subtotal	102,761	85,838
Grants	3,371	3,325
Administrative expenses	449	615
Endowment net assets, end of year	\$ 98,940	\$ 81,898

11) Long-term investment - Board designated endowment

As of June 30, 2021 and 2020, the Board of the Organization had designated \$354,293 and \$263,173, respectively, of net assets with donor restrictions – perpetual in nature as a general endowment fund to support the mission of the Organization. Since the amount resulted from restricted donations and is donor-restricted, it is classified and reported as net assets with donor restrictions – perpetual in nature.

The Organization has a spending policy of maintaining realized gains and losses, and investment earnings within the endowment. This is consistent with the Organization’s objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

To achieve that objective, the Organization has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity funds and corporate bonds. Accordingly, the Organization expects its endowment assets, over time, to produce a positive average rate of return annually.

Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

KINGSLEY HOUSE, INC. AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2021 and 2020

11) Long-term investment - Board designated endowment (continued)

Composition of and changes in endowment net assets with donor restriction – perpetual in nature for the years ended June 30, 2021 and 2020 were as follows:

	2021	2020
Endowment net assets, beginning of year	\$ 263,173	\$ 259,110
Investment income	5,515	5,710
Realized/unrealized (loss) gain	85,605	(1,647)
Endowment net assets, end of year	\$ 354,293	\$ 263,173

12) Board designations

It is the policy of the Board of Directors of the Organization to review its plans for future property improvements, acquisitions, and program services from time to time and to designate appropriate sums of unrestricted net assets to ensure adequate financing. At June 30, 2021 and 2020, the Organization had board-designated funds totaling \$2,338,313 and \$1,813,493, respectively, in unrestricted cash and investments on the consolidated statements of financial position.

13) Line of credit

The Organization has an unsecured \$500,000 line of credit with a bank that bears interest at the bank’s prime rate adjusting daily minus 2%, with a floor rate of 3.75%. The line of credit matures May 8, 2024. The amount outstanding under the line of credit was \$-0- at June 30, 2021 and 2020.

14) New markets tax credit

The Facility A and B notes are intended to qualify as a “qualified low-income community investment” (QLICI) for the purposes of generating certain tax credits called New Markets Tax Credits (NMTCs) under section 45D of the Internal Revenue Code of 1986, as amended. To qualify, the Organization must comply with certain representations, warranties, and covenants. These include, but are not limited to, a covenant that the “portion of the business” (as defined) will operate to qualify as a qualified low-income community business (a “QALICB”). If, as a result of the breach of the agreement or loan documents by the Organization, JPMorgan Chase Bank, N.A. (“JPMC”), sole member of Chase Community Equity, LLC (Fund Member), sole member of Chase NMTC Kingsley Investment Fund, LLC (the “Fund”), is required to recapture all or any part of the NMTCs previously claimed. 1542 Constance Street, Inc. (“Project Borrower”) and Kingsley House, Inc. (“Sponsor”) agree to indemnify JPMC the NMTCs Recapture Amount. Additionally, the Lenders have a security interest in the assets of the Organization other than real property.

On March 10, 2015, the Project Borrower issued two Facility A promissory notes payable and two Facility B promissory notes payable to the lenders. The notes are subject to credit and loan agreements executed by the Project Borrower, as the QALICB under the NMTCs Program, and the lender.

LIIF CDE Loan A1 (A1 Note) was issued for \$4,345,250 and is secured under the aforementioned credit and loan agreements. The A1 Note matures on December 31, 2044. The note bears interest at a rate per annum equal to 1.1%. The Project Borrower will pay interest only on this note quarterly in arrears on March 5, June 5, September 5, and December 5 of each year, commencing June 5, 2015, and continuing until March 5, 2022. The Project Borrower shall pay amortized principal and interest payments starting June 5, 2022. The Project Borrower may not prepay the A1 Note in full or in part any time prior to the expiration of the NMTCs compliance period.

KINGSLEY HOUSE, INC. AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2021 and 2020

14) New markets tax credit (continued)

CNMC CDE Loan A2 (A2 Note) was issued for \$1,002,750 and is secured under the aforementioned credit and loan agreements. The A2 Note matures on December 31, 2044. The note bears interest at a rate per annum equal to 1.1%. The Project Borrower will pay interest only on this note quarterly in arrears on March 5, June 5, September 5, and December 5 of each year, commencing June 5, 2015, and continuing until March 5, 2022. The Project Borrower shall pay amortized principal and interest payments starting June 5, 2022. The Project Borrower may not prepay the A2 Note in full or in part any time prior to the expiration of the NMTCs compliance period.

LIIF CDE Loan B1 (B1 Note) was issued for \$1,959,750 and is secured under the aforementioned credit and loan agreements. The B1 Note matures on December 31, 2044. The note bears interest at a rate per annum equal to 1.1%. The Project Borrower will pay interest only on this note quarterly in arrears on March 5, June 5, September 5, and December 5 of each year, commencing June 5, 2015, and continuing until March 5, 2022. The Project Borrower shall pay amortized principal and interest payments starting June 5, 2022. The Project Borrower may not prepay the B1 Note in full or in part any time prior to the expiration of the NMTCs compliance period.

CNMC CDE Loan B2 (B2 Note) was issued for \$497,250 and is secured under the aforementioned credit and loan agreements. The B2 Note matures on December 31, 2044. The note bears interest at a rate per annum equal to 1.1%. The Project Borrower will pay interest only on this note quarterly in arrears on March 5, June 5, September 5, and December 5 of each year, commencing June 5, 2015, and continuing until March 5, 2022. The Project Borrower shall pay amortized principal and interest payments starting June 5, 2022. The Project Borrower may not prepay the B2 Note in full or in part any time prior to the expiration of the NMTCs compliance period.

The Organization obtained a waiver from the lender for audited financial statements for the year ended June 30, 2021.

At the end of the seven year Tax Credit Investment Period, March 10, 2022 and ending 90 days thereafter (Put Option Period), the Fund Member may exercise a put option whereby the Investment Fund will sell its interest in the NMTCs Facilities to the Organization for the put price of \$1,000. In the event the Fund Member does not exercise the put and the Organization remains in compliance with the loan terms and the NMTCs rules and regulations, the Organization may exercise a call option during the 90 days following the end of the Put Option Period to purchase the Membership Interest of the Fund Member for an amount equal to the fair market value of the Membership Interest determined by mutual agreement of the parties or qualified independent appraiser.

15) Long-term debt

During fiscal year 2016, 1542 Constance Street, Inc. began drawing down on its long-term debt for construction of the new campus. A loan agreement was executed on March 10, 2015 between the State of Louisiana, Division of Administration, Office of Community Development (OCD) and the Organization in the amount of \$2,000,000 bearing interest at 1.00%, and maturing March 10, 2030. Principal and interest payments became due monthly in arrears commencing March 10, 2017 and continuing until March 10, 2030. As of June 30, 2017, the loan was drawn in full. The Organization obtained an extension from the OCD for the June 30, 2021 audited financial statements through October 14, 2022.

KINGSLEY HOUSE, INC. AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2021 and 2020

15) Long-term debt (continued)

Long-term debt of the Organization at June 30, 2021 and 2020 consists of the following:

	<u>2021</u>	<u>2020</u>
New Markets Tax Credit- LIIF Sub-CDE XXXI, L.L.C. QLICI A loan. Interest is payable quarterly at a rate of 1.1%. Principal amortization begins April 1, 2022 with the first amortization payment due on June 5, 2022. The note matures in December 31, 2044.	\$ 4,345,250	\$ 4,345,250
New Markets Tax Credit- CNMC Sub-CDE 77, L.L.C. QLICI A loan. Interest is payable quarterly at a rate of 1.1%. Principal amortization begins April 1, 2022 with the first amortization payment due on June 5, 2022. The note matures in December 31, 2044.	1,002,750	1,002,750
New Markets Tax Credit- LIIF Sub-CDE XXXI, L.L.C. QLICI B loan. Interest is payable quarterly at a rate of 1.1%. Principal amortization begins April 1, 2022 with the first amortization payment due on June 5, 2022. The note matures in December 31, 2044.	1,959,750	1,959,750
New Markets Tax Credit- CNMC Sub-CDE 77, L.L.C. QLICI B loan. Interest is payable quarterly at a rate of 1.1%. Principal amortization begins April 1, 2022 with the first amortization payment due on June 5, 2022. The note matures in December 31, 2044.	497,250	497,250
Note Payable - Interest is payable monthly at a rate of 1.0% beginning on April 1, 2022. Principal payments began on March 10, 2017. The note matures in March 10, 2030.	1,361,875	1,527,051
Total long-term debt	9,166,875	9,332,051
Less current portion	258,115	149,200
Long-term debt, less current portion	\$ 8,908,760	\$ 9,182,851

The maturities of long-term debt are as follows:

2022	\$ 258,115
2023	455,017
2024	459,997
2025	465,032
2026	470,122
Thereafter	7,058,592

KINGSLEY HOUSE, INC. AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2021 and 2020

16) Net assets with donor restrictions – purpose restrictions

The restrictions on net assets as of June 30, 2021 and 2020 relate to the following:

	<u>2021</u>	<u>2020</u>
W.K. Kellogg Foundation Grant	\$ 336,417	\$ 425,000
GNOF Financial Literacy	25,501	-
GNOF Economic Workforce Opportunity	57,793	-
GNOF Specific Assistance	26,550	-
Tom & Gayle Benson Foundation	581,457	581,457
125 <sup>th</sup> Birthday Campaign	1,050,356	-
United Way	102,236	97,983
Total net assets with donor restrictions	<u>\$ 2,180,310</u>	<u>\$1,104,440</u>

Net asset released from restrictions as of June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
W.K. Kellogg Foundation Grant	\$ 88,583	\$ 11,228
GNOF Endowment Fund	4,083	3,940
Paycheck Protection Program	-	1,739,400
Humana	-	94,089
GNOF Specific Assistance	3,450	-
Tom & Gayle Benson Foundation	-	111,445
Donor grants	-	38,555
125 <sup>th</sup> Birthday Campaign	254,954	-
United Way	97,983	102,532
Total net assets with donor restrictions	<u>\$ 449,053</u>	<u>\$2,101,189</u>

17) Net assets with donor restrictions – perpetual in nature

The Organization began receiving donations with the intentions of creating a permanent endowment in 2001. The Organization established the endowment funds with the intent to preserve the fair value of the original gift absent explicit donor stipulations to the contrary. As a result, the Organization classifies as net assets with donor restrictions – perpetual in nature the original value of gifts donated to the permanent endowment, and the original value of subsequent gifts to the permanent endowment. The Organization maintains realized and unrealized gains and losses within the endowment. As of June 30, 2021 and 2020, net assets with donor restrictions – perpetual in nature were \$453,233 and \$345,071, respectively.

18) Economic dependence

For the year ended June 30, 2021, approximately 73% of the Organization's revenues came from governmental grants, 8% from foundations and corporate grants, and 10% came from contributions. For the year ended June 30, 2020, approximately 72% of the Organization's revenues came from governmental grants, 8% from foundations and corporate grants, and 4% came from contributions.

19) Operating leases

Kingsley House, Inc. leases space from 1542 Constance Street, Inc. for its program needs. The lease runs through March 2046. Total rent expense under the lease was \$66,000 for the years ended June 30, 2021 and 2020. The rent expense associated with this lease agreement has been eliminated on the consolidated statements of activities.

KINGSLEY HOUSE, INC. AND AFFILIATES  
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For the Years Ended June 30, 2021 and 2020

19) Operating leases (continued)

Future minimum rental payments under the lease are as follows:

2023	\$ 505,000
2024	505,000
2025	505,000
2026	505,000
2027	505,000
Thereafter	9,480,968

Portions of the main campus are sub-leased to various organizations. Payments due under the leases are as follows:

2022	\$ 48,340
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The Organization also leases a service facility under a lease agreement accounted as an operating lease. The lease expired on August 31, 2020 and was not renewed. Total rent expense under the lease was \$-0- and \$31,499 for the years ended June 30, 2021 and 2020, respectively.

20) Employee benefit plan

The Organization maintains a 403(b) retirement plan for the benefit of all eligible employees, whereby the employees may elect to defer compensation pursuant to a salary reduction agreement. The Organization contributes a match as described in the plan documents. Contributions for the period July 1, 2018 through June 30, 2020 were based on 3.5% of plan participants' salaries. Total retirement plan expense was \$210,803 and \$196,019 for the years ended June 30, 2021 and 2020, respectively.

21) Fair value measurement

Financial Accounting Standards Board Accounting Standards Codification 820, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1     Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2     Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3     Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

KINGSLEY HOUSE, INC. AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2021 and 2020

21) Fair value measurement (continued)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2021 and 2020.

*Equities, certain Fixed Income Funds and certain Money Market Funds:* Valued at the closing price reported on the active market on which the individual securities are traded. If quoted market prices are not available for the specific security, then fair values are estimated by using pricing models or quoted prices of securities with similar characteristics.

*Corporate Bonds, Fixed Income Bond Funds, and Mortgage backed Securities:* Valued at the present value of the expected future cash flows utilizing the minimum risk-free rate of return. The valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

*Money Market Funds and Mutual Funds:* Valued at the net asset value of the shares held at year end.

*Other Investments:* Included in other investments are Private Equity Funds, Limited Liability Entities, Hedge Funds, and Pooled Investment Funds. These investments are valued based upon the units held at year-end multiplied by the respective unit value. The unit value is based upon significant observable inputs, although it is not based upon quoted marked prices in an active market. The underlying investments consist primarily of equity securities, debt obligations, short-term investments and other marketable securities. In accordance with ASC 820-10, these investments are not classified in the fair value hierarchy.

Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2021:

	Assets at Fair Value as of June 30, 2021			
	Level 1	Level 2	Level 3	Total
Equity Funds	\$ 1,414,520	\$ -	\$ -	\$ 1,414,520
Corporate Bonds	-	219,869	-	219,869
Fixed Income Bond Funds	-	377,428	-	377,428
Money Market Funds	160,973	-	-	160,973
Total assets at fair value	\$ 1,575,493	\$ 597,297	\$ -	\$ 2,172,790
Investments recorded at NAV as practical expedient				618,756
				\$ 2,791,546

KINGSLEY HOUSE, INC. AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2021 and 2020

21) Fair value measurement (continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2020:

	Assets at Fair Value as of June 30, 2020			
	Level 1	Level 2	Level 3	Total
Equity Funds	\$ 994,912	\$ -	\$ -	\$ 994,912
Corporate Bond Funds	-	179,523	-	179,523
Fixed Income Bond Funds	-	340,718	-	340,718
Money Market Funds	151,236	-	-	151,236
Total assets at fair value	\$ 1,146,148	\$ 520,241	\$ -	1,666,389
Investments recorded at NAV as practical expedient				492,174
				\$ 2,158,564

22) Supplemental disclosures of cash flows information

	2021	2020
Interest	\$ 121,400	\$ 132,300
Non-cash financing of insurance premiums	\$ 110,700	\$ 102,300

23) Commitments and contingencies

Kingsley House, Inc. is the guarantor in a New Markets Tax Credit Indemnity Agreement between 1542 Constance Street, Inc. and a lender. Should a recapture event occur, Kingsley House, Inc. could be obligated to pay the recapture amount according to the agreement. Management believes there are no breaches of the agreement as of June 30, 2021.

Kingsley House Foundation, Inc. is a guarantor in a credit agreement between Kingsley House, Inc. and a lender. The note payable balance at June 30, 2021 and 2020 were \$1,361,875 and \$1,527,051, respectively.

Any breach of the loan agreement between 1542 Constance Street, Inc. and CNMC Sub-CDE 77 and LIIF Sub-CDE XXXI, LLC, LLC may require the Organization to pay a recapture amount according to the agreement. Management believes there are no breaches of the agreement as of June 30, 2021.

The Organization is contractually committed to spend \$1,435,000 associated with the purchase of land located at 1542 Constance Street for environmental remediation costs. If remediation costs were less than the committed amount or the amount was not expended by August 2018, the Organization was required to remit to the seller any shortfall. As of December 31, 2016, the Organization fulfilled its commitment.

The Organization received a portion of its revenue from government grants, which are subject to audit by the respective funding source. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported to and audited by such governmental units. Until such audits have been completed and final settlement is reached, there exists a contingency to refund any amount received in excess of allowance costs. Management is of the opinion that no material liability will result from any such audits.

KINGSLEY HOUSE, INC. AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2021 and 2020

23) Commitments and contingencies (continued)

The Organization is partnered with Bayou District Foundation (a local nonprofit organization) and Educare New Orleans (a national nonprofit organization) to operate an early childhood program. The Organization has an agreement to manage and operate the program through June 2024. The Organization receives fees on a reimbursement basis plus a management fee to operate the program.

24) Council on Aging

Grants with the New Orleans Council on Aging from the Governor’s Office of Elderly Affairs are as follows:

	<u>2021</u>	<u>2020</u>
Revenues	\$ 74,778	\$ 58,002
Expenses:		
Compensation and related expenses	-	10,000
Total revenue, net of compensation and related expenses	\$ 74,778	\$ 48,002

25) Conditional grant

On April 4, 2020, Kingsley House, Inc. was granted a \$1,739,400 loan under the Paycheck Protection Program “PPP” administered by a Small Business Administration (SBA) approved partner. The loan funds were received on April 27, 2020 and is uncollateralized and is fully guaranteed by the Federal government. The Organization initially recorded the loan as a refundable advance and subsequently recognized grant revenue in accordance with guidance for conditional contributions; that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. The Organization received the forgiveness in the amount of \$1,739,400 on August 10, 2021.

26) New accounting pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. This accounting standard requires lessees to recognize assets and liabilities related to lease arrangements longer than 12 months on the statements of financial position as well as additional disclosures. The updated guidance is effective for annual periods beginning after December 15, 2021. Management is currently assessing the impact of this pronouncement on its financial statements.

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities* (Topic 958) to clarify the presentation and disclosure of contributed nonfinancial assets, including land, buildings, and other items. The Update does not change existing recognition and measurement requirements for contributed nonfinancial assets. The new standard is effective for annual reporting periods beginning after June 15, 2021 with early adoption permitted. Management is currently assessing the impact of this pronouncement on its financial statements.

KINGSLEY HOUSE, INC. AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2021 and 2020

27) Liquidity and availability

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

Financial assets:	
Cash and cash equivalents	\$ 2,517,885
Promises to give, net	1,992,465
Accounts receivable	466,046
Investments	2,338,313
Financial assets, at year end	7,314,709
Less those unavailable for general expenditure within one year due to restrictions by donor for specified purpose	
	2,633,543
Financial assets available to meet cash needs for general expenditures within one year	\$ 4,681,166

As a part of the Organization's liquidity management, the Organization maintains its cash and cash equivalents in financial institutions as cash. In addition to financial assets and a line of credit available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures.

28) Previous year correction of error

During the year, management became aware that it had improperly applied FASB ASC 985-605-25-16 *Contributed Services* to parent volunteer services. The Organization recognized as contributions the value of parent volunteer services in accordance with the regulations governing the U.S. Department of Health and Human Services' Head Start program which does not meet the recognition criteria under generally accepted accounting principles. The effect on the 2020 financial statements is summarized in the following table and are properly reflected on the 2020 consolidated financial statements. Net assets is not affected by this correction.

	Previously <u>Reported</u>	<u>Restated</u>
In-kind donations revenue	\$ 1,463,466	\$ 55,112
Head Start expenses	4,941,363	4,533,713
Early Head Start expenses	7,806,234	6,805,530

29) Uncertainties

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The continued development of this situation precludes any prediction as to the ultimate impact of the COVID-19 outbreak. The Organization cannot estimate the length or gravity of the impact of the COVID-19 outbreak may have on the Organization's results of future operations, financial position, and liquidity in fiscal year 2022.

KINGSLEY HOUSE, INC. AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2021 and 2020

30)

Subsequent events

On March 22, 2022, the Fund Member exercised the put option, referred to in Note 12, for \$1,000. The transactions' closing costs were approximately \$40,000. As of September 29, 2022, management has not completed its evaluation of this transaction and the likely effect on the Organization's consolidated financial statements has not been finalized.

On August 29, 2021, Hurricane Ida made landfall on the Louisiana coast, causing extensive damage throughout southeast Louisiana. The Organization experienced approximately \$190,000 of damage to property, plant and equipment from this severe weather event. There are no insurance proceeds expected as a result of this damage.

Management has evaluated subsequent events through the date of the auditors' report, the date which the consolidated financial statements were available to be issued. Except as noted above, there were no material subsequent events that required recognition or additional disclosure in these consolidated financial statements.

UNIFORM GUIDANCE COMPLIANCE AND  
GOVERNMENT AUDITING STANDARD REPORTS

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

To the Board of Directors  
Kingsley House, Inc. and Affiliates  
New Orleans, Louisiana

We have audited 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, the financial statements of Kingsley House, Inc., which comprise the consolidated statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 29, 2022.

**Internal Control over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2021-001 that we consider to be a material weakness.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Kingsley House, Inc. and Affiliates' 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2021-002.

## **Kingsley House, Inc. and Affiliates Response to Findings**

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

## **Purpose of This Report**

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

Metairie, Louisiana  
September 29, 2022

*Wegmann Bazet, APC*

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

To the Board of Directors  
Kingsley House, Inc. and Affiliates  
New Orleans, Louisiana

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited Kingsley House, Inc. and Affiliates' compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Kingsley House, Inc. and Affiliates' major federal programs for the year ended June 30, 2021. Kingsley House, Inc. and Affiliates' 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, Kingsley House, Inc. and Affiliates' complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (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 Kingsley House, Inc. and Affiliates 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 Kingsley House, Inc. and Affiliates' compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Kingsley House, Inc. and Affiliates' 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 Kingsley House, Inc. and Affiliates' 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 Kingsley House, Inc. and Affiliates' 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 Kingsley House, Inc. and Affiliates' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Kingsley House, Inc. and Affiliates' 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 Kingsley House, Inc. and Affiliates' 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.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2021-003. Our opinion on each major federal program is not modified with respect to these matters. *Government Auditing Standards* requires the auditor to perform limited procedures on Kingsley House, Inc. and Affiliates' response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Kingsley House, Inc. and Affiliates' response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

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

*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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2021-003 to be a significant deficiency.

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. *Government Auditing Standards* requires the auditor to perform limited procedures on Kingsley House, Inc. and Affiliates' response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Kingsley House, Inc. and Affiliates' response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Metairie, Louisiana  
September 29, 2022

*Wegmann Bazett, APC*

KINGSLEY HOUSE, INC. AND AFFILIATES  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2021

<b>Federal Grantor/Pass-through Grantor/Program</b>	<b>Federal A.L. Number</b>	<b>Agency or Pass-Through Number</b>	<b>Federal Expenditures</b>
U.S. Department of Health and Human Services			
Head Start/Early Head Start	93.600	06CH010152/06	\$ 2,463,318
Head Start/Early Head Start	93.600	06CH011848	5,841,829
Early Head Start Child Care Partnership	93.600	06HP000365/01	445,486
Early Head Start Child Care Partnership	93.600	06HP000365/02	<u>1,808,936</u>
Total Head Start Cluster			10,559,569
U.S. Department of Agriculture			
Lousiana Department of Education			
Child and Adult Care Food Program			
Preschool/ Early Head Start/School Age/Adult	10.558	CC93-432	286,036
Emergency Food and Shelter Program	97.024	365800-060	<u>6,378</u>
Total Expenditures of Federal Awards			<u><u>\$ 10,851,983</u></u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

KINGSLEY HOUSE, INC. AND AFFILIATES  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2021

Note 1 General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of Kingsley House, Inc. and Affiliates. The reporting entity is defined in Note 1 to Kingsley House, Inc. and Affiliates consolidated financial statements. All federal award programs received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

Note 2 Basis of accounting

The accompanying Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting. 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.)* Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements. Kingsley House, Inc. and Affiliates has elected not to use the 10 percent de minimus indirect cost rate as allowed under Uniform Guidance.

Note 3 Risk-based audit approach

The dollar threshold used to distinguish between Type A and Type B programs is \$750,000. The Organization does qualify as a low-risk auditee.

Note 4 Possible ineligible, disallowed and questioned costs

Kingsley House, Inc. and Affiliates is subject to audits and investigations by state and federal agencies or their designees for compliance with contractual and programmatic requirements with regard to funding provided to Kingsley House, Inc. and Affiliates. The determination of whether any instances of noncompliance that will ultimately result in remittance by Kingsley House, Inc. and Affiliates of any ineligible or disallowed costs cannot be presently determined.

KINGSLEY HOUSE, INC. AND AFFILIATES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2021

SECTION I - SUMMARY OF THE AUDITORS' RESULTS

Type of report issued on the consolidated financial statements: **Unmodified Opinion.**

Significant deficiencies in internal control were disclosed by the audit of the financial statements: **Yes.** Material weaknesses: **Yes.**

Noncompliance which is material to the consolidated financial statements: **No.**

Significant deficiencies in internal control over major programs: **Yes.** Material weaknesses: **No.**

Type of report issued on compliance for major programs: **Unmodified Opinion.**

Any audit findings which are required to be reported in accordance with 2CFR 200.516(a): **No.**

Major programs for the fiscal year ended June 30, 2021 were:

U.S. Department of Health and Human Services	
Head Start / Early Head Start	(A.L. #93.600)
Early Head Start Child Care Partnership	(A.L. #93.600)

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

Auditee qualified as a low-risk auditee under Uniform Guidance: **Yes.**

A management letter was issued: **No.**

SECTION II – FINANCIAL STATEMENT FINDINGS

**2021-001: Contributed Services**

Condition:

The Organization improperly recognized as contributions the value of parent volunteer services on the Organization's financial statements.

Criteria:

FASB ASC 985-605-25-16, *Contributed Services*, requires contribution of services be recognized if the services received (a) creates or enhances a nonfinancial asset or (b) they require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Services requiring specialized skills are provided by accountants, architects, carpenters, doctors, electricians, lawyers, nurses, plumbers, teachers, and other professionals and craftsmen.

Cause:

The Organization recognized as contributions the value of parent volunteer services in accordance with the regulations governing the U.S. Department of Health and Human Services' Head Start program. However, unless the labor qualifies as skilled under U.S. GAAP, these amounts should not be recorded on the Organization's financial statements.

Effect:

The Organization overstated revenue and expenses in the current fiscal year by \$860,606 and in the prior fiscal year by \$1,408,354 requiring a restatement.

Recommendation:

We recommend that management review revenue recognition policies and procedures annually to ensure its being recognized in accordance with generally accepted accounting principles.

KINGSLEY HOUSE, INC. AND AFFILIATES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2021

SECTION II – FINANCIAL STATEMENT FINDINGS (continued)

**2021-001: Contributed Services (continued)**

Views of the responsible officials and planned corrective actions:

Kingsley House (KH) management has always been very diligent and consistent in the implementation and calculation of specific Office of Head Start rules and criteria set for in-kind contributions and volunteer hours. Given more contemporaneous clarifications of existing GAAP accounting procedures, management has taken a much closer examination of reporting the value of parent volunteer services, equivalent to a Teacher's Aide average wages and burden, for both the Non-Federal Match as well as audited financial statements. KH management made the collective decision to continue and record parent volunteer hours for the Non-Federal Match, but exclude the value of such from the Kingsley House, Inc. and Affiliates GAAP financial statements.

**2022-002: Compliance with Annual Filing Deadline**

Condition:

The audit report for the year ended June 30, 2021 was not submitted within six (6) months after year end as required by state law (nine months including the emergency extension due to Hurricane Ida, as determined by the Governor's Decree). The Organization has also received a non-emergency extension under the provisions of LRS 29:724 (B) (1) through September 30, 2022.

Criteria:

Louisiana Revised Statute 24:513 requires that all engagements be completed and transmitted to the legislative auditor within six months of the close of the auditee's fiscal year (nine months for fiscal year ended June 30, 2021, including the emergency extension due to Hurricane Ida, as determined by the Governor's Decree).

Cause:

The Organization did not file its report by June 30, 2021 within nine months of the end of its fiscal year due to Hurricane Ida, COVID absentees and personnel turnover within the finance department during the fiscal year end.

Effect:

The Organization was not able to submit its audit within the nine months which resulted in a non-emergency extension through September 30, 2022.

Recommendation:

We recommend that management make every effort to submit its financials within the six months after year end as required by state law.

Views of the responsible officials:

KH preserved continuous correspondence with the Louisiana Legislative Auditor (LLA) from shortly after Hurricane Ida all the way through applying for and receiving the September 30, 2022 extension. Due to some very unfortunate and unusual circumstances related to turnover in staffing within the KH finance department coinciding with the after effects of Hurricane Ida, this was the first and only time in known experience that KH was not able to submit financial statements within the originally mandated timeframe in accordance with Louisiana state law. The finance department subsequently was able to stabilize its Controller position along with recently hiring other staff accountant positions to once again achieve full employment in the department. It is important to note that, while KH did not technically comply with statutory requirements, management's position is that all applicable rules and regulations were complied with since all necessary extensions were granted.

KINGSLEY HOUSE, INC. AND AFFILIATES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2021

SECTION III – FEDERAL AWARD FINDINGS

**2021-003: Significant Non-Compliance**

Information on the Federal Program: Assistance Listing Number 93.600—Head Start Program, United States Department of Health and Human Services. *Award Number:* 06HP0003365. *Compliance Requirements:* Allowable Cost/Cost Principles. *Type of Finding:* Significant Noncompliance.

Criteria:

The program is a costs reimbursement which requires expenses to be incurred.

Condition:

The Organization submitted claims for reimbursements for expenses not yet incurred without receiving prior approval.

Cause:

The Organization's review process did not identify unallowable costs in amounts submitted for reimbursement.

Effect:

The Organization submitted unallowable costs for reimbursement.

Questioned Costs: \$72,509

Context: The \$72,509 of expenditures were received for unallowed costs.

Repeat finding: No.

Recommendation:

The Organization develop a system to ensure funds are not requested until allowable expenses have been incurred.

Views of the responsible officials:

The KH finance department submitted a reimbursement pay request for expenses that were mistakenly classified as expenses at the end of the fiscal year, when indeed the expenses, after review and proper classification, were incurred in the next period, which was the first month of the new fiscal year. To correct as quickly as possible, the next reimbursement pay request was shorted for the same amount. Although this was the first error of this type, plans were already in place to expand our professional staff and expertise in government grant management, especially for KH's multiple Head Start grants in particular. Subsequently, KH added and filled a new position that has been given the responsibility, directed and overseen by the finance department, to review, record, compare and verify government grant related expenses with individual pay requests.

SECTION IV – FINDINGS AND QUESTIONED COSTS – PRIOR YEAR

None



KINGSLEY HOUSE, INC. AND AFFILIATES  
 CORRECTIVE ACTION PLAN FOR FISCAL YEAR 2021 AUDIT  
 For the Year Ended June 30, 2021

Name of Responsible Person: Glenn Gruber, CPA  
 Chief Financial Officer  
[Glenn.gruber@kingsleyhouse.org](mailto:Glenn.gruber@kingsleyhouse.org)

**Celebrating 125 Years**

**Board of Directors**

Chimene Grant Saloy  
 President

Kea Sherman  
 President Elect

Dominique Wilson  
 Treasurer

Ralph Mahana  
 Vice President

Shannon Joseph  
 Secretary

Richard Roth  
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Damon Carraby  
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 Taniya de Silva  
 Herman Franklin  
 Brendan Greene

Yvette Jones  
 Zwila Martinez  
 Cindy McCurdy  
 Christine Mitchell  
 John Pitzer  
 Charlotte Smallpage Sapir  
 Cleveland  
 Spears  
 Jerrinia Smith  
 Sue Williamson

Keith H. Liederman, Ph.D.  
 Chief Executive Officer

**Financial Statement Finding 2021-001: Contributed Services**

Contributed services requires contribution of services be recognized if the services received (a) creates or enhances a nonfinancial asset or (b) they require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

*Corrective Action Plan*

*KH management made the collective decision to continue and record parent volunteer hours for the Non-Federal Match, but exclude the value of such from the Kingsley House, Inc. and Affiliates GAAP financial statements.*

*Completion Date: 9/27/2022*

**Compliance Finding 2022-002: Compliance with Annual Filing Deadline**

Louisiana Revised Statute 24:513 requires that all engagements be completed and transmitted to the legislative auditor within six months of the close of the auditee’s fiscal year.

*Corrective Action Plan*

*KH will complete and transmit its audited financial statements to the legislative auditor within six months of the close of its fiscal year.*

*Expected Completion Date: 12/31/2022*

**Federal Award Finding 2021-003: Significant Non-Compliance**

The Head Start program is a cost reimbursement program which requires allowable costs to be incurred before the request for funds can be submitted. KH submitted claims for reimbursements for expenses not yet incurred without receiving prior approval.

*Corrective Action Plan*

*To correct as quickly as possible, the next reimbursement pay request was shorted for the same amount. KH added and filled a new position that has been given the responsibility, directed and overseen by the finance department, to review, record, compare and verify government grant related expenses with individual pay requests.*

*Completion Date: 6/30/2022*



KINGSLEY HOUSE, INC. AND AFFILIATES  
SCHEDULE OF COMPENSATION, BENEFITS, AND OTHER  
PAYMENTS TO AGENCY HEADS

For the Year Ended June 30, 2021

SUMMARY OF COMPENSATION

Keith Liederman  
CEO

\*No agency head expenses were derived from state and/or local assistance.