



Date: December 17, 2020
 To: Build Hope, Inc Board of Directors
 From: Marlene Garza, Treasurer *MG*
SUBJECT: 2019 Audited Financial Statements

This memo briefly summarizes the key 2019 financial outcomes for Kids Progress, Inc. (KPI)¹ as reported in the 2019 Basic Financial Statements and Independent Auditor's Reports.

AUDITOR OPINION

The financial activity of KPI was audited by Macias Gini & O'Connell LLP (MGO) according to *Government Auditing Standards* issued by the Comptroller of the United States. MGO was given access to all KPI financial records without restriction. Based on this review, MGO has opined that KPI's financial statements are fairly presented in all material respects and has not identified any findings for concern. This opinion was issued November 5, 2020.

2019 REVENUE AND EXPENSES

Revenue: In 2019, KPI received \$38,846 in Revenue as compared to \$35,241 in 2018. In both years, virtually all this revenue was in the form of donations. This included \$15,000 from the Price Philanthropies Foundation in both years for scholarships, and various other small contributions for various activities. 2019 also included a donation of \$13,000 from a production company which filmed at San Fernando Gardens for resident activities of their choice.

In addition, KPI received \$91,221 in contributions from LA LOMOD in 2019 as compared to \$97,434 in 2018. This was primarily for broadband services and operational needs as noted below.

Expenses: In 2019, KPI expended \$137,925 on various activities as compared to \$168,006 in 2018. Of this, \$17,649 and \$17,892 in each respective year was expended on administrative costs, such as auditing and insurance.

The majority of expenses, \$120,276 and \$150,114 in each respective year, was dedicated to Resident Services. In 2019, this included:

- \$76,185 for broadband services for residents at Mar Vista Gardens, Jordan Downs, and San Fernando Gardens,
- \$26,480 for scholarships, and
- \$17,611 for various other resident services.

2019 NET POSITION

As a result of this activity, KPI's Net Position at 2019 year-end was \$53,614.

¹ In 2020, KPI has undergone a name change to Build Hope, Inc. Since the audited financial statements reflect activity in 2019, before the effective date of the name change, all references in the report are to KPI.

KIDS PROGRESS, INC.
**(A Component Unit of the Housing Authority of the
City of Los Angeles)**

Basic Financial Statements and
Independent Auditor's Reports

For the Years Ended
December 31, 2019 and 2018



Certified
Public
Accountants

KIDS PROGRESS, INC.
(A Component Unit of the Housing Authority of the City of Los Angeles)
Basic Financial Statements and Independent Auditor's Reports
For the Years Ended December 31, 2019 and 2018

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Independent Auditor's Report

Board of Directors
Kids Progress, Inc.
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of Kids Progress, Inc., a California non-profit public benefit corporation and a component unit of the Housing Authority of the City of Los Angeles (Housing Authority), as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Kids Progress, Inc.'s basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of Kids Progress, Inc. as of December 31, 2019 and 2018 and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2020, on our consideration of the Kids Progress, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Kids Progress, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Kids Progress, Inc.'s internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Los Angeles, California

November 5, 2020

KIDS PROGRESS, INC.
(A Component Unit of the Housing Authority of the City of Los Angeles)
Statements of Net Position and Governmental Fund Balance Sheets
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Cash - Unrestricted	\$ 19,642	\$ 11,212
Cash - Restricted	49,398	84,938
Accounts receivable	4,250	-
Prepaid expenses	3,319	3,690
Total assets	<u>\$ 76,609</u>	<u>\$ 99,840</u>
Liabilities		
Accounts payable	\$ 21,980	\$ 5,540
Accrued liabilities	1,015	32,828
Total liabilities	<u>22,995</u>	<u>38,368</u>
Fund balance/Net position		
Restricted for:		
Scholarship	20,000	25,079
Digital literacy	10,700	10,700
Workforce development	2,628	2,628
San Fernando Gardens	6,965	1,193
Jordan Downs	4,131	6,209
William Mead	4,578	5,018
Other	4,106	4,708
Unrestricted/Unassigned	506	5,937
Total fund balance/net position	<u>53,614</u>	<u>61,472</u>
Total liabilities and fund balance/net position	<u>\$ 76,609</u>	<u>\$ 99,840</u>

KIDS PROGRESS, INC.**(A Component Unit of the Housing Authority of the City of Los Angeles)**

Statements of Activities and Governmental Fund Statements of

Revenues, Expenditures and Changes in Fund Balance

For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Revenues		
Program revenues - operating contributions:		
Donations	\$ 38,607	\$ 34,993
Other income	239	248
Total program revenues	<u>38,846</u>	<u>35,241</u>
General revenues:		
Revenues provided by the Housing Authority	<u>91,221</u>	<u>97,434</u>
Total revenues	<u>130,067</u>	<u>132,675</u>
Expenditures/expenses		
Administrative and general expenses	17,649	17,892
Tenant services	<u>120,276</u>	<u>150,114</u>
Total expenditures/expenses	<u>137,925</u>	<u>168,006</u>
Excess/(deficiency) of revenues over expenditures/expenses	<u>(7,858)</u>	<u>(35,331)</u>
Change in fund balance/net position	(7,858)	(35,331)
Fund balance/net position, beginning of year	<u>61,472</u>	<u>96,803</u>
Fund balance/net position, end of year	<u>\$ 53,614</u>	<u>\$ 61,472</u>

See Accompanying Notes to Basic Financial Statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Kids Progress, Inc. have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the organization are described below.

(a) Organization

Kids Progress, Inc. was founded on October 17, 2002 as a California non-profit public benefit corporation to improve the quality of life of low income families, children and seniors by providing increased educational, artistic, cultural and technical opportunities and other benefits to low income families, children and seniors in public housing programs provided by the Housing Authority of the City of Los Angeles (Housing Authority). Kids Progress, Inc. is governed by a seven-member board of directors, which is composed of three members from the Housing Authority's Board of Commissioners, three executive members of the Housing Authority and one community member. Kids Progress, Inc. is a component unit of the Housing Authority since the Housing Authority appoints a voting majority of the governing body, and the Housing Authority's Board of Commissioners must approve all amendments to the Articles and Bylaws of Kids Progress, Inc. In addition, there is a financial benefit or burden relationship and the Housing Authority has operational responsibility for the organization.

The accompanying financial statements present only the net position/fund balance and changes in net position/fund balance of Kids Progress, Inc. These financial statements are not intended to present the financial position and the changes in financial position or cash flows of the Housing Authority.

(b) Measurement Focus and Basis of Accounting

Government-wide Financial Statements

Government-wide financial statements consist of the statement of net position and the statement of activities. These statements are presented on an economic resources measurement focus. All economic resources and obligations of the reporting government are reported in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of Kids Progress, Inc. are included on the statements of net position. The statements of activities present a comparison of the direct expenses and program revenues for Kids Progress, Inc.'s governmental activities.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Measurement Focus and Basis of Accounting (Continued)

Government-wide Financial Statements (Continued)

Program revenues include private donations. General revenues are all revenues that do not qualify as program revenues and include revenues provided by the Housing Authority. Net position represents the resources that Kids Progress, Inc. has available for use in providing services.

Fund Financial Statements

The fund financial statements consist of the balance sheet and the statement of revenues, expenditures and changes in fund balance of Kids Progress, Inc.'s general fund. These statements are presented on a current financial resources measurement focus. Generally, only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures and changes in fund balance for the governmental fund generally presents increases (revenues) and decreases (expenditures) in net current assets. All operations of Kids Progress, Inc. are accounted for in the general fund.

The fund financial statements have been prepared on the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Revenues are considered available if they are received within 60 days after year-end. Revenues susceptible to accrual include grant revenues and revenues provided by the Housing Authority. Expenditures are recognized in the accounting period in which the fund liability is incurred.

The government-wide and fund financial statements are presented in a single statement as there are no reconciling items between the modified accrual basis of accounting and accrual basis of accounting.

(c) Cash

Cash maintained in the checking account is classified as cash. Restricted cash is specified by donors for a specific purpose. Unrestricted cash is for general operating use.

(d) Components of Net Position/Fund Balance

Net position/fund balance comprises the various net earnings from operating income, nonoperating revenues and expenditures/expenses.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Components of Net Position/Fund Balance (Continued)

Net position is classified in the following components:

Restricted – This component of net position consists of constraints imposed by donors, grantors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of resources of Kids Progress, Inc. that can be used for any purpose.

Fund Balance is classified in the following components:

Restricted Fund Balance – Amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. Restrictions may effectively be changed or lifted only by changing the conditions of the account.

Unassigned Fund Balance – Includes amounts that are not assigned to other funds and do not meet the criteria for being classified as restricted in the General Fund.

(e) Policy Regarding Use of Restricted and Unrestricted Resources

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, Kids Progress, Inc. will utilize restricted resources first, and then unrestricted resources as needed.

(f) Donations

Donations, including unconditional promises to give, are recorded as made. All donations are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when contributions are substantially met. Unconditional promises to give are reported at the present value of their net realizable value applicable to the years in which the promises are to be received.

KIDS PROGRESS, INC.
(A Component Unit of the Housing Authority of the City of Los Angeles)
Notes to Basic Financial Statements (Continued)
For the Years Ended December 31, 2019 and 2018

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Donations (Continued)

The following donations were received from various donors for the years ended December 31, 2019 and 2018 as listed below:

	<u>2019</u>	<u>2018</u>
Donations		
Scholarships		
Price Philanthropies Foundation	\$ 15,000	\$ 15,000
Susanne K. Cornwall	5,000	-
Other Purpose		
William Mead Youth Programming and Resident Advisory Council	1,000	5,599
San Fernando Gardens Events	13,000	2,000
Ramona Gardens Site Events	-	1,250
College Track Program	-	2,200
Various Donors	4,250	7,550
Unrestricted		
Various Donors	357	1,394
Total Donations	<u><u>\$ 38,607</u></u>	<u><u>\$ 34,993</u></u>

(g) Revenues Provided by the Housing Authority

The amount reported as general revenues from the Housing Authority represents subsidies to Kids Progress, Inc. to support the operation of the entity. The total general revenues from the Housing Authority for the years ended December 31, 2019 and 2018 were \$91,221 and \$97,434, respectively.

(h) Administrative and General Expenses

Administrative and general expenses include audit fees, office supplies, general liability insurance and miscellaneous administrative expenses. The total administrative and general expenses incurred for the years ended December 31, 2019 and 2018 were \$17,649 and \$17,892, respectively.

	<u>2019</u>	<u>2018</u>
Auditing	\$ 11,432	\$ 9,000
Insurance	4,449	4,581
Office expenses	1,358	3,642
Other administrative	410	669
Total	<u><u>\$ 17,649</u></u>	<u><u>\$ 17,892</u></u>

KIDS PROGRESS, INC.
(A Component Unit of the Housing Authority of the City of Los Angeles)
Notes to Basic Financial Statements (Continued)
For the Years Ended December 31, 2019 and 2018

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Tenant Services Expenses

Tenant Services represents costs incurred for services directly related to meeting resident needs and supporting a service-enriched environment. The total tenant services expenses incurred for the years ended December 31, 2019 and 2018 were \$120,276 and \$150,114, respectively.

	<u>2019</u>	<u>2018</u>
Data / broadband	\$ 17	\$ -
Resident sport activities	-	50,000
Resident stipend	600	300
Resident training contract	-	3,035
Supportive services	16,994	6,133
Telecomm services and maintenance	36,120	36,120
Telephone/fax/data	40,065	43,100
Youth scholarship awards	26,480	11,426
Total Tenant Services	<u>\$ 120,276</u>	<u>\$ 150,114</u>

(j) Income Taxes

Kids Progress, Inc. is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state income taxes under Section 23701d of the California Revenue and Taxation Code. Therefore, no provision is made for federal and state income taxes.

(k) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

(l) Reclassifications

Certain accounts presented in the 2018 financial statements have been reclassified to be consistent with the current year's presentation. Such reclassification has no effect on the net change in financial position and net position as previously reported.

KIDS PROGRESS, INC.
(A Component Unit of the Housing Authority of the City of Los Angeles)
Notes to Basic Financial Statements (Continued)
For the Years Ended December 31, 2019 and 2018

NOTE 2 - CASH

Cash as of December 31, 2019 and 2018 is classified in the accompanying statements of net position/balance sheets as follows:

	<u>2019</u>	<u>2018</u>
Cash - Unrestricted	\$ 19,642	\$ 11,212
Cash - Restricted	49,398	84,938
Total Cash	<u>\$ 69,040</u>	<u>\$ 96,150</u>

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, an entity will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, an entity will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Kids Progress, Inc. follows the parameters established by the Housing Authority's Investment Policy. In addition, Kids Progress, Inc. maintains its cash accounts with other Housing Authority's accounts at high credit quality financial institutions. The California Government Code and the Housing Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Kid's Progress, Inc.'s deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of December 31, 2019 and 2018, Kids Progress, Inc. was not exposed to custodial credit risk.

NOTE 3 – SUBSEQUENT EVENT

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders for all but those deemed essential services. While the disruption is currently expected to be temporary, the extent to which it may impact the operations and financial results of Kids Progress, Inc. will depend on future developments, which are highly uncertain and cannot be predicted. Management has taken steps to actively monitor cash flow and that as of the opinion date, there has been no significant disruption to the operations of Kids Progress, Inc. No contingencies have been included in the financial statements of Kids Progress, Inc.



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

Board of Directors
Kids Progress, Inc.
Los Angeles, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the general fund of Kids Progress, Inc., a California non-profit benefit corporation and a component unit of the Housing Authority of the City of Los Angeles (Housing Authority), as of and for the year ended December 31, 2019 and the related notes to the financial statements, which collectively comprise Kids Progress Inc.'s basic financial statements, and have issued our report thereon dated November 5, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kids Progress, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Kids Progress Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Kids Progress Inc.'s internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kids Progress Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Macias Gini & O'Connell LLP

Los Angeles, California

November 5, 2020