

**SOUTH SHORE STARS, INC.**

**FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**SOUTH SHORE STARS, INC.**

Contents  
June 30, 2018 and 2017

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50 Washington Street  
Westborough, MA 01581  
508.366.9100  
aafcpa.com

## Independent Auditor's Report

To the Board of Directors of  
South Shore Stars, Inc.:

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

We have audited the accompanying financial statements of South Shore Stars, Inc. (a Massachusetts corporation, not for profit), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States 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 an opinion 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Shore Stars, Inc. as of June 30, 2018 and 2017, 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.

*Alexander, Brown, Penning & Co., P.C.*

Westborough, Massachusetts  
November 26, 2018

**SOUTH SHORE STARS, INC.**

Statements of Financial Position  
June 30, 2018 and 2017

<b>Assets</b>	<b>2018</b>			<b>2017</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
Current Assets:						
Cash and cash equivalents	\$ 1,178,433	\$ 31,903	\$ 1,210,336	\$ 1,041,725	\$ 38,424	\$ 1,080,149
Accounts and grants receivable, net of allowance for doubtful accounts of \$98,900 and \$45,216 as of June 30, 2018 and 2017, respectively	784,027	-	784,027	746,937	-	746,937
Prepaid expenses and other	68,916	-	68,916	97,198	-	97,198
Total current assets	<u>2,031,376</u>	<u>31,903</u>	<u>2,063,279</u>	<u>1,885,860</u>	<u>38,424</u>	<u>1,924,284</u>
Property and Equipment, net	<u>858,144</u>	<u>-</u>	<u>858,144</u>	<u>670,968</u>	<u>-</u>	<u>670,968</u>
Total assets	<u>\$ 2,889,520</u>	<u>\$ 31,903</u>	<u>\$ 2,921,423</u>	<u>\$ 2,556,828</u>	<u>\$ 38,424</u>	<u>\$ 2,595,252</u>
<b>Liabilities and Net Assets</b>						
Current Liabilities:						
Current portion of long-term debt	\$ 16,302	\$ -	\$ 16,302	\$ 4,295	\$ -	\$ 4,295
Accounts payable	122,444	-	122,444	124,677	-	124,677
Accrued expenses	406,950	-	406,950	427,735	-	427,735
Deferred revenue	106,652	-	106,652	81,427	-	81,427
Total current liabilities	<u>652,348</u>	<u>-</u>	<u>652,348</u>	<u>638,134</u>	<u>-</u>	<u>638,134</u>
Long-Term Debt, net of current portion	<u>420,505</u>	<u>-</u>	<u>420,505</u>	<u>116,639</u>	<u>-</u>	<u>116,639</u>
Total liabilities	<u>1,072,853</u>	<u>-</u>	<u>1,072,853</u>	<u>754,773</u>	<u>-</u>	<u>754,773</u>
Net Assets:						
Unrestricted:						
Operating	1,395,330	-	1,395,330	1,252,021	-	1,252,021
Property and equipment	421,337	-	421,337	550,034	-	550,034
Total unrestricted	<u>1,816,667</u>	<u>-</u>	<u>1,816,667</u>	<u>1,802,055</u>	<u>-</u>	<u>1,802,055</u>
Temporarily restricted	<u>-</u>	<u>31,903</u>	<u>31,903</u>	<u>-</u>	<u>38,424</u>	<u>38,424</u>
Total net assets	<u>1,816,667</u>	<u>31,903</u>	<u>1,848,570</u>	<u>1,802,055</u>	<u>38,424</u>	<u>1,840,479</u>
Total liabilities and net assets	<u>\$ 2,889,520</u>	<u>\$ 31,903</u>	<u>\$ 2,921,423</u>	<u>\$ 2,556,828</u>	<u>\$ 38,424</u>	<u>\$ 2,595,252</u>

The accompanying notes are an integral part of these statements.

**SOUTH SHORE STARS, INC.**

Statements of Activities and Changes in Net Assets  
For the Years Ended June 30, 2018 and 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Operating Support and Revenue:</b>						
Contracts and grants	\$ 7,027,560	\$ -	\$ 7,027,560	\$ 6,325,402	\$ -	\$ 6,325,402
Parent fees and private tuition	980,905	-	980,905	1,179,686	-	1,179,686
Contributions	180,918	103,393	284,311	133,001	54,579	187,580
United Way	212,623	-	212,623	229,719	-	229,719
Donated rent and services	19,384	-	19,384	27,430	-	27,430
Interest and other	6,031	-	6,031	1,622	-	1,622
Net assets released from purpose restrictions	109,914	(109,914)	-	86,432	(86,432)	-
Total operating support and revenue	<u>8,537,335</u>	<u>(6,521)</u>	<u>8,530,814</u>	<u>7,983,292</u>	<u>(31,853)</u>	<u>7,951,439</u>
<b>Operating Expenses:</b>						
Program services:						
Preschool	2,924,565	-	2,924,565	2,659,944	-	2,659,944
Family child care	792,657	-	792,657	700,066	-	700,066
School age and youth	2,145,181	-	2,145,181	2,007,149	-	2,007,149
Early Head Start	865,890	-	865,890	894,902	-	894,902
Camp	530,179	-	530,179	492,555	-	492,555
Total program services	<u>7,258,472</u>	<u>-</u>	<u>7,258,472</u>	<u>6,754,616</u>	<u>-</u>	<u>6,754,616</u>
Supporting services:						
General and administrative	1,098,258	-	1,098,258	1,025,517	-	1,025,517
Fundraising	165,993	-	165,993	169,245	-	169,245
Total supporting services	<u>1,264,251</u>	<u>-</u>	<u>1,264,251</u>	<u>1,194,762</u>	<u>-</u>	<u>1,194,762</u>
Total operating expenses	<u>8,522,723</u>	<u>-</u>	<u>8,522,723</u>	<u>7,949,378</u>	<u>-</u>	<u>7,949,378</u>
Changes in net assets	14,612	(6,521)	8,091	33,914	(31,853)	2,061
<b>Net Assets:</b>						
Beginning of year	<u>1,802,055</u>	<u>38,424</u>	<u>1,840,479</u>	<u>1,768,141</u>	<u>70,277</u>	<u>1,838,418</u>
End of year	<u>\$ 1,816,667</u>	<u>\$ 31,903</u>	<u>\$ 1,848,570</u>	<u>\$ 1,802,055</u>	<u>\$ 38,424</u>	<u>\$ 1,840,479</u>

The accompanying notes are an integral part of these statements.

**SOUTH SHORE STARS, INC.**Statements of Cash Flows  
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Cash Flows from Operating Activities</b>		
Changes in net assets	\$ 8,091	\$ 2,061
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	79,208	63,875
Bad debts	55,000	15,043
Changes in operating assets and liabilities:		
Accounts and grants receivable	(92,090)	317,630
Prepaid expenses and other	28,282	(1,256)
Accounts payable	(2,233)	(4,277)
Accrued expenses	(20,785)	112,505
Deferred revenue	25,225	(137,332)
Net cash provided by operating activities	<u>80,698</u>	<u>368,249</u>
<b>Cash Flows from Investing Activities:</b>		
Purchase of property and equipment	<u>(266,384)</u>	<u>(155,533)</u>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from long-term debt	325,000	-
Principal payments on long-term debt	<u>(9,127)</u>	<u>(4,066)</u>
Net cash provided by (used in) financing activities	<u>315,873</u>	<u>(4,066)</u>
<b>Net Change in Cash and Cash Equivalents</b>	130,187	208,650
<b>Cash and Cash Equivalents:</b>		
Beginning of Year	<u>1,080,149</u>	<u>871,499</u>
End of Year	<u>\$ 1,210,336</u>	<u>\$ 1,080,149</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid for interest	<u>\$ 16,428</u>	<u>\$ 5,248</u>

**SOUTH SHORE STARS, INC.**

Statement of Functional Expenses

For the Year Ended June 30, 2018

(With Summarized Comparative Totals for the Year Ended June 30, 2017)

	2018							2017		
	Program Services					Total Program Services	Supporting Services		Total	
	Preschool	Family Child Care	School Age and Youth	Early Head Start	Camp		General and Adminis- trative	Fundraising		
<b>Expenses:</b>										
Personnel and related:										
Salaries and related costs	\$ 1,933,292	\$ 76,281	\$ 1,144,058	\$ 456,639	\$ 306,405	\$ 3,916,675	\$ 607,580	\$ 105,783	\$ 4,630,038	\$ 4,297,320
Payroll taxes and fringe benefits	433,598	5,891	185,756	98,354	25,379	748,978	147,115	11,719	907,812	841,782
Total personnel and related	<u>2,366,890</u>	<u>82,172</u>	<u>1,329,814</u>	<u>554,993</u>	<u>331,784</u>	<u>4,665,653</u>	<u>754,695</u>	<u>117,502</u>	<u>5,537,850</u>	<u>5,139,102</u>
Occupancy:										
Rent	52,422	-	110,796	28,105	70,809	262,132	-	1,500	263,632	257,230
Repairs and maintenance	98,442	-	27,414	10,609	3,214	139,679	37,837	1,446	178,962	164,514
Facility depreciation	62,639	-	2,328	-	-	64,967	9,686	-	74,653	60,798
Utilities	32,185	-	17,103	6,029	-	55,317	11,866	-	67,183	62,478
Donated rent	-	-	-	18,672	-	18,672	-	-	18,672	18,672
Interest	16,428	-	-	-	-	16,428	-	-	16,428	5,248
Insurance	7,802	-	3,647	168	-	11,617	2,907	-	14,524	14,524
Total occupancy	<u>269,918</u>	<u>-</u>	<u>161,288</u>	<u>63,583</u>	<u>74,023</u>	<u>568,812</u>	<u>62,296</u>	<u>2,946</u>	<u>634,054</u>	<u>583,464</u>
Other:										
Provider reimbursement	-	689,609	-	136,863	-	826,472	-	-	826,472	749,974
Travel and transportation	57,458	6,552	266,972	10,215	24,832	366,029	3,438	449	369,916	413,912
Food	77,020	6,124	72,411	7,015	21,446	184,016	850	-	184,866	160,938
Program supplies	86,771	426	56,198	23,290	6,190	172,875	-	-	172,875	183,743
Vehicle	814	-	110,772	-	5,853	117,439	33,294	-	150,733	132,761
Consultants	1,613	-	65,409	31,925	10,200	109,147	19,480	-	128,627	159,536
Professional fees	-	-	-	-	575	575	88,023	-	88,598	54,918
Office supplies	6,268	193	4,628	939	25,595	37,623	45,104	4,686	87,413	77,286
Insurance	9,562	-	18,505	162	22,407	50,636	7,112	-	57,748	57,489
Bad debts	25,162	6,820	18,458	-	4,560	55,000	-	-	55,000	15,043
Telephone and internet	8,523	56	15,686	11,886	2,128	38,279	12,835	-	51,114	54,721
Miscellaneous	618	22	1,259	4,360	461	6,720	39,932	-	46,652	21,637
Staff development	7,980	-	7,504	15,506	-	30,990	1,065	-	32,055	25,707
Special events	19	-	-	-	-	19	25	30,954	30,998	32,499
Printing and postage	-	-	66	-	-	66	12,545	2,930	15,541	14,857
Membership, dues and subscriptions	3,253	-	1,681	282	125	5,341	8,779	-	14,120	14,915
Conferences and meetings	2,696	-	-	2,094	-	4,790	3,587	5,164	13,541	21,703
Field trips	-	-	13,460	-	-	13,460	-	-	13,460	13,746
Advertising	-	683	1,070	2,065	-	3,818	643	1,362	5,823	9,592
Equipment depreciation	-	-	-	-	-	-	4,555	-	4,555	3,077
Donated services	-	-	-	712	-	712	-	-	712	8,758
Total other	<u>287,757</u>	<u>710,485</u>	<u>654,079</u>	<u>247,314</u>	<u>124,372</u>	<u>2,024,007</u>	<u>281,267</u>	<u>45,545</u>	<u>2,350,819</u>	<u>2,226,812</u>
Total expenses	<u>\$ 2,924,565</u>	<u>\$ 792,657</u>	<u>\$ 2,145,181</u>	<u>\$ 865,890</u>	<u>\$ 530,179</u>	<u>\$ 7,258,472</u>	<u>\$ 1,098,258</u>	<u>\$ 165,993</u>	<u>\$ 8,522,723</u>	<u>\$ 7,949,378</u>

The accompanying notes are an integral part of these statements.

**SOUTH SHORE STARS, INC.**

Statement of Functional Expenses  
For the Year Ended June 30, 2017

	Program Services					Total Program Services	Supporting Services		Total
	Preschool	Family Child Care	School Age and Youth	Early Head Start	Camp		General and Adminis- trative	Fundraising	
<b>Expenses:</b>									
Personnel and related:									
Salaries and related costs	\$ 1,793,652	\$ 45,406	\$ 1,030,046	\$ 435,167	\$ 273,377	\$ 3,577,648	\$ 600,891	\$ 118,781	\$ 4,297,320
Payroll taxes and fringe benefits	398,782	11,381	165,769	77,603	33,045	686,580	144,421	10,781	841,782
Total personnel and related	2,192,434	56,787	1,195,815	512,770	306,422	4,264,228	745,312	129,562	5,139,102
Occupancy:									
Rent	51,901	-	113,810	25,463	66,056	257,230	-	-	257,230
Repairs and maintenance	79,854	-	30,062	16,311	1,810	128,037	36,477	-	164,514
Facility depreciation	47,003	-	2,328	-	-	49,331	11,467	-	60,798
Utilities	32,582	-	12,465	4,701	-	49,748	12,730	-	62,478
Donated rent	-	-	-	18,672	-	18,672	-	-	18,672
Interest	5,248	-	-	-	-	5,248	-	-	5,248
Insurance	7,791	-	3,644	167	18	11,620	2,904	-	14,524
Total occupancy	224,379	-	162,309	65,314	67,884	519,886	63,578	-	583,464
Other:									
Provider reimbursement	-	615,726	-	134,248	-	749,974	-	-	749,974
Travel and transportation	58,448	12,225	279,172	7,604	50,873	408,322	4,976	614	413,912
Food	56,780	11,370	62,833	8,763	20,397	160,143	795	-	160,938
Program supplies	67,502	59	54,469	55,160	6,553	183,743	-	-	183,743
Vehicle	-	-	104,428	8,341	6,425	119,194	13,567	-	132,761
Consultants	3,089	788	81,621	50,108	4,913	140,519	19,017	-	159,536
Professional fees	-	-	-	-	575	575	53,958	385	54,918
Office supplies	6,614	18	6,040	3,708	2,197	18,577	57,508	1,201	77,286
Insurance	9,939	-	19,854	169	21,889	51,851	5,638	-	57,489
Bad debts	6,828	1,798	5,152	-	1,265	15,043	-	-	15,043
Telephone and internet	7,378	480	13,338	16,170	1,796	39,162	15,559	-	54,721
Miscellaneous	1,315	-	603	4,782	-	6,700	14,937	-	21,637
Staff development	12,323	715	4,535	6,526	555	24,654	1,053	-	25,707
Special events	515	-	45	-	-	560	25	31,914	32,499
Printing and postage	48	-	19	-	-	67	12,477	2,313	14,857
Membership, dues and subscriptions	2,738	-	1,740	1,515	125	6,118	7,805	992	14,915
Conferences and meetings	5,970	-	364	7,986	-	14,320	5,490	1,893	21,703
Field trips	525	-	12,535	-	686	13,746	-	-	13,746
Advertising	3,119	100	2,277	2,980	-	8,476	745	371	9,592
Equipment depreciation	-	-	-	-	-	-	3,077	-	3,077
Donated services	-	-	-	8,758	-	8,758	-	-	8,758
Total other	243,131	643,279	649,025	316,818	118,249	1,970,502	216,627	39,683	2,226,812
Total expenses	\$ 2,659,944	\$ 700,066	\$ 2,007,149	\$ 894,902	\$ 492,555	\$ 6,754,616	\$ 1,025,517	\$ 169,245	\$ 7,949,378

The accompanying notes are an integral part of these statements.



## **SOUTH SHORE STARS, INC.**

Notes to Financial Statements  
June 30, 2018 and 2017

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### **1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES**

#### **OPERATIONS AND NONPROFIT STATUS**

South Shore Stars, Inc. (Stars), founded in 1970, provides the highest quality of early education and youth development programs for communities south of Boston. During each of the fiscal years 2018 and 2017, over 1,100 children, from birth through adolescence, thrived as a result of attending Stars' programs; Early Head Start, family child care, preschool, school-age and youth, and camp programs.

Stars is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). Stars is also exempt from state income taxes. Contributions made to Stars are deductible by donors within the requirements of the IRC.

#### **SIGNIFICANT ACCOUNTING POLICIES**

Stars prepares its financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

#### **Revenue Recognition**

Contract and grant revenue is recognized over the period covered by the contract or grant as services are provided and costs are incurred. Parent fees and private tuition are recognized as services are provided. Interest and other revenue are recorded as earned.

Stars reports gifts of cash and other assets as temporarily restricted support, if they are received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions. Unrestricted contributions are recorded when unconditionally pledged or received.

Deferred revenue represents prepaid parent fees and amounts received under various service contracts that will be recognized as revenue in the applicable service periods.

#### **Expense Allocation**

Expenses related directly to a program are distributed to that program, while other expenses are allocated based upon management's estimate of the percentage attributable to each program.

#### **Donated Rent and Services**

Stars receives services of volunteers in various aspects of its programs. The value of these services is not reflected in the accompanying financial statements since the value assigned to these services by the donating volunteers is not ascertainable and does not meet the criteria recognition of ASC Topic, *Accounting for Contributions Received and Contributions Made* standards.

Stars receives donated space and professional services associated with its Early Head Start program that are reflected in the accompanying financial statements based upon the estimated value assigned to them by the donating volunteers, agencies, or by management. The value of the in-kind rent and services for fiscal years 2018 and 2017 was \$19,384 and \$27,430, respectively, and is included in donated rent and services in the accompanying financial statements.

## **SOUTH SHORE STARS, INC.**

Notes to Financial Statements  
June 30, 2018 and 2017

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### **1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **Allowance for Doubtful Accounts**

The allowance for doubtful accounts is recorded based on management's analysis of specific accounts and their estimate of amounts that may be uncollectible, if any.

##### **Estimates**

The preparation of financial statements in accordance with U.S. 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.

##### **Advertising**

Stars expenses advertising costs as they are incurred.

##### **Property and Equipment and Depreciation**

Property and equipment are recorded at cost when purchased or at fair value at the date of donation. Renewals and betterments are capitalized as additions to the related asset accounts, while repairs and maintenance are expensed as incurred. Depreciation of property and equipment is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	20 - 40 years
Leasehold improvements	Lease term (5 - 10 years)
Furniture and equipment	3 - 10 years
Motor vehicles	3 - 5 years

Buildings and improvements are evaluated for impairment in accordance with U.S. GAAP. If the carrying amount of the buildings and improvements exceeds the fair value and the carrying value amount is not recoverable, an impairment loss is recognized. An impairment loss is measured as the amount by which the buildings and improvements exceeds its fair value. There were no impairment losses recorded in fiscal years 2018 and 2017.

##### **Cash and Cash Equivalents**

For purposes of the statements of cash flows, cash and cash equivalents consist of checking accounts at June 30, 2018, and checking accounts and a certificate of deposit at June 30, 2017, with an initial maturity date of less than three months.

## **SOUTH SHORE STARS, INC.**

Notes to Financial Statements  
June 30, 2018 and 2017

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### **1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **Fair Value Measurements**

Stars follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that Stars would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

Stars uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of Stars. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement. All qualifying assets and liabilities are valued using Level 1 inputs.

##### **Subsequent Events**

Subsequent events have been evaluated through November 26, 2018, which is the date the financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the financial statements.

##### **Accounting for Uncertainty in Income Taxes**

Stars accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. Stars has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at June 30, 2018 and 2017. Stars' information returns are subject to examination by the Federal and state jurisdictions.

## SOUTH SHORE STARS, INC.

Notes to Financial Statements  
June 30, 2018 and 2017

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### 2. NET ASSETS

#### Unrestricted Net Assets

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by Stars. Stars has grouped its unrestricted net assets into the following categories:

**Operating** - Represent resources available to carry on the operations of Stars.

**Property and equipment** - Reflect the net book value of Stars' property and equipment, net of related debt.

#### Temporarily Restricted Net Assets

Stars receives contributions and grants which are designated by donors for a specific time period or purpose. These contributions are recorded as temporarily restricted net assets until the time restriction is met or the funds are expended for their designated purpose. Temporarily restricted net assets are restricted for purpose as of June 30, 2018 and 2017.

### 3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Land	\$ 115,200	\$ 115,200
Buildings and improvements	1,778,186	1,400,157
Leasehold improvements	431,605	442,814
Furniture and equipment	331,069	473,033
Motor vehicles	52,264	52,264
Construction in progress	-	123,095
	<u>2,708,324</u>	<u>2,606,563</u>
Less - accumulated depreciation	<u>1,850,180</u>	<u>1,935,595</u>
	<u>\$ 858,144</u>	<u>\$ 670,968</u>

Construction in progress as of June 30, 2017, consisted of renovation costs for one of Stars' preschool buildings. Renovation was completed and placed in service during August 2017 and the total cost of the project was approximately \$390,000.

### 4. LINES OF CREDIT

In June 2016, Stars entered into a \$200,000 line of credit with a bank, which is secured by substantially all of Stars' business assets. Interest is charged at the bank's prime rate plus 1% (6% and 5.25% at June 30, 2018 and 2017, respectively). There was no outstanding balance on the line of credit at June 30, 2018 and 2017. Amounts drawn on the line of credit are due on demand and are reviewed annually for renewal.

## SOUTH SHORE STARS, INC.

Notes to Financial Statements  
June 30, 2018 and 2017

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### 4. LINES OF CREDIT (Continued)

Stars also entered into a \$325,000 line of credit agreement with monthly interest-only payments due at the bank's prime rate plus 1% (5.25% at June 30, 2017) through January 2018, which was secured by Stars' Randolph, Massachusetts property. There was no outstanding balance on the line of credit at June 30, 2017. Effective January 2018, the outstanding balance on the line of credit was converted to an amortizing loan (see Note 5).

### 5. LONG-TERM DEBT

Long-term debt consists of a 4.22% note payable agreement with a bank, due in monthly principal and interest installments of \$766 through June 2026. The note is secured by a first mortgage on Stars' property. The balance of this note was \$116,680 and \$120,934 at June 30, 2018 and 2017, respectively.

Effective January 2018, the outstanding balance on the \$325,000 line of credit (see Note 4) was converted to an amortizing loan with monthly principal and interest installments of \$2,207 due at the prevailing Three-Year Federal Home Loan Bank Rate plus 2.25% (4.68% at June 30, 2018) through June 2021, at which time the interest rate will adjust through maturity in June 2026. The note is secured by Stars' Randolph, Massachusetts property. The balance of this note was \$320,127 at June 30, 2018.

These notes and the lines of credit (see Note 4) have certain financial covenants with which Stars must comply. As of June 30, 2018 and 2017, Stars was in compliance with these debt covenants.

Future minimum payments on long-term debt for the next five years are as follows:

#### Fiscal Year

2019	\$ 16,302
2020	\$ 17,027
2021	\$ 17,868
2022	\$ 18,708
2023	\$ 19,588

### 6. FUNDING

Stars receives a significant portion of its funding from state and Federal contracts. These contracts are subject to audit by the appropriate governmental agency. In the opinion of management, the results of such audits, if any, will not have a material effect on the financial position of Stars as of June 30, 2018 and 2017, or on the changes in its net assets for the years then ended. Funding agencies and donors exceeding 10% of Stars' operating support and revenue or accounts and grants receivable are as follows as of and for the years ended June 30:

<u>Funder</u>	<u>Operating Support and Revenue %</u>		<u>Accounts and Grants Receivable %</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Commonwealth of Massachusetts	58%	56%	59%	54%
Community Care for Kids	15%	12%	12%	23%
U.S. Dept. of Health and Human Services	9%	11%	10%	10%

## SOUTH SHORE STARS, INC.

Notes to Financial Statements  
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### 7. LEASE AGREEMENTS

#### Facility

Stars leases camp and day care programs facilities under various lease agreements through August 2023. Rent expense under these agreements totaled \$174,763 and \$172,689 during fiscal years 2018 and 2017, respectively. Future minimum lease payments on these agreements for the next five years are as follows:

<u>Fiscal Year</u>	
2019	\$ 183,446
2020	\$ 187,185
2021	\$ 191,382
2022	\$ 115,245
2023	\$ 51,815

#### Vehicle

Stars leases vans under operating leases that expire through August 2021. Lease expense under these agreements totaled \$47,046 and \$54,427 during fiscal years 2018 and 2017, respectively, and is included in vehicle in the accompanying statements of functional expenses. Remaining future minimum lease payments under these agreements are as follows:

<u>Fiscal Year</u>	
2019	\$ 27,719
2020	\$ 10,296
2021	\$ 10,296
2022	\$ 1,716

#### Equipment

Stars leases office equipment under operating leases that expire through June 2023. Rent expense under these agreements totaled \$15,419 and \$8,212 during fiscal years 2018 and 2017, respectively, and is included in rent in the accompanying statements of functional expenses. Future minimum lease payments on these agreements for the next five years are as follows:

<u>Fiscal Year</u>	
2019	\$ 11,999
2020	\$ 11,999
2021	\$ 11,999
2022	\$ 11,999
2023	\$ 9,438

## **SOUTH SHORE STARS, INC.**

Notes to Financial Statements  
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### **8. RELATED PARTY TRANSACTIONS**

A member of Stars' Board of Directors is a member of management at a bank that held Stars' cash and cash equivalents, long-term debt, and lines of credit during the years ended June 30, 2018 and 2017.

A member of Stars' Board of Directors is also a member of the Board of Directors of Randolph Community Partnership (RCP). Stars executed a contract whereby RCP provides services related to Stars' Early Head Start program. Fees of \$3,596 and \$1,325 were incurred under the contract for the years ended June 30, 2018 and 2017, respectively.

The above Board members abstain from discussions and do not vote on matters relating to their respective employers.

### **9. CONTINGENCIES**

During fiscal year 2018, management discovered that a former employee falsified approximately 140 family files to support lower levels of income eligibility. The former employee embezzled certain parent fee payments resulting in greater subsidy payments from the Commonwealth of Massachusetts, Department of Early Education and Care (EEC). Management, under the direction of the Finance Committee, performed a comprehensive internal investigation of the family files and Stars determined that EEC overpaid Stars for childcare subsidies by approximately \$395,000 for the period from July 2017 through April 2018. EEC performed a similar review of the child files and has determined that EEC overpaid Stars for childcare subsidies by approximately \$564,000 for 187 total children for the period from November 2016 through March 2018. Stars plans to contest any claims for recoupment of the funds. As of the audit report date, there has been no conclusion of the likelihood of an unfavorable outcome, therefore, no estimate of any potential loss is included in the accompanying financial statements as of June 30, 2018.

Additionally, in the ordinary course of business, Stars is from time-to-time a party to various claims. If management determines, based on the underlying facts and circumstances, that it is probable a loss will result from a litigation contingency and the amount of the loss can be reasonably estimated, the estimated loss is accrued for. Management does not expect any adverse financial impact from open claims occurring in the normal course of business as of June 30, 2018.

### **10. CONCENTRATIONS**

Stars maintains its cash balances in a Massachusetts bank and is insured within the limits of the Federal Deposit Insurance Corporation (FDIC). At certain times during the year, Stars' cash balances have exceeded these limits. Stars has not experienced any losses in these accounts. Stars' management believes that Stars is not exposed to any significant credit risk related to these accounts.

### **11. RECLASSIFICATION**

Certain amounts in the June 30, 2017 financial statements have been reclassified to conform with the June 30, 2018 presentation.