

**OREGON CHILD DEVELOPMENT
COALITION, INC.**

FINANCIAL STATEMENTS

December 31, 2009



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Oregon Child Development Coalition, Inc.

We have audited the accompanying statement of financial position of Oregon Child Development Coalition, Inc. (a nonprofit corporation) as of December 31, 2009, and the related statements of activities, functional revenues and expenses and cash flows for the year then ended. These financial statements are the responsibility of Oregon Child Development Coalition, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oregon Child Development Coalition, Inc. as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2010 on our consideration of Oregon Child Development Coalition, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KERN & THOMPSON, LLC

To the Board of Directors
Oregon Child Development Coalition, Inc.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Oregon Child Development Coalition, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Kern & Thompson, LLC

Portland, Oregon
July 28, 2010

OREGON CHILD DEVELOPMENT COALITION, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2009

ASSETS

CURRENT ASSETS

Cash & cash equivalents	\$ 1,250,607
Investments	349,716
Receivables	2,150,308
Prepaid expenses and other assets	<u>242,610</u>

Total Current Assets 3,993,241

PROPERTY AND EQUIPMENT

Property & equipment	33,579,100
Less accumulated depreciation	<u>(13,574,109)</u>

Property and Equipment, Net 20,004,991

DEPOSITS

55,231

TOTAL ASSETS

\$ 24,053,463

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 1,400,665
Accrued liabilities	906,763
Current portion of notes payable	<u>824,989</u>

Total Current Liabilities 3,132,417

OTHER LIABILITIES

Deferred revenue	1,060,273
Deferred lease incentive	<u>846,958</u>

Total Other Liabilities 1,907,231

NOTES PAYABLE, net of current portion

6,340,806

Total Liabilities 11,380,454

NET ASSETS

Unrestricted net assets	1,120,180
Unrestricted net assets - subject to conditions	<u>11,552,829</u>

Total Net Assets 12,673,009

TOTAL LIABILITIES AND NET ASSETS

\$ 24,053,463

See accompanying notes

OREGON CHILD DEVELOPMENT COALITION, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2009

REVENUES

Grant and Contract Revenues:

U.S. Department of Health & Human Services	
Migrant and Seasonal Head Start	\$ 26,472,448
Migrant and Seasonal Head Start (ARRA)	813,486
Early Head Start Program (ARRA)	219,375
Donated Goods and Professional Services	<u>4,518,956</u>
	32,024,265
State of Oregon - Employment Department	656,179
U.S.D.A. - Food & Nutrition Services	1,604,621
State of Oregon - Department of Education	6,351,856
Migrant Education Programs	78,060
Other Grant & Contract Revenues	314,126
Participant Co-payments	41,700
Investment Income (Loss)	62,122
Other Unrestricted	<u>14,504</u>

Total Revenues 41,147,433

EXPENSES

Program Services:

U.S. Department of Health and Human	
Migrant and Seasonal Head Start	30,133,276
Migrant and Seasonal Head Start (ARRA)	813,486
Early Head Start Program (ARRA)	219,375
State of Oregon - Employment Department	700,927
USDA - Food and Nutrition Services	1,601,927
State of Oregon - Department of Education	6,437,898
Migrant Education Programs	60,855
Other Grants and Contracts	312,743
Other Unrestricted	<u>60,406</u>

Total Expenses 40,340,893

CHANGE IN NET ASSETS 806,540

NET ASSETS, Beginning of Year 11,866,469

NET ASSETS, End of Year \$ 12,673,009

OREGON CHILD DEVELOPMENT COALITION, INC.
 STATEMENT OF FUNCTIONAL REVENUE AND EXPENSES
 Year Ended December 31, 2009

	DHHS HEADSTART PROGRAM BRANCH	DHHS - ARRA AMERICAN RECOVERY REINVESTMENT ACT	DHHS EARLY HEAD START MIGRANT PROGRAM	STATE OF OREGON EMPLOYMENT DEPARTMENT	USDA FOOD AND NUTRITION SERVICES	STATE OF OREGON-DEPT OF EDUCATION OPK	MIGRANT EDUCATION PROGRAMS	OTHER GRANTS AND CONTRACTS	OTHER UNRESTRICTED NONGOVERNMENTAL	TOTAL
REVENUES										
Grant and Contract Revenues	\$ 30,176,156	\$ 813,486	\$ 219,375	\$ 656,179	\$ 1,604,621	\$ 6,357,407	\$ 78,060	\$ 314,126	\$ 500	\$ 40,219,910
Donated Services	4,518,956			41,700						4,518,956
Participant Co-payments									62,122	62,122
Dividends and Interest Income (Loss)									14,004	14,004
Other Unrestricted									76,626	76,626
Total Revenues	<u>34,695,112</u>	<u>813,486</u>	<u>219,375</u>	<u>697,879</u>	<u>1,604,621</u>	<u>6,357,407</u>	<u>78,060</u>	<u>314,126</u>	<u>76,626</u>	<u>44,856,692</u>
Contributions - State of Oregon	(3,191,420)					(5,551)				(3,191,420)
Oregon Department of Education - OPK Inkind	(512,288)									(512,288)
Encumbrances										
Total Adjusted Revenues in Accordance with	<u>30,991,404</u>	<u>813,486</u>	<u>219,375</u>	<u>697,879</u>	<u>1,604,621</u>	<u>6,351,856</u>	<u>78,060</u>	<u>314,126</u>	<u>76,626</u>	<u>41,147,433</u>
Accounting Principles Generally Accepted in the United States of America										
EXPENSES										
Subcontractor and Other Contracted Service Payments	1,298,180	2,858	1,733	229,350	896,815	223,532	6,498	29,023	4,811	925,838
U.S.D.A. - Food and Nutrition Services					3,052			92,063		1,062,077
Other Contracted Services										
Total Subcontractor and Other Contracted Service Payments	<u>1,298,180</u>	<u>2,858</u>	<u>1,733</u>	<u>229,350</u>	<u>899,867</u>	<u>223,532</u>	<u>6,498</u>	<u>121,086</u>	<u>4,811</u>	<u>2,767,915</u>

OREGON CHILD DEVELOPMENT COALITION, INC.
STATEMENT OF FUNCTIONAL REVENUE AND EXPENSES
Year Ended December 31, 2009

	DHHS PROGRAM BRANCH	DHHS - ARRA AMERICAN RECOVERY REINVESTMENT ACT	DHHS EARLY HEAD START MIGRANT PROGRAM	STATE OF OREGON EMPLOYMENT DEPARTMENT	USDA FOOD AND NUTRITION SERVICES	STATE OF OREGON-DEPT OF EDUCATION OPK	MIGRANT EDUCATION PROGRAMS	OTHER GRANTS AND CONTRACTS	OTHER UNRESTRICTED NONGOVERNMENTAL	TOTAL
Administrative and Program Expenses:										
Salaries and Benefits	\$ 24,474,187	\$ 580,841	\$ 59,052	\$ 488,747	\$ 611,361	\$ 4,821,686	\$ 52,022	\$ 161,399	\$ 332	\$ 31,219,637
Building and Equipment	806,234	-	-	31	-	62,430	-	2	-	868,697
Repairs and Maintenance	1,939,336	182,024	156,056	2,012	9,187	256,743	1,071	774	-	2,391,147
Supplies	1,047,165	-	-	4,147	1,879	314,880	58	7,752	-	1,531,937
Rent	2,329,715	-	2,262	2,195	10,809	306,614	9	14,940	-	2,662,078
Travel	644,429	-	-	2,224	10,072	59,576	21	1,787	-	720,330
Telephone and Utilities	1,018,886	-	-	60	6,390	104,903	-	2,488	-	1,134,922
Training	189,475	47,763	-	24	197	81,763	-	1,512	-	300,770
Parent Activities and Involvement	144,850	-	272	-	-	27,978	-	729	-	173,581
Adult Food Costs	179,827	-	-	-	-	49,102	1,133	-	-	230,334
Insurance	224,652	-	-	-	-	19,491	-	-	-	244,143
Printing and Promotion	87,201	-	-	139	-	2,274	3	8	6	89,631
Professional	117,268	-	-	860	-	4,634	18	52	210	123,042
Property Use Allowance	85,121	-	-	-	-	-	-	-	-	85,121
Postage	47,698	-	-	184	810	2,144	2	147	-	50,985
Other Unrestricted	80,888	-	-	954	51,355	19,647	20	57	55,047	207,968
Total Administrative and Program Expenses	33,396,932	810,628	217,642	471,577	702,060	6,133,875	54,357	191,657	55,595	42,034,323
Contributions - State of Oregon	(3,191,420)	-	-	-	-	-	-	-	-	(3,191,420)
Oregon Department of Education - OPK Inkind Encumbrances	(512,288)	-	-	-	-	(5,551)	-	-	-	(517,839)
Total Expenses	30,991,404	813,486	219,375	700,927	1,601,927	6,351,856	60,855	312,743	60,406	41,112,979
Change in Net Assets as Reported to Cognizant Agencies	-	-	-	(3,048)	2,694	-	17,205	1,383	16,220	34,454
Purchases of Property and Equipment	(1,311,808)	-	-	-	-	-	-	-	-	(1,311,808)
Principal Repayment on Notes Payable	(872,598)	-	-	-	-	-	-	-	-	(872,598)
Principal Repayment on Leased Equipment	(132,417)	-	-	-	-	-	-	-	-	(132,417)
Less Depreciation of Property and Equipment	1,458,695	-	-	-	-	86,042	-	-	-	1,544,737
Total Adjusted Expenses in Accordance with Accounting Principles Generally Accepted in the United States of America	30,133,276	813,486	219,375	700,927	1,601,927	6,437,898	60,855	312,743	60,406	40,340,893
Change in Net Assets	\$ 858,128	\$ -	\$ -	(3,048)	2,694	(86,042)	17,205	1,383	16,220	\$ 806,540

OREGON CHILD DEVELOPMENT COALITION, INC.**STATEMENT OF CASH FLOWS**December 31, 2009

CASH FLOWS FROM OPERATING ACTIVITIES

Increase in net assets	\$	806,540
Adjustments to reconcile increase in net assets to cash provided by operating activities:		
Depreciation and property use allowance		1,629,857
Amortization of deferred lease incentive		(21,717)
Reinvestment of dividends		(11,820)
Unrealized gain on investments		(48,057)
 (Increase) decrease in operating assets:		
Receivables		(910,408)
Prepaid expenses and other assets		(112,536)
 Increase (decrease) in operating liabilities:		
Accounts payable		460,102
Accrued liabilities		(328,607)
Deferred revenue		477,448
Deferred lease incentive		868,675
		<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES		2,809,477

CASH FLOWS FROM INVESTING ACTIVITIES

Payments for property and equipment		<hr/> (1,312,599)
NET CASH USED BY INVESTING ACTIVITIES	-	(1,312,599)

CASH FLOWS FROM FINANCING ACTIVITIES

Principal payments on mortgages and notes payable		(919,157)
Principal payments on capitalized equipment leases		<hr/> (132,376)
NET CASH USED BY FINANCING ACTIVITIES		(1,051,533)
NET INCREASE IN CASH AND CASH EQUIVALENTS		<hr/> 445,345

CASH & CASH EQUIVALENTS, Beginning of Year		<hr/> 805,262
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CASH & CASH EQUIVALENTS, End of Year	\$	<hr/> <hr/> 1,250,607
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SUPPLEMENTAL DISCLOSURES

Mortgages and notes payable interest paid and expensed	\$	514,532
Capital lease interest paid and expensed	\$	17,784

OREGON CHILD DEVELOPMENT COALITION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009

NOTE 1 – ORGANIZATION

Organization – Oregon Child Development Coalition, Inc. (the Coalition) is a private not-for-profit corporation founded in 1971. The Coalition has evolved into the largest child development and childcare network in the state of Oregon.

The Coalition provides family focused comprehensive child development services for children up to six years old. Services are provided through a comprehensive approach to collaboration and partnership with a variety of private and public organizations in the many communities the Coalition serves throughout Oregon.

The Coalition is funded primarily by the of U.S. Department of Health and Human Services, Administration for Children and Families, Office of Head Start , Migrant and Seasonal Program Branch to operate Head Start programs in Oregon.

Other sources of funding received by the Coalition include:

- ◆ The Oregon Department of Education to operate the Oregon Head Start Program in Marion, Washington, Klamath and Jackson Counties;
- ◆ The Oregon Child Care Division to provide wrap around and after school child care, including infant and toddler child care and a network of family child care provider programs in Clackamas and Jackson Counties;
- ◆ The U.S. Department of Agriculture to provide meals to children participating in Coalition programs;
- ◆ Miscellaneous grants from various federal, state, local and private sources to provide services to children and families.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting – The accrual basis of accounting is utilized for financial reporting purposes. Revenues are recognized when earned and expenses are recognized when they are incurred.

Basis of presentation – Net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Coalition and changes therein are classified and reported as follows:

- ◆ *Unrestricted net assets* – Net assets not subject to donor-imposed stipulations
- ◆ *Unrestricted net assets – subject to conditions* – Certain net assets are classified as subject to conditions. These amounts represent unrestricted net assets purchased with Federal funds and are subject to reimbursement to the Federal awarding agency in the event of disposition.
- ◆ *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that may or will be met by actions of the Coalition and/or the passage of time.
- ◆ *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Coalition.

The Coalition reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires,

OREGON CHILD DEVELOPMENT COALITION, INC.
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED DECEMBER 31, 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. There were no temporarily or permanently restricted net assets at December 31, 2009.

Use of estimates – The preparation of the financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents – Cash and cash equivalents are generally all short-term investments with a maturity of three months or less.

Receivables – Receivables are reported at their outstanding principal amount. Receivables are considered by management to be fully collectible and, accordingly, no allowance for doubtful accounts is considered necessary as nearly all are due from federal, state, county and local government agencies.

Fair value measurement – the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date – is used by the Coalition on certain assets. For its investments, the Coalition obtains quoted prices in active markets using the market approach to valuation.

Fair Value Measurements at Reporting Date Using

Description	Carrying Amount at Year Ended 12/31/2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Assets Measured at Fair Value on a Recurring Basis</u>				
Investments	\$ 349,716	\$ 349,716	\$ 0	\$ 0

Investments – Equity securities with readily determinable fair values are stated at fair values as determined by quoted market prices, in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Property and equipment – Property and equipment are stated at cost or, for donated items, estimated value at the date of donation. Property and equipment purchased with federal awards are reported as unrestricted assets, subject to conditions. Should federal funding related to the acquisition of such assets be discontinued, these assets may revert to the federal funding agency. Conditions on such assets are released over the estimated useful life of the

OREGON CHILD DEVELOPMENT COALITION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009

assets, which range from 3 to 30 years. Depreciation on property and equipment is calculated using the straight-line method. New equipment and expenditures for repairs and improvements which extend the useful life of an asset exceeding \$5,000 are capitalized; conversely, expenditures for routine repairs and maintenance costs are expensed when incurred. Property and equipment purchased with unrestricted funds of the Coalition or received as contributions are depreciated over the useful lived of the related assets, which range from 15 to 30 years, using the straight-line method. Property use allowance relates to depreciation on Coalition-owned assets utilized in program activities.

Deferred revenue – Deferred revenue represents grant funds received but not earned. These amounts will be recognized as revenue over the remaining grant period to the extent allowable grant expenditures are incurred.

Donated goods and professional services – A substantial number of volunteers donate significant amounts of their time to the Coalition’s program services. Additionally, various vendors provide support by discounting their fees and charges to the Coalition. These donated services and fees are a necessary part of the Coalition’s activities and have been reported as unrestricted revenue to the extent that the donated materials and services create or enhance non-financial assets or require specialized skills typically purchased if not originally provided through donation. State of Oregon Department of Education Head Start in-kind contributions totaling \$3,191,420 have been allocated to the various expense classifications below. These contributions do not meet the criteria for recognition under FASB ASC 958-605, *Revenue Recognition* (formerly SFAS No. 116, *Accounting for Contributions Received and Contributions Made*), and are adjusted from total revenues and expenses in the accompanying statement of functional revenues and expenses. Donated materials and services for the year ended December 31, 2009, were as follows:

	Oregon Head Start	Other	Total
Salary and Fringe	\$ 2,379,527	\$ 464,890	\$ 2,844,417
Rent	319,679	319,554	639,233
Telephone and Utilities	102,244	75,366	177,610
Equipment and Supplies	45,430	55,836	101,266
Professional Services	176,241	314,735	490,976
Building Repair and Maintenance	157,304	-	157,304
Travel	10,778	95,890	106,668
Training	217	1,265	1,482
Total Donated Goods and Professional Services	\$ 3,191,420	\$ 1,327,536	\$ 4,518,956

Encumbrances – Encumbrances represent commitments by the Coalition for the purchase of goods and services.

Income taxes – The Coalition is a qualified charitable corporation under provisions of the Internal Revenue Code Section 501(c)(3) and is, therefore, exempt from federal and state taxation. The Coalition has been classified as an organization that is not a private foundation under Section 509(a)(2). Any unrelated business taxable income reportable on IRS Form 990-T will be offset by a net operating loss carry forward in the amount of \$29,257 that is valid through 2023. The Organization’s tax returns for years ended 2006-2008 are subject to examination by the IRS, generally for three years after they are filed.

OREGON CHILD DEVELOPMENT COALITION, INC.
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED DECEMBER 31, 2009

NOTE 3 – INVESTMENTS

Investments, at fair value, are as follows:

Domestic mutual funds	\$ 282,482
Common stock	67,234
	<hr/>
Total Investments	\$ 349,716
	<hr/>

Investments income (loss) is as follows:

Interest and dividends	\$ 2,245
Reinvestment of dividends	11,820
Unrealized loss on investments	48,057
	<hr/>
Investment income (loss)	\$ 62,122
	<hr/>

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment is as follows:

Land	\$ 2,130,478
Buildings	24,886,628
Equipment	4,328,038
Leasehold improvements	1,181,075
	<hr/>
Total property and equipment	32,526,218
Less accumulated depreciation	(13,574,109)
	<hr/>
	18,952,109
Construction in progress	1,052,882
	<hr/>
Property and equipment, net	\$ 20,004,991
	<hr/>

Equipment includes buses and utility vehicles held under capital lease agreements with a cost basis of \$927,960 and accumulated depreciation of \$600,807. Depreciation expense of \$1,544,737 and property use allowance of \$85,120, together total \$1,629,857 for the year ended December 31, 2009.

NOTE 5 – OPERATING LEASES

The Coalition has entered into operating lease agreements for its administrative office, several child care facilities, and office equipment. The office and facility leases extend for various periods up to 20 years, while the office equipment leases expire in 3 to 5 years. Future minimum lease payments are as follows:

Years ending December 31,	2010	\$ 1,138,402
	2011	889,064
	2012	574,753
	2013	393,110
	2014	370,137
	Thereafter	1,938,597
		<hr/>
		\$ 5,304,063
		<hr/>

OREGON CHILD DEVELOPMENT COALITION, INC.
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED DECEMBER 31, 2009

NOTE 5 – OPERATING LEASES (Continued)

For the year ended December 31, 2009, rent expense was \$2,662,078 of which \$639,233 was donated in-kind rent and \$1,583,849 was principal and interest payments on property and equipment.

Deferred lease incentive – On July 1, 2009, the Coalition entered into an operating lease agreement with its administrative office landlord for expansion space at the current location, 9140 SW Pioneer Court, Wilsonville, Oregon. Included in this agreement, scheduled to expire September 30, 2019, was a lease incentive in which the lessor agreed to pay \$868,675 for tenant improvements. This is recorded as deferred lease incentives and is amortized in monthly amounts of \$7,239 over the term of the lease. Activity in the deferred lease incentive balance was as follows for the year ended December 31, 2009:

Balance at the receipt of incentive	\$ 868,675
Amortization	21,717
Balance at December 31, 2009	<u>\$ 846,958</u>

NOTE 6 – LONG-TERM DEBT AND CAPITAL LEASES

Mortgages and notes payable to US Bank maturing in 2014 and 2023 contain restrictive financial covenants related to fixed charges.

Mortgages and notes payable:

Note payable #109, US Bank, payable in monthly installments of \$20,567, including interest at 4.05% secured by real property, due May 2014.	\$ 987,195
Notes payable #158, US Bank, payable in monthly installments of \$8,084, including variable interest currently at 6.5%, secured by real property, due March 2016.	493,618
Note payable #166, US Bank, payable in monthly installments of \$6,570, including variable interest currently at 6.5%, secured by real property, due March 2016.	401,125
Note payable #174, US Bank, payable in monthly installments of \$7,576, including variable interest currently at 6.5%, secured by real property, due March 2016.	462,551
Note payable #190, US Bank, payable in monthly installments of \$21,022, including interest at 6.52%, secured by real property, due July 2018.	1,640,432
Note payable #224 US Bank, payable in monthly installments of \$24,835, including variable interest currently at 5.91%, secured by real property, due December 2023.	2,857,833
Total mortgages and notes payable	<u>\$ 6,842,754</u>

OREGON CHILD DEVELOPMENT COALITION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009

NOTE 6 – LONG-TERM DEBT AND CAPITAL LEASES (Continued)

Capital lease obligations:

Capitalized equipment lease #621928, US Bancorp Business Equipment Finance Group, payable in five annual installments of \$50,255, with \$1 purchase option at the end of lease for three 2007 International school buses. Final payment due May 2010. \$ 50,203

Capitalized equipment lease #869756, US Bancorp Business Equipment Finance Group, payable in five annual installments of \$26,538, with \$1 purchase option at end of lease for six 2008 model E250 Ford vans and three 2008 model F350 Ford trucks, all utility vehicles. Final payment due May 2012. 73,022

Capitalized equipment lease #900393, US Bancorp Business Equipment Finance Group, payable in five annual installments of \$69,525, with \$1 purchase option at the end of lease for four 2009 International school buses. Final payment due May 2012. 199,817

Total capital lease obligations \$ 323,042

Long-term debt principal maturities and future minimum payments under capital leases are as follows:

	Mortgages and Notes Payable	Capital Leases	Total Long-Term Debt
Years ending December 31, 2010	\$ 678,671	\$ 146,318	\$ 824,989
2011	716,317	96,064	812,381
2012	757,805	96,064	853,869
2013	801,788	-	801,788
2014	692,506	-	692,506
Thereafter	3,195,667	-	3,195,667
	\$ 6,842,754	\$ 338,446	\$ 7,181,200
Less: Amount of interest between 4.45% and 5.59%		(15,405)	(15,405)
Less: Current portion of long-term debt	(678,671)	(146,318)	(824,989)
	\$ 6,164,083	\$ 176,723	\$ 6,340,806

OREGON CHILD DEVELOPMENT COALITION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009

NOTE 7 – CONTINGENT LIABILITIES

Grant receipts from funding agencies and related expenditures may be audited by federal and state government representatives to determine if the monies are expended in accordance with the appropriate statutes, grant terms, and regulations. Management believes the Coalition has been in compliance with all grant requirements and that any expenditure which may be disallowed would be immaterial in the event that an audit by federal or state representatives is conducted.

NOTE 8 – EMPLOYEE BENEFIT PLAN

The coalition as established an elective deferred compensation plan pursuant to Section 401(k) of the Internal Revenue Code. In 2007 the Plan was changed to a Safe Harbor Plan. All employees of the Coalition are eligible to join the plan and participate in the elective deferral contributions upon date of employment. To be eligible for Employer Matching Contributions employees must complete one year of service having worked 1,000 hours. To be eligible for Employer Discretionary Contributions employee must meet entry requirements and work a minimum of 1,000 hours per plan year. Employees electing to participate may contribute a percentage or amount of compensation not to exceed statutory limits. The Coalition, at its discretion, contributes 5% of each employee's annual plan compensation and has a mandatory match on participants' elective deferral up to 5% of eligible annual plan compensation of each participant. All contributions are immediately 100% vested. The Coalition contributed \$1,351,481 to the plan for the year ending December 31, 2009.

NOTE 9 – CONCENTRATIONS

Credit risk – The Coalition maintains its cash accounts with one FDIC-insured bank located in Portland, Oregon. Deposits to these accounts exceed the limits of depository insurance. Currently at \$250,000, according to the Emergency Economic Stabilization Act of 2008, this is a temporary increase from \$100,000 and is effective from October 3, 2008 until December 31, 2013. However, the Coalition considers such deposits as made with a highly-rated financial institution that has not historically incurred any significant credit related losses.

Revenues – The majority of the Coalition's revenues comes from a grant with the Department of Health and Human Services. The grant is renewed on an annual basis.

Labor concentration – A labor union contract, which will expire December 31, 2011, covers approximately thirty percent of the work force.

NOTE 10 – SUBSEQUENT EVENTS

The Coalition has evaluated contingencies according to FSB ASC 450-20 (*formerly SFAS No. 5*) for subsequent events as of July 28, 2010. As such, only uncertainties about whether a liability has incurred or reduced or an asset acquired or impaired give rise to contingencies. There are no known events that have occurred which will materially affect and require recognition in the financial statements for the period ended December 31, 2009.

In 2010, the Coalition obtained \$1,800,000 financing for its newest facility in Mulino, Clackamas County, Oregon.



**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
Oregon Child Development Coalition, Inc.
Portland, Oregon

We have audited the financial statements of Oregon Child Development Coalition, Inc. (the Organization) for the year ended December 31, 2009 and have issued our report thereon dated July 28, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Directors
Oregon Child Development Coalition, Inc.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Organization in a separate letter dated July 28, 2010.

This report is intended solely for the information and use of the Board of Directors, management, others within the Organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Portland, Oregon
July 28, 2010



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Oregon Child Development Coalition, Inc.
Portland, Oregon

Compliance

We have audited the compliance of Oregon Child Development Coalition, Inc. (the "Organization") (a not-for-profit organization) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

Board of Directors
Oregon Child Development Coalition, Inc.

Internal Control Over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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.

Our consideration of internal control over compliance was for the limited purposes described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Board of Directors, others within the Organization, federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Kim Thompson, LLC

Portland, Oregon
July 28, 2010

OREGON CHILD DEVELOPMENT COALITION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2009

Section 1 – Summary of Auditors’ Results

Financial Statements

1. Type of auditors’ report issued – **Unqualified**
2. Significant deficiencies identified during the audit of the financial statements – **None reported**
3. Material weaknesses identified during the audit of the financial statements – **None**
4. Noncompliance that is material to the financial statements noted – **None**

Federal Awards

5. Significant deficiencies in internal control over major programs identified in the audit of the financial statements – **None reported**
6. Material weaknesses in internal control over major programs identified in the audit of the financial statements – **None**
7. The type of auditors’ report issued on compliance for major programs – **Unqualified**
8. Audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 – **None**

Identification of Major Programs

➤ **Head Start Cluster:**

- Head Start 93.600
- ARRA – Head Start 93.708
- ARRA – Early Head Start 93.709

9. Dollar threshold used to distinguish between Type A and Type B programs – **\$1,016,386.**
10. The auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133.

**OREGON CHILD DEVELOPMENT COALITION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2009**

Section 2 – Financial Statement Findings

11. Findings relating to the financial statements reported in accordance with *Government Auditing Standards* – **None**

Section 3 – Federal Award Findings and Questioned Costs

12. Findings and questioned costs relating to federal awards – **None**

OREGON CHILD DEVELOPMENT COALITION, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2009

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Grant Number	Federal Expenditures
U.S. Office of Human Development Services, Department of Health and Human Services Head Start Cluster:			
Direct award			
Full-year and full-day Head Start Program	93.600	90CM0995/38	\$ 30,176,335
ARRA Expansion - Migrant & Season Head Start	93.708	90SE0995/01	813,486
ARRA Expansion - Early Head Start	93.709	90SG0995/01	219,375
Pass-through from Hood River/Jefferson Counties, Oregon			
Mid-Columbia Children's Council	93.600	Various	9,156
Umatilla/Morrow Head Start	93.600	Various	1,645
Subtotal - Head Start Cluster			31,219,997
Pass-through from State of Oregon – Employment Department			
Child Care and Development Block Grant	93.575	Various	700,927
Pass-through from Jackson County, Oregon			
The Job Council	93.575	Various	4,069
Pass-through from Department of Health and Human Services			
Lifeworks NW Early Childhood Development Program	93.243	Various	1,849
Total U.S. Department of Health and Human Services			\$ 31,926,842
U.S. Department of Education:			
Pass-through from Hood River/Wasco/Klamath County School Districts, Oregon			
Migrant Education Programs:			
Hood River County School District	84.011	Various	18,055
Columbia Gorge ESD	84.011	Various	23,268
Southern Oregon ESD	84.011	Various	19,531
Pass-through from State of Oregon Department of Education:			
Even Start Family Literacy Program	84.213	Various	185,751
Total U.S. Department of Education			\$ 246,605
U.S. Department of Agriculture:			
Pass-through from State of Oregon Department of Education:			
Child and Adult Care Food Program	10.558	03-15004	1,032,133
Cash in Lieu of Commodities	10.565	03-15004	45,347
Family Day Care Homes Program	10.558	03-15001	544,989
Umatilla-Morrow Head Start Vended Meals Contract	10.558	Various	24,806
Mid-Columbia Children's Council - Vended Meals Contract	10.558	Various	5,296
Mid-Willamette Valley Community Action Agency - Vended Meals Contract	10.558	Various	25,577
Total U.S. Department of Agriculture			\$ 1,678,146
U.S. Department of Housing and Urban Development			
Pass through from Washington County			
PODER Family Literacy Collaborative	14.218	705010- 7020690-GS	27,958
Total U.S. Department of Housing & Urban Development			27,958
Total Expenditures of Federal Awards			\$ 33,879,549

**OREGON CHILD DEVELOPMENT COALITION, INC.
NOTES TO SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2009**

NOTE 1- BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Oregon Child Development Coalition, Inc. and is presented on the accrual basis of accounting, consistent with generally accepted accounting principles. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTES 2- MATCHING REQUIREMENT

The Coalition meets the 10% in-kind matching requirements by the Department of Health and Human Services Migrant Head Start Program, through inclusion of resources relating to the State of Oregon Department of Education Head Start Program. While these contributions are not considered to be in accordance with generally accepted accounting principles (GAAP), management asserts they have been allowable by the granting agency.