

**OREGON CHILD DEVELOPMENT
COALITION, INC.**

FINANCIAL STATEMENTS

December 31, 2010



CONTENTS

	PAGE	
INDEPENDENT AUDITORS' REPORT	1 - 2	
FINANCIAL STATEMENTS		
Statement of financial position	3	
Statement of activities	4	
Statement of functional revenue and expenses.....	5 - 6	
Statement of cash flows	7	
Notes to financial statements	8 – 14	
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 <i>GOVERNMENT AUDITING STANDARDS</i>		15-16
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133.....		17-18
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	19-20	
SUPPLEMENTAL INFORMATION		
Schedule of expenditures of federal awards.....	21	
Notes to schedule of expenditures of federal awards	22	



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, 2010, 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, 2010, 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 August 23, 2011 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 performed 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 OMB Circular A-133 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
August 23, 2011

OREGON CHILD DEVELOPMENT COALITION, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2010

ASSETS

CURRENT ASSETS

Cash & cash equivalents	1,227,183
Investments	373,396
Receivables	676,802
Prepaid expenses and other assets	<u>198,729</u>

Total Current Assets 2,476,110

PROPERTY AND EQUIPMENT

Property & equipment	37,346,879
Less accumulated depreciation	<u>(15,375,600)</u>

Property and Equipment, Net 21,971,279

DEPOSITS

42,306

TOTAL ASSETS

\$ 24,489,695

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 644,264
Accrued liabilities	1,061,952
Current portion of long-term debt and capital leases	<u>874,548</u>

Total Current Liabilities 2,580,764

OTHER LIABILITIES

Deferred revenue	289,205
Deferred lease incentive	<u>816,293</u>

Total Other Liabilities 1,105,498

LONG-TERM DEBT AND CAPITAL LEASES, net of current portion

7,256,198

Total Liabilities 10,942,460

NET ASSETS

Unrestricted net assets	1,110,913
Unrestricted net assets - subject to conditions	<u>12,436,322</u>

Total Net Assets 13,547,235

TOTAL LIABILITIES AND NET ASSETS

\$ 24,489,695

See accompanying notes.

OREGON CHILD DEVELOPMENT COALITION, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2010

REVENUES

Grant and contract revenues:

U.S. Department of Health and Human Services	
Migrant and Seasonal Head Start	\$ 27,793,917
Migrant and Seasonal Head Start (ARRA)	887,665
Early Head Start Program - (ARRA)	6,846,656
Donated Goods and Professional Services - MSHS	3,672,007
Donated Goods and Professional Services - EHS	241,152
	<hr/>
	39,441,397

State of Oregon - Employment Department	551,863
U.S.D.A. - Food & Nutrition Services	1,888,888
State of Oregon - Department of Education - OPK	5,671,233
State of Oregon - Department of Education - EHS	38,821
Migrant Education Programs	50,452
Other Grant & Contract Revenues	314,852
Participant co-payments	18,255
Investment Income (loss)	26,400
Other Unrestricted	16,190
	<hr/>

Total revenues 48,018,351

EXPENSES

Program services:

U.S. Department of Health and Human Services	
Migrant and Seasonal Head Start	31,332,982
Migrant and Seasonal Head Start (ARRA)	887,945
Early Head Start Program - (ARRA)	6,240,971
State of Oregon - Employment Department	585,931
USDA - Food and Nutrition Services	1,890,225
State of Oregon - Department of Education - OPK	5,767,521
State of Oregon - Department of Education - EHS	38,821
Migrant Education Programs	43,877
Other grants and contracts	319,504
Other unrestricted	36,348
	<hr/>

Total expenses 47,144,125

CHANGE IN NET ASSETS, all unrestricted 874,226

NET ASSETS, beginning of period 12,673,009

NET ASSETS, end of period \$ 13,547,235

See accompanying notes.

OREGON CHILD DEVELOPMENT COALITION, INC.
 STATEMENT OF FUNCTIONAL REVENUE AND EXPENSES
 Year Ended December 31, 2010

	DHHS HEAD START PROGRAM BRANCH	DHHS 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	STATE OF OREGON-DEPT OF EDUCATION EHS	MIGRANT EDUCATION PROGRAMS	OTHER GRANTS AND CONTRACTS	OTHER UNRESTRICTED NONGOVERNMENTAL	TOTAL
REVENUES											
Grant and contract revenues	\$ 30,906,793	\$ 887,665	\$ 6,944,240	\$ 551,863	\$ 1,888,888	\$ 5,671,233	\$ 38,821	\$ 50,452	\$ 314,852	\$ -	\$ 47,254,807
Donated Services	3,672,007		241,152								3,913,159
Participant co-payments				18,255							18,255
Dividends and interest income (loss)										26,400	26,400
Other unrestricted										16,190	16,190
Total revenues	<u>34,578,800</u>	<u>887,665</u>	<u>7,185,392</u>	<u>570,118</u>	<u>1,888,888</u>	<u>5,671,233</u>	<u>38,821</u>	<u>50,452</u>	<u>314,852</u>	<u>42,590</u>	<u>51,228,811</u>
Contributions - State of Oregon											
Department of Education In-kind	(2,726,210)	-	(97,584)	-	-	-	-	-	-	-	(2,823,794)
Encumbrances	(386,666)	-	-	-	-	-	-	-	-	-	(386,666)
Total Adjusted Revenues in Accordance with Accounting Principles Generally Accepted in the United States of America	<u>31,465,924</u>	<u>887,665</u>	<u>7,087,808</u>	<u>570,118</u>	<u>1,888,888</u>	<u>5,671,233</u>	<u>38,821</u>	<u>50,452</u>	<u>314,852</u>	<u>42,590</u>	<u>48,018,351</u>
EXPENSES											
Subcontractor and other contracted service payments											
U.S.D.A. - food and nutrition services	-	-		-	946,435	-	-	-	11,532	-	957,967
Other contracted services	1,080,620	304,290	417,939	184,670	3,782	207,472	73	420	43,015	-	2,242,281
Total subcontractor and other contracted service payments	<u>1,080,620</u>	<u>304,290</u>	<u>417,939</u>	<u>184,670</u>	<u>950,217</u>	<u>207,472</u>	<u>73</u>	<u>420</u>	<u>54,547</u>	<u>-</u>	<u>3,200,248</u>

OREGON CHILD DEVELOPMENT COALITION, INC.
 STATEMENT OF FUNCTIONAL REVENUE AND EXPENSES
 Year Ended December 31, 2010

	DHHS HEAD START PROGRAM BRANCH	DHHS 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	STATE OF OREGON-DEPT OF EDUCATION EHS	MIGRANT EDUCATION PROGRAMS	OTHER GRANTS AND CONTRACTS	OTHER UNRESTRICTED NONGOVERNMENTAL	TOTAL
Administrative & program expenses:											
Salaries and benefits	\$ 25,383,518	\$ 371,652	\$ 3,948,497	\$ 393,492	\$ 842,296	\$ 4,591,305	\$ 33,104	\$ 38,579	\$ 238,836	\$ -	\$ 35,841,279
Building and equipment expense	395,129	-	1,086,248	83	-	6,413	690	8	3,385	-	1,491,956
Repairs and maintenance	2,113,095	167,294	291,297	1,828	11,142	168,649	237	282	1,106	-	2,754,930
Supplies	914,563	-	730,516	830	1,475	136,744	3,087	1,159	3,821	-	1,792,195
Rent	1,959,600	-	408,911	555	10,389	215,629	-	-	6,925	-	2,602,009
Travel	525,503	11,725	119,673	991	9,847	74,209	830	36	4,853	38	747,705
Telephone and utilities	920,528	-	75,306	1,812	6,938	77,346	87	59	1,870	-	1,083,946
Training	288,050	32,925	42,729	6	-	80,083	28	1	1,338	-	445,160
Parent activities and involvement	128,866	-	8,228	-	-	30,590	518	-	975	-	169,177
Adult food costs	212,603	-	33,931	-	-	53,546	-	2,639	-	-	302,719
Insurance	250,486	-	9,439	-	-	-	-	-	-	-	259,925
Printing and promotion	106,167	59	9,277	303	-	7,560	44	613	830	1,050	125,903
Professional	80,780	-	-	384	-	3,414	56	37	229	4,200	89,100
Property use allowance	85,121	-	-	-	-	-	-	-	-	-	85,121
Postage	59,128	-	314	724	853	4,032	29	20	152	-	65,252
Other	75,043	-	3,087	253	57,068	14,241	38	24	637	31,060	181,451
Total administrative and program expenses	33,498,180	583,655	6,767,453	401,261	940,008	5,463,761	38,748	43,457	264,957	36,348	48,037,828
Contributions - State of Oregon											
Department of Education In-kind	(2,726,210)	-	(97,584)	-	-	-	-	-	-	-	(2,823,794)
Encumbrances	(386,666)	-	-	-	-	-	-	-	-	-	(386,666)
Total expenses	31,465,924	887,945	7,087,808	585,931	1,890,225	5,671,233	38,821	43,877	319,504	36,348	48,027,616
Change in net assets as reported to cognizant agencies	-	(280)	-	(15,813)	(1,337)	-	-	6,575	(4,652)	6,242	(9,265)
Purchases of property and equipment	(871,836)	-	(940,930)	-	-	-	-	-	-	-	(1,812,766)
Principal repayment on notes payable	(644,037)	-	-	-	-	-	-	-	-	-	(644,037)
Principal repayment on leased equipment	(143,058)	-	-	-	-	-	-	-	-	-	(143,058)
Less depreciation of property and equipment	1,525,989	-	94,093	-	-	96,288	-	-	-	-	1,716,370
Total Adjusted Expenses in Accordance with Accounting Principles Generally Accepted in the United States of America	31,332,982	887,945	6,240,971	585,931	1,890,225	5,767,521	38,821	43,877	319,504	36,348	47,144,125
Change in net assets	\$ 132,942	\$ (280)	\$ 846,837	\$ (15,813)	\$ (1,337)	\$ (96,288)	\$ -	\$ 6,575	\$ (4,652)	\$ 6,242	\$ 874,226

See accompanying notes.

OREGON CHILD DEVELOPMENT COALITION, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 874,226
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation and property use allowance	1,801,491
Amortization of deferred lease incentive	(86,867)
Deferred lease expense	56,203
Reinvestment of dividends	(16,353)
Unrealized gain on investments	(7,327)
 (Increase) decrease in operating assets:	
Receivables	1,473,506
Prepaid expenses and other assets	56,806
 Increase (decrease) in operating liabilities:	
Accounts payable	(756,401)
Accrued liabilities	155,233
Deferred revenues	(771,068)

NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES 2,779,449

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment	<u>(3,767,779)</u>
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NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES (3,767,779)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from mortgages and notes payable	1,800,000
Principal payments on mortgages and notes payable	(692,034)
Principal payments on capitalized equipment leases	<u>(143,060)</u>

NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES 964,906

NET CHANGE IN CASH AND CASH EQUIVALENTS (23,424)

CASH & CASH EQUIVALENTS, beginning of year 1,250,607

CASH & CASH EQUIVALENTS, end of year \$ 1,227,183

SUPPLEMENTAL DISCLOSURES

Other Cash activities:	
Mortgages and notes payable interest paid and expensed	\$ 439,184
Capital lease interest paid and expensed	\$ 13,217

OREGON CHILD DEVELOPMENT COALITION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

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 Region XII 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, 2010

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, 2010.

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 12/31/2010	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	\$ 373,396	\$ 373,396	\$ 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, 2010

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 \$2,823,794 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, 2010, were as follows:

	State of Oregon Department of Education	Other	Total
Salary and Fringe	\$ 2,197,739	\$ 298,058	\$ 2,495,797
Rent	263,861	296,662	560,523
Telephone and Utilities	62,160	47,892	110,052
Equipment and Supplies	19,315	23,226	42,541
Professional Services	182,152	400,704	582,856
Building Repair and Maintenance	73,814	-	73,814
Travel	22,452	10,635	33,087
Training	2,301	12,188	14,489
Total Donated Goods and Professional Services	\$ 2,823,794	\$ 1,089,365	\$ 3,913,159

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 Coalition’s tax returns are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

OREGON CHILD DEVELOPMENT COALITION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

NOTE 3 – INVESTMENTS

Investments, at fair value, are as follows:

Domestic mutual funds	\$ 297,561
Common stock	<u>75,835</u>
Total Investments	<u>\$ 373,396</u>

Investments income (loss) is as follows:

Interest and dividends	\$ 2,720
Reinvestment of dividends	16,353
Unrealized gain on investments	<u>7,327</u>
Investment income (loss)	<u>\$ 26,400</u>

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment is as follows:

Land	\$ 2,130,478
Buildings	27,969,145
Equipment	5,593,419
Leasehold improvements	<u>1,494,313</u>
Total property and equipment	37,187,355
Less accumulated depreciation	<u>(15,375,600)</u>
	21,811,755
Construction in progress	<u>159,524</u>
Property and equipment, net	<u>\$ 21,971,279</u>

Equipment includes buses and utility vehicles held under capital lease agreements with a cost basis of \$927,961 and accumulated depreciation of \$730,701. Depreciation expense of \$1,716,370 and property use allowance of \$85,121, together total \$1,801,491 for the year ended December 31, 2010.

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,	2011	\$ 1,023,557
	2012	714,304
	2013	458,070
	2014	402,087
	2015	367,985
	Thereafter	<u>1,540,756</u>
		<u>\$ 4,506,759</u>

OREGON CHILD DEVELOPMENT COALITION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

NOTE 5 – OPERATING LEASES (Continued)

For the year ended December 31, 2010, rent expense was \$2,628,123 of which \$586,637 was donated in-kind rent and \$1,261,560 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 over the term of the lease. The deferred lease incentive balance for the year ended December 31, 2010:

Balance at the receipt of incentive, July 1, 2009	\$ 868,675
Amortization to date	108,584
Balance at December 31, 2010	<u>\$ 760,091</u>

NOTE 6 – LONG-TERM DEBT AND CAPITAL LEASES

Mortgages and notes payable to US Bank maturing in 2014 to 2025 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.	\$ 777,354
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.	427,444
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.	347,351
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.	400,541
Note payable #190, US Bank, payable in monthly installments of \$21,022, including interest at 6.52%, secured by real property, due July 2018.	1,493,143
Note payable #224 US Bank, payable in monthly installments of \$24,835, including interest at 5.91%, secured by real property, due December 2023.	2,727,506
Note payable #257 US Bank, payable in monthly installments of \$15,278, including interest at 6.09%, secured by real property, due July 2025.	1,777,381
Total mortgages and notes payable	<u>\$ 7,950,720</u>

OREGON CHILD DEVELOPMENT COALITION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

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

Capital lease obligations:

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. \$ 49,733

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. 130,293

Total capital lease obligations \$ 180,026

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, 2011	\$786,494	\$88,054	\$874,548
2012	833,779	104,070	937,849
2013	882,528	-	882,528
2014	779,375	-	779,375
2015	731,566	-	731,566
Thereafter	3,936,978	-	3,936,978
	<u>\$7,950,720</u>	<u>\$192,124</u>	<u>\$8,142,844</u>
Less: Amount of interest between 4.45% and 5.59%		(12,098)	(12,098)
Less: Current portion of long-term debt	(786,494)	(88,054)	(874,548)
	<u>\$7,164,226</u>	<u>\$91,972</u>	<u>\$7,256,198</u>

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.

OREGON CHILD DEVELOPMENT COALITION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

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 \$1,525,483 to the plan for the year ending December 31, 2010.

NOTE 9 – CONCENTRATIONS

Credit risk – The Coalition maintains its cash and sweep investment 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, 2012. 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 August 23, 2011, which is the date the financial statements were available to be issued. 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, 2010.

In 2011, the Coalition obtained \$1,400,000 financing from US Bank to purchase its newest facility in Hillsboro, Washington County, Oregon.



**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, 2010 and have issued our report thereon dated August 23, 2011. 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.

KERN & THOMPSON, LLC

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*.

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
August 23, 2011



**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

INDEPENDENT AUDITORS' REPORT

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

Compliance

We have audited Oregon Child Development Coalition, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Oregon Child Development Coalition, Inc.'s major federal programs for the year ended December 31, 2010. Oregon Child Development Coalition, Inc.'s major 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. 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 could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

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 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 purpose 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, the 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.

Kern & Thompson, LLC

Portland, Oregon
August 23, 2011

**OREGON CHILD DEVELOPMENT COALITION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2010**

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

➤ **Child and Adult Care Food** 10.558

9. Dollar threshold used to distinguish between Type A and Type B programs – **\$1,245,252.**
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, 2010

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, 2010

Federal Grantor/Pass-Through Grantor Program Title	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	90CM0995/39	\$ 30,906,793
ARRA Expansion - Migrant & Seasonal Head Start	93.708	90SE0995/01	887,945
ARRA Expansion - Early Head Start	93.709	90SG0995/01	6,944,240
Pass-through from Umatilla/Morrow Counties, Oregon			
Umatilla/Morrow Head Start	93.600	Various	1,407
Subtotal - Head Start Cluster			38,740,384
Pass-through from State of Oregon - Employment Department			
Child Care and Development Block Grant	93.575	Various	585,930
Pass-through from Department of Health and Human Services			
Lifeworks NW Early Childhood Development Program	93.243	Various	2,673
Pass-through from State of Oregon Department of Human Services			
Healthy Kids - Children's Health Insurance	93.767	130924	121,912
Pass-through from American Academy of Pediatric Dentistry			
Head Start Dental Home Initiative	93.110		163
Total U.S. Department of Health and Human Services			\$ 39,451,063
U.S. Department of Education:			
Pass-through from Hood River/Wasco/Klamath County School Districts, Oregon			
Migrant Education Programs:			
Columbia Gorge ESD	84.011	Various	26,179
Southern Oregon ESD	84.011	Various	17,697
Pass-through from State of Oregon Department of Education			
Even Start Family Literacy Program	84.213	Various	93,296
Total U.S. Department of Education			\$ 137,171
U.S. Department of Agriculture:			
Pass-through from State of Oregon Department of Education:			
Child and Adult Care Food Program	10.558	03-15004	859,686
Cash in Lieu of Commodities	10.558	03-15004	39,688
Family Day Care Homes Program	10.558	03-15001	547,862
Umatilla-Morrow Head Start Vended Meals Contract	10.558	Various	18,872
Mid-Willamette Valley Community Action Agency - Vended Meals Contract	10.558	Various	12,382
Summer Food Services Program	10.559	03-15004	424,115
Total U.S. Department of Agriculture			\$ 1,902,605
U.S. Department of Housing and Urban Development:			
Pass through from Washington County:			
PODER Family Literacy Collaborative	14.218	09-0841	17,549
Total U.S. Department of Housing & Urban Development			\$ 17,549
Total Expenditures of Federal Awards			\$ 41,508,388

**OREGON CHILD DEVELOPMENT COALITION, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2010**

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.