

**OREGON CHILD DEVELOPMENT  
COALITION, INC.**

**FINANCIAL STATEMENTS**

**December 31, 2011**



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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of Oregon Child Development Coalition, Inc. (a not-for-profit corporation) as of December 31, 2011, 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 the Organization'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, 2011, 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 27, 2012, on our consideration of Oregon Child Development Coalition, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in blue ink that reads "Kern & Thompson, LLC". The signature is written in a cursive, flowing style.

Portland, Oregon  
July 27, 2012

**OREGON CHILD DEVELOPMENT COALITION, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**December 31, 2011**

**ASSETS**

**CURRENT ASSETS**

Cash & cash equivalents	\$777,103
Investments	368,289
Receivables	536,114
Prepaid expenses and other assets	<u>243,857</u>

Total Current Assets 1,925,363

**PROPERTY AND EQUIPMENT**

Property & equipment	39,492,662
Less accumulated depreciation	<u>(17,279,145)</u>

Property and Equipment, Net 22,213,517

**DEPOSITS**

43,306

**TOTAL ASSETS**

\$ 24,182,186

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable	\$ 459,860
Accrued liabilities	914,058
Current portion of long-term debt and capital leases	<u>1,039,300</u>

Total Current Liabilities 2,413,218

**OTHER LIABILITIES**

Deferred revenue	389,539
Deferred lease incentive and rent	<u>776,456</u>

Total Other Liabilities 1,165,995

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

6,866,603

Total Liabilities 10,445,816

**NET ASSETS**

Unrestricted net assets	1,105,708
Unrestricted net assets - subject to conditions	<u>12,630,662</u>

Total Net Assets 13,736,370

**TOTAL LIABILITIES AND NET ASSETS**

\$ 24,182,186

See accompanying notes

# OREGON CHILD DEVELOPMENT COALITION, INC.

## STATEMENT OF ACTIVITIES

Year Ended December 31, 2011

### REVENUES

Grant and contract revenues:

U.S. Department of Health and Human Services	
Migrant and Seasonal Head Start	\$ 28,579,849
Early Head Start Program	5,076,245
Donated Goods and Professional Services - MSHS	3,739,364
Donated Goods and Professional Services - EHS	307,422
	<hr/>
	37,702,880
State of Oregon - Employment Department	344,469
U.S.D.A. - Food & Nutrition Services	2,012,193
State of Oregon - Department of Education - OPK	5,760,068
State of Oregon - Department of Education - EHS	147,822
Migrant Education Programs	40,067
Other Grant and Contracts	153,149
Participant co-payments	13,280
Investment Income (loss)	(2,556)
Other Unrestricted	99,108
	<hr/>
<b>Total revenues</b>	<b>46,270,480</b>

### EXPENSES

Program services:

U.S. Department of Health and Human Services	
Migrant and Seasonal Head Start	31,768,951
Early Head Start Program	5,683,688
State of Oregon - Employment Department	362,348
USDA - Food and Nutrition Services	2,014,549
State of Oregon - Department of Education - OPK	5,857,560
State of Oregon - Department of Education - EHS	106,231
Migrant Education Programs	33,722
Other Grant and Contracts	158,556
Other Unrestricted	95,740
	<hr/>
<b>Total expenses</b>	<b>46,081,345</b>

**CHANGE IN NET ASSETS, all unrestricted** 

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189,135

**NET ASSETS, beginning of period** 

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13,547,235

**NET ASSETS, end of period** 

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\$ 13,736,370

See accompanying notes

**OREGON CHILD DEVELOPMENT COALITION, INC.**  
**STATEMENT OF FUNCTIONAL REVENUE AND EXPENSES**  
 Year Ended December 31, 2011

	DHHS HEAD START PROGRAM BRANCH	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
<b>REVENUES</b>										
Grant and contract revenues	\$ 31,123,457	\$ 5,204,005	\$ 344,469	\$ 2,012,193	\$ 5,760,068	\$ 147,922	\$ 40,067	\$ 153,149	\$ -	\$ 44,785,230
Donated Services	3,739,364	307,422	13,280							4,046,786
Participant co-payments										13,280
Dividends and interest income (loss)									(2,556)	(2,556)
Donations									52,619	52,619
Other unrestricted									46,489	46,489
<b>Total revenues</b>	<u>34,862,821</u>	<u>5,511,427</u>	<u>357,749</u>	<u>2,012,193</u>	<u>5,760,068</u>	<u>147,922</u>	<u>40,067</u>	<u>153,149</u>	<u>96,552</u>	<u>48,941,848</u>
Contributions - State of Oregon										
Department of Education In-kind	(2,543,608)	(127,760)								(2,671,368)
<b>Total Adjusted Revenues in Accordance with Accounting Principles Generally Accepted in the United States of America</b>	<u>32,319,213</u>	<u>5,383,667</u>	<u>357,749</u>	<u>2,012,193</u>	<u>5,760,068</u>	<u>147,922</u>	<u>40,067</u>	<u>153,149</u>	<u>96,552</u>	<u>46,270,480</u>
<b>EXPENSES</b>										
Subcontractor and other contracted service payments										
U.S.D.A. - food and nutrition services				1,053,188				1,072		1,054,260
Other contracted services	1,213,023	265,742	119,741	3,073	267,087	511	1,262	8,198	53,355	1,931,992
<b>Total subcontractor and other contracted service payments</b>	<u>1,213,023</u>	<u>265,742</u>	<u>119,741</u>	<u>1,056,261</u>	<u>267,087</u>	<u>511</u>	<u>1,262</u>	<u>9,270</u>	<u>53,355</u>	<u>2,986,252</u>

See accompanying notes

**OREGON CHILD DEVELOPMENT COALITION, INC.**  
**STATEMENT OF FUNCTIONAL REVENUE AND EXPENSES**  
 Year Ended December 31, 2011

	DHHS HEAD START PROGRAM BRANCH	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
<b>Administrative and program expenses:</b>	\$ 25,879,081	\$ 4,539,147	\$ 235,783	\$ 840,652	\$ 4,664,370	\$ 44,363	\$ 31,222	\$ 136,554	\$ 798	\$ 36,172,080
Salaries and benefits	30,699	3,780	47	-	4,433	48,225	6	802	-	87,992
Building and equipment expense	2,105,243	143,696	871	8,935	155,784	2,023	511	492	-	2,417,555
Repairs and maintenance	736,568	121,018	867	965	122,856	41,552	109	2,546	-	1,026,481
Supplies	2,195,708	352,715	1,982	8,904	190,593	1,606	-	1,500	-	2,753,008
Rent	577,918	91,220	492	8,581	94,876	5,622	81	4,047	5,294	788,131
Travel	993,647	65,621	1,223	7,244	91,634	817	32	281	-	1,160,499
Telephone and utilities	209,554	34,498	-	494	39,796	1,222	-	-	-	285,564
Training	88,682	20,010	-	-	25,503	573	-	785	548	136,101
Parent activities and involvement	212,198	46,583	144	-	58,066	-	413	137	-	317,541
Adult food costs	232,333	17,476	58	229	15,273	918	-	-	-	266,287
Insurance	74,497	6,313	129	243	3,829	40	14	1,580	365	87,010
Printing and promotion	89,356	-	276	-	6,304	95	37	164	281	96,523
Professional	85,121	-	-	-	-	-	-	-	-	85,121
Property use allowance	47,088	725	569	1,109	3,919	44	14	107	-	53,575
Postage	92,085	2,883	166	80,932	15,745	211	21	191	35,089	227,333
Other	33,649,798	5,248,685	242,607	958,288	5,492,981	147,311	32,460	149,286	42,385	45,960,801
<b>Total administrative and program expenses</b>	<b>(2,543,608)</b>	<b>(127,760)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,671,368)</b>
Contributions - State of Oregon Department of Education In-kind	32,319,213	5,383,667	362,348	2,014,549	5,760,068	147,622	33,722	158,556	95,740	46,275,685
<b>Total expenses</b>	<b>(937,497)</b>	<b>(35,162)</b>	<b>(4,599)</b>	<b>(2,356)</b>	<b>-</b>	<b>(46,911)</b>	<b>6,345</b>	<b>(5,407)</b>	<b>812</b>	<b>(5,205)</b>
Change in net assets as reported to cognizant agencies	(1,146,946)	-	-	-	-	(46,911)	-	-	-	(1,019,570)
Purchases of property and equipment	(72,335)	-	-	-	-	-	-	-	-	(72,335)
Principal repayment on notes payable	1,606,516	335,183	-	-	97,492	5,320	-	-	-	2,044,511
Principal repayment on leased equipment	31,768,951	5,683,688	362,348	2,014,549	5,857,560	106,231	33,722	158,556	95,740	46,081,345
Less depreciation of property and equipment	\$ 550,282	\$ (300,021)	\$ (4,599)	\$ (2,356)	\$ (97,492)	\$ 41,591	\$ 6,345	\$ (5,407)	\$ 812	\$ 189,135
<b>Total Adjusted Expenses in Accordance with Accounting Principles Generally Accepted in the United States of America</b>										
<b>Change in net assets</b>										

See accompanying notes



# OREGON CHILD DEVELOPMENT COALITION, INC.

## STATEMENT OF CASH FLOWS

Year Ended December 31, 2011

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### CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$	189,135
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and property use allowance		2,129,632
Deferred lease expense		(39,837)
Reinvestment of dividends		(10,044)
Unrealized loss on investments		15,151
 (Increase) decrease in operating assets:		
Receivables		140,688
Prepaid expenses and other assets		(46,128)
 Increase (decrease) in operating liabilities:		
Accounts payable		(184,404)
Accrued liabilities		(147,894)
Deferred revenues		100,334

NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES 2,146,633

### CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment		<u>(2,371,870)</u>
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NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES (2,371,870)

### CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from mortgages and notes payable		900,000
Principal payments on mortgages and notes payable		(1,212,784)
Capitalized equipment leases		260,089
Principal payments on capitalized equipment leases		<u>(172,148)</u>

NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES (224,843)

NET CHANGE IN CASH (450,080)

CASH & CASH EQUIVALENTS, beginning of year 1,227,183

CASH & CASH EQUIVALENTS, end of year \$ 777,103

### SUPPLEMENTAL DISCLOSURES

Other Cash activities:		
Mortgages and notes payable interest paid and expensed	\$	477,930
Capital lease interest paid and expensed	\$	15,976

See accompanying notes

**OREGON CHILD DEVELOPMENT COALITION, INC.  
YEAR ENDED DECEMBER 31, 2011**

**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.**  
**YEAR ENDED DECEMBER 31, 2011**

**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, 2011.

**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 12/31/2011	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>				
Putnam US Govt. Mutual Funds	\$ 164,750	\$ 164,750	\$ 0	\$ 0
Piper Jaffray Money Market	141,799	141,799	0	0
Stancorp Common Stock	61,740	61,740	0	0
Total Investments	\$ 368,289	\$ 368,289	\$ 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. The highly liquid money mutual market fund, Piper Jaffray, is included, as the Coalition desires it be held as a long-term investment.

**OREGON CHILD DEVELOPMENT COALITION, INC.**  
**YEAR ENDED DECEMBER 31, 2011**

Investments income (loss) is as follows:

Interest and dividends	\$ 2,551
Reinvestment of dividends	10,044
Unrealized loss on investments	<u>(15,151)</u>
	<u>\$ (2,556)</u>

**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 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 \$2,671,368 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, 2011, were as follows:

	State of Oregon Department of Education	Other	Total
Salary and Fringe	\$ 2,066,145	\$ 503,985	\$ 2,570,130
Rent	238,898	427,134	666,032
Telephone and Utilities	79,458	17,445	96,903
Equipment and Supplies	45,656	51,896	97,552
Professional Services	171,897	362,299	534,196
Building Repair and Maintenance	42,210	-	42,210
Travel	18,588	12,101	30,689
Training	8,516	558	9,074
Total Donated Goods and Professional Services	<u>\$ 2,671,368</u>	<u>\$ 1,375,418</u>	<u>\$ 4,046,786</u>

**OREGON CHILD DEVELOPMENT COALITION, INC.**  
**YEAR ENDED DECEMBER 31, 2011**

**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.

**NOTE 3 – PROPERTY AND EQUIPMENT**

Property and equipment is as follows:

Land	\$ 2,216,082
Buildings	29,755,808
Equipment	5,746,576
Leasehold improvements	<u>1,696,228</u>
Total property and equipment	39,414,694
Less accumulated depreciation	<u>(17,279,145)</u>
	22,135,549
Construction in progress	<u>77,968</u>
Property and equipment, net	<u>\$ 22,213,517</u>

Equipment includes buses and utility vehicles held under capital lease agreements with a cost basis of \$722,857 and accumulated depreciation of \$262,462. Depreciation expense of \$2,044,511 and property use allowance of \$85,121, together total \$2,129,632 for the year ended December 31, 2011.

**NOTE 4 – 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,	2012	\$ 1,030,650
	2013	677,178
	2014	516,017
	2015	391,026
	2016	383,782
	Thereafter	<u>1,060,456</u>
		<u>\$ 4,059,109</u>

For the year ended December 31, 2011, rent expense was \$2,753,008 of which \$666,032 was donated in-kind rent and \$1,432,157 was principal and interest payments on property and equipment.

**OREGON CHILD DEVELOPMENT COALITION, INC.**  
**YEAR ENDED DECEMBER 31, 2011**

**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, 2011:

Balance at the receipt of incentive, July 1, 2009	\$ 868,675
Less amortization to date	(195,452)
Balance at December 31, 2011	<u>\$ 673,223</u>

**NOTE 5 – LONG-TERM DEBT AND CAPITAL LEASES**

Mortgages and notes payable to US Bank maturing in 2013 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.	\$ 478,092
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.	279,685
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.	227,279
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.	262,082
Note payable #190, US Bank, payable in monthly installments of \$21,022, including interest at 6.52%, secured by real property, due July 2018.	1,199,982
Note payable #224 US Bank, payable in monthly installments of \$24,835, including interest at 5.91%, secured by real property, due December 2023.	2,589,151
Note payable #257 US Bank, payable in monthly installments of \$15,278, including interest at 6.09%, secured by real property, due July 2025.	1,701,667
Note payable #273 US Bank, interest at 4.25% (greater of 4.25% or prime plus 1%), interest payable in monthly installments beginning April 2011, principal payable at maturity, secured by real property, \$1,400,000 available, due January 31, 2013.	900,000
Total mortgages and notes payable	<u>\$ 7,637,937</u>



**OREGON CHILD DEVELOPMENT COALITION, INC.**  
**YEAR ENDED DECEMBER 31, 2011**

**NOTE 5 – 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. \$ 25,408

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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. 66,564

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Capitalized equipment lease #1433172, US Bancorp Business Equipment Finance Group, payable in three annual installments of \$92,061, with \$1 purchase option at the end of lease for three 2012 International school buses. Final payment due May 2013. 175,995

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Total capital lease obligations \$ 267,966

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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, 2012	\$ 860,658	\$178,642	\$1,039,300
2013	1,811,085	105,301	1,916,386
2014	718,694	-	718,694
2015	542,085	-	542,085
2016	520,452	-	520,452
Thereafter	3,184,962	-	3,184,962
	<u>\$7,637,936</u>	<u>\$283,943</u>	<u>\$7,921,879</u>
Less: Amount of interest between 4.45% and 5.59%		(15,976)	(15,976)
Less: Current portion of long-term debt and capital leases	(860,658)	(178,642)	(1,039,300)
	<u>\$6,777,278</u>	<u>\$89,325</u>	<u>\$6,866,603</u>

**OREGON CHILD DEVELOPMENT COALITION, INC.**  
**YEAR ENDED DECEMBER 31, 2011**

**NOTE 6 – CONTINGENT LIABILITES**

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 7 – EMPLOYEE BENEFIT PLAN**

The Coalition has 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 up to their total salary, though not to exceed the maximum allowed by government regulations. The Coalition, at its discretion, contributes five percent of each employee's annual plan compensation and has a mandatory match on participants' elective deferral up to five percent of eligible annual plan compensation of each participant. All contributions are immediately 100 percent vested. The Coalition contributed \$1,697,991 to the plan for the year ending December 31, 2011.

**NOTE 8 – 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, 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 expired December 31, 2011, covers approximately thirty percent of the work force.

**NOTE 9 – SUBSEQUENT EVENTS**

The Coalition has evaluated contingencies according to FSB ASC 450-20 (*formerly SFAS No. 5*) for subsequent events as of July 27, 2012, 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, 2011.

In 2012, the Coalition obtained \$270,300 financing to purchase its newest facility in Salem, Marion 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**

**INDEPENDENT AUDITORS' REPORT**

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) as of and for the year ended December 31, 2011 and have issued our report thereon dated July 27, 2012. 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**

Management of the Organization is responsible for establishing and maintaining effective 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*.

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.

A handwritten signature in blue ink that reads "Kern & Thompson, LLC". The signature is written in a cursive style with a vertical line separating "Kern" and "Thompson".

Portland, Oregon  
July 27, 2012



**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**

To the 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, 2011. 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, *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 compliance 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, 2011.

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

### Internal Control Over Compliance

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, 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.

A handwritten signature in blue ink that reads "Kern & Thompson, LLC". The signature is written in a cursive, flowing style.

Portland, Oregon  
July 27, 2012

**OREGON CHILD DEVELOPMENT COALITION, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended December 31, 2011**

**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 – Early Head Start 93.709

9. Dollar threshold used to distinguish between Type A and Type B programs – **-\$1,167,196.**
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, 2011**

**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**

## SUPPLEMENTAL INFORMATION

**OREGON CHILD DEVELOPMENT COALITION, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2011**

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Grant Number	Federal Expenditures
U.S. Department of Health and Human Services			
Direct Recipient:			
Full-year and full-day Head Start Program	93.600	90CM0995/40	31,123,457
Migrant & Seasonal Early Head Start	93.600	90CM0995/40	1,198,144
ARRA Expansion - Early Head Start	93.709	90SG0995/02	4,005,861
Subtotal - Head Start Cluster			\$ 36,327,463
Pass-through from State of Oregon - Employment Department			
Child Care and Development Block Grant	93.575	Various	362,349
Pass-through from State of Oregon - Department of Health and Human Services			
Healthy Kids	93.767	130924	71,044
Pass-through from Lifeworks NW Early Childhood Development	93.243	Various	2,134
Pass-through from American Academy of Pediatric Dentistry			
Head Start Dental Home Initiative	93.110	n/a	6,436
Total U.S. Department of Health and Human Services			\$ 36,769,425
U.S. Department of Education:			
Pass-through from State of Oregon - Department of Education			
Title 1-C Migrant Education:			
Columbia Gorge ESD	84.011	Various	13,567
High Desert ESD	84.011	Various	7,929
Southern Oregon ESD	84.011	Various	12,226
Total U.S. Department of Education			\$ 33,722
U.S. Department of Agriculture:			
Pass-through from State of Oregon - Department of Education:			
Child and Adult Care Food Program	10.558	03-15004	889,697
Family Day Care Homes Program	10.558	03-15001	555,778
Cash in Lieu of Commodities	10.558	03-15004	42,740
Mid-Columbia Children's Council- Vended Meal Agreement	10.558	n/a	1,072
Summer Food Services Program	10.559	03-15004	526,334
Total U.S. Department of Agriculture			\$ 2,015,621
U.S. Department of Housing and Urban Development:			
Pass through from Washington County, Oregon:			
Even Start - Parent Support	14.218	09-0841	29,646
Total U.S. Department of Housing & Urban Development			\$ 29,646
Total Expenditures of Federal Awards			\$ 38,848,414

See accompanying notes



**OREGON CHILD DEVELOPMENT COALITION, INC.  
YEAR ENDED DECEMBER 31, 2011**

**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.

**NOTE 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.