

# **Greater K.C. LINC, Inc.**

Accountants' Reports and Financial Statements

June 30, 2005 and 2004



**Greater K.C. LINC, Inc.**  
**June 30, 2005 and 2004**

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## Independent Accountants' Report on Financial Statements and Supplementary Information

LINC Commissioners  
and Finance Committee  
Greater K.C. LINC, Inc.  
Kansas City, Missouri

We have audited the accompanying statements of financial position of Greater K.C. LINC, Inc. (LINC) as of June 30, 2005 and 2004, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of LINC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audits provide 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 Greater K.C. LINC, Inc. as of June 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years 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 September 30, 2005, on our consideration of LINC's internal control over financial reporting and 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 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 read in conjunction with this report in considering the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the procedures applied in the audits 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.

/s/ **BKD, LLP**

Kansas City, Missouri  
September 30, 2005

**Greater K.C. LINC, Inc.**  
**Statements of Financial Position**  
**June 30, 2005 and 2004**

**Assets**

	<b>2005</b>	<b>2004</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 2,135,231	\$ 5,384,912
Accounts and grants receivable, net of allowance	243,322	543,852
Prepaid expenses	<u>173,355</u>	<u>123,931</u>
Total current assets	<u>2,551,908</u>	<u>6,052,695</u>
<b>Assets Limited As to Use</b>		
Externally restricted		
Pledges receivable	—	166,666
Cash and cash equivalents	<u>2,275,804</u>	<u>2,709,680</u>
	2,275,804	2,876,346
Reserves for underfunded community initiatives		
Cash and cash equivalents	—	2,000,000
Investments	<u>5,580,089</u>	<u>—</u>
	<u>7,855,893</u>	<u>4,876,346</u>
<b>Property and Equipment</b>		
Less accumulated depreciation	1,590,872	1,492,877
	<u>1,296,482</u>	<u>1,256,615</u>
	294,390	236,262
Total assets	<u>\$ 10,702,191</u>	<u>\$ 11,165,303</u>

**Liabilities and Net Assets**

<b>Current Liabilities</b>		
Accounts payable	\$ 1,278,751	\$ 1,128,944
Accrued payroll and benefits	677,580	1,071,450
Accrued expenses	<u>801,153</u>	<u>365,472</u>
Total current liabilities	<u>2,757,484</u>	<u>2,565,866</u>
<b>Net Assets</b>		
Unrestricted	5,668,903	5,723,091
Temporarily restricted	<u>2,275,804</u>	<u>2,876,346</u>
Total net assets	<u>7,944,707</u>	<u>8,599,437</u>
Total liabilities and net assets	<u>\$ 10,702,191</u>	<u>\$ 11,165,303</u>

**Greater K.C. LINC, Inc.**  
**Statements of Activities**  
**Years Ended June 30, 2005 and 2004**

	2005			2004		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Revenues, Gains and Other Support</b>						
State and federal contracts and grants	\$ 8,974,281	\$ 1,642,757	\$ 10,617,038	\$ 7,617,018	\$ 2,173,065	\$ 9,790,083
Private contributions and grants	1,381,219	—	1,381,219	1,951,208	—	1,951,208
State-funded expenditures	183,530	—	183,530	175,824	—	175,824
Investment income	130,235	—	130,235	83,203	—	83,203
Other support	178,350	—	178,350	198,028	—	198,028
	10,847,615	1,642,757	12,490,372	10,025,281	2,173,065	12,198,346
Net assets released from restrictions	<u>2,243,299</u>	<u>(2,243,299)</u>	<u>0</u>	<u>1,686,876</u>	<u>(1,686,876)</u>	<u>0</u>
Total revenues, gains and other support	<u>13,090,914</u>	<u>(600,542)</u>	<u>12,490,372</u>	<u>11,712,157</u>	<u>486,189</u>	<u>12,198,346</u>
<b>Expenses</b>						
Program services						
Caring Communities	8,369,014		8,369,014	7,788,807		7,788,807
Child Welfare	399,546		399,546	200,960		200,960
Educare	360,823		360,823	366,949		366,949
Welfare to Work Initiatives	81,262		81,262	172,050		172,050
Early Childhood	334,543		334,543	346,399		346,399
Data	859,751		859,751	871,235		871,235
21 <sup>st</sup> Century	1,435,333		1,435,333	766,717		766,717
Other initiatives	<u>398,994</u>		<u>398,994</u>	<u>296,736</u>		<u>296,736</u>
Total program services	12,239,266		12,239,266	10,809,853		10,809,853
General, administrative and development	<u>905,836</u>		<u>905,836</u>	<u>871,114</u>		<u>871,114</u>
Total expenses	<u>13,145,102</u>		<u>13,145,102</u>	<u>11,680,967</u>		<u>11,680,967</u>
<b>Change in Net Assets</b>	(54,188)	(600,542)	(654,730)	31,190	486,189	517,379
<b>Net Assets, Beginning of Year</b>	<u>5,723,091</u>	<u>2,876,346</u>	<u>8,599,437</u>	<u>5,691,901</u>	<u>2,390,157</u>	<u>8,082,058</u>
<b>Net Assets, End of Year</b>	<u>\$ 5,668,903</u>	<u>\$ 2,275,804</u>	<u>\$ 7,944,707</u>	<u>\$ 5,723,091</u>	<u>\$ 2,876,346</u>	<u>\$ 8,599,437</u>

**Greater K.C. LINC, Inc.**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2005**

	<b>Caring Communities</b>	<b>Child Welfare</b>	<b>Educare</b>	<b>Welfare to Work Initiatives</b>	<b>Early Childhood</b>	<b>Data</b>	<b>21<sup>st</sup> Century</b>	<b>Other Initiatives</b>	<b>Total Program Services</b>	<b>General, Administrative and Development</b>	<b>Total Expenses</b>
Contract program services	\$ 5,386,103	\$ 101,574	\$ 191,313	\$ 5,521	\$ 324,624	\$ 12,812	\$ 540,226	\$ 139,697	\$ 6,701,870	\$ —	\$ 6,701,870
Salaries	2,143,587	82,114	86,116	46,802	—	431,372	337,139	112,161	3,239,291	321,367	3,560,658
Purchased professional services	24,064	31,104	380	70	—	7,881	140,791	17,791	222,081	7,451	229,532
Employee benefits	644,112	23,708	27,474	14,017	—	127,159	112,667	32,658	981,795	77,457	1,059,252
Grants, stipends & scholarships	3,217	41,080	100	—	—	—	2,305	250	46,952	1,500	48,452
Administrative fees	101,846	16,261	—	—	9,919	1,877	30,290	—	160,193	—	160,193
Supplies	59,584	3,598	5,165	5	—	9,704	33,989	2,702	114,747	3,541	118,288
Training	30,067	22,858	6,277	7,340	—	3,343	48,416	5,626	123,927	5,872	129,799
Depreciation	19,672	929	—	—	—	36,702	23,196	13,598	94,097	30,087	124,184
Rent, facility usage and storage	2,147	511	9,788	—	—	1,949	135	1,200	15,730	141,568	157,298
Marketing	40,749	5,694	669	2,136	—	32,146	1,522	20,236	103,152	2,213	105,365
Equipment	29,872	4,784	5,138	3,000	—	54,686	113,754	883	212,117	70,242	282,359
Postage	2,703	612	675	102	—	31,209	304	2,355	37,960	293	38,253
Communication equipment	30,323	1,152	2,819	746	—	14,816	2,809	4,191	56,856	2,953	59,809
Equipment rental	4,024	—	346	—	—	75,326	—	—	79,696	6,980	86,676
Meetings	32,602	7,173	5,295	1,243	—	3,580	4,952	9,271	64,116	6,131	70,247
Travel and mileage	15,241	3,221	10,062	280	—	13,227	5,722	8,019	55,772	27,164	82,936
Events and facilitation services	55,745	53,173	6,787	—	—	—	27,425	26,161	169,291	104,560	273,851
Fundraising and other materials	—	—	—	—	—	1,808	—	2,195	4,003	3,155	7,158
Insurance	71,023	—	1,571	—	—	—	9,691	—	82,285	66,832	149,117
Bad debt expense (recoveries)	(328,587)	—	—	—	—	—	—	—	(328,587)	—	(328,587)
Other	920	—	848	—	—	154	—	—	1,922	26,470	28,392
<b>Total expenses</b>	<b>\$ 8,369,014</b>	<b>\$ 399,546</b>	<b>\$ 360,823</b>	<b>\$ 81,262</b>	<b>\$ 334,543</b>	<b>\$ 859,751</b>	<b>\$ 1,435,333</b>	<b>\$ 398,994</b>	<b>\$ 12,239,266</b>	<b>\$ 905,836</b>	<b>\$ 13,145,102</b>

**Greater K.C. LINC, Inc.**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2004**

	<b>Caring Communities</b>	<b>Child Welfare</b>	<b>Educare</b>	<b>Welfare to Work Initiatives</b>	<b>Early Childhood</b>	<b>Data</b>	<b>21<sup>st</sup> Century</b>	<b>Other Initiatives</b>	<b>Total Program Services</b>	<b>General, Administrative and Development</b>	<b>Total Expenses</b>
Contract program services	\$ 4,832,980	\$ 97,703	\$ 216,475	\$ 67,435	\$ 265,096	\$ 25,625	\$ 371,092	\$ 78,372	\$ 5,954,778	\$ —	\$ 5,954,778
Salaries	1,996,901	25,639	59,091	61,818	—	409,071	65,023	100,626	2,718,169	264,702	2,982,871
Purchased professional services	11,672	9,264	27,198	3,501	—	62,544	83,875	17,744	215,798	22,303	238,101
Employee benefits	566,034	7,268	16,750	17,523	—	115,954	18,431	28,523	770,483	75,031	845,514
Grants, stipends & scholarships	2,407	12,575	2,943	11,320	—	—	—	—	29,245	75	29,320
Administrative fees	103,951	3,670	—	3,808	15,640	473	13,870	—	141,412	—	141,412
Supplies	31,706	899	329	135	—	4,163	6,291	7,051	50,574	52,175	102,749
Training	24,769	9,687	11,379	1,825	—	8,742	17,555	1,367	75,324	11,645	86,969
Depreciation	23,230	1,097	—	—	—	43,340	27,392	16,057	111,116	35,529	146,645
Rent, facility usage and storage	2	2,727	8,284	500	—	1,477	—	—	12,990	124,476	137,466
Marketing	9,158	12,387	7,398	207	—	18,129	—	4,328	51,607	202	51,809
Equipment	11,667	2,112	410	334	—	86,180	136,962	415	238,080	86,764	324,844
Postage	2,028	1,669	1,493	17	—	38,972	—	1,950	46,129	1,352	47,481
Communication equipment	14,742	817	1,974	1,924	—	8,974	1,457	2,170	32,058	6,876	38,934
Equipment rental	16,143	—	838	265	—	40,409	—	343	57,998	161	58,159
Meetings	18,537	962	4,671	1,209	—	1,830	897	13,880	41,986	5,449	47,435
Travel and mileage	7,564	3,977	2,975	229	—	4,443	1,976	11,296	32,460	23,594	56,054
Events and facilitation services	53,386	8,507	3,240	—	—	—	13,433	12,261	90,827	68,427	159,254
Fundraising and other materials	—	—	—	—	—	909	—	353	1,262	5,080	6,342
Insurance	62,011	—	1,372	—	—	—	8,463	—	71,846	58,352	130,198
Bad debt expense (recoveries)	(123)	—	—	—	—	—	—	—	(123)	—	(123)
Other	42	—	129	—	65,663	—	—	—	65,834	28,921	94,755
<b>Total expenses</b>	<b>\$ 7,788,807</b>	<b>\$ 200,960</b>	<b>\$ 366,949</b>	<b>\$ 172,050</b>	<b>\$ 346,399</b>	<b>\$ 871,235</b>	<b>\$ 766,717</b>	<b>\$ 296,736</b>	<b>\$ 10,809,853</b>	<b>\$ 871,114</b>	<b>\$ 11,680,967</b>

**Greater K.C. LINC, Inc.**  
**Statements of Cash Flows**  
**Years Ended June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>Operating Activities</b>		
Change in net assets	\$ (654,730)	\$ 517,379
Item not requiring cash		
Depreciation	124,184	146,645
Net unrealized and realized gain on investments	(49,440)	—
Changes in		
Accounts, grants and pledges receivable	467,196	345,222
Prepaid expenses	(49,424)	35,254
Accounts payable and accrued expenses	<u>191,618</u>	<u>(612,107)</u>
Net cash provided by operating activities	<u>29,404</u>	<u>432,393</u>
<b>Investing Activities</b>		
Purchases of property and equipment	(182,312)	(51,504)
Proceeds from sale of investments	1,081,375	—
Purchase of investments	<u>(6,612,024)</u>	<u>—</u>
Net cash used in investing activities	<u>(5,712,961)</u>	<u>(51,504)</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(5,683,557)	380,889
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>10,094,592</u>	<u>9,713,703</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 4,411,035</u>	<u>\$ 10,094,592</u>
<b>Reconciliation of Cash and Cash Equivalents to the Statements of Financial Position</b>		
Cash and cash equivalents	\$ 2,135,231	\$ 5,384,912
Cash in assets limited as to use		
Externally restricted	2,275,804	2,709,680
Internally designated	<u>—</u>	<u>2,000,000</u>
<b>Total Cash and Cash Equivalents</b>	<u>\$ 4,411,035</u>	<u>\$ 10,094,592</u>



**Greater K.C. LINC, Inc.**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations***

Greater K.C. LINC, Inc. (LINC) is a Missouri not-for-profit organization that works to improve the lives of children and families in Kansas City, Missouri and Jackson County, Missouri. LINC assists neighborhoods to develop comprehensive human services, supports and opportunities. Its initiatives include an integrated community welfare-to-work system; neighborhood-based services; performance-based contracting; collaborative planning; leveraging in-kind services in low-income neighborhoods; and use of information technologies to support decision-making, planning and service delivery. LINC receives significant funding from the Missouri Department of Social Services. The following is a more detailed description of its major initiatives.

**Caring Communities**

**Helping Students, Parents and Neighbors:** LINC provides support for school and neighborhood services in multiple school districts. Major efforts include (a) operating an out-of-school program in the Kansas City, Missouri School District, (b) implementing the federal 21<sup>st</sup> Century Community Learning Center grant (see below), and (c) operating the area's Community Partnership initiative. Other smaller, similar programs are also included in the category.

**21<sup>st</sup> Century Community Learning Centers (21CCLC):** Funds from a grant from the Missouri Department of Elementary and Secondary Education are being used over a five-year period to provide after-school academic enrichment, youth involvement and expanded parent and community involvement at twelve schools in the Kansas City, Missouri School District. Significant effort is placed on youth development activities and project learning to prepare middle and high school students for graduation.

Another LINC partner, the Independence School District, uses some of its 21CCLC funding to support four of LINC's Caring Communities sites.

In total, at June 30, 2005 and 2004, there were 73 and 65 Caring Community sites, respectively.

**Child Welfare**

**Protecting Children and Youth:**

**Addressing Community Child Welfare Issues:** LINC is actively involved in addressing community child welfare issues. These efforts include:

- Coordinating a regional effort to work with teenage foster children who are leaving the system
- Developing data systems to support better service delivery by the state child welfare agency

**Educare:** This program is designed to enhance the early childhood development of children between the ages of zero to three years old. The program offers training, educational resources and home visits to family care providers located in Jackson, Clay and Platte County, Missouri, and address core competencies for early care and education professionals.

**Greater K.C. LINC, Inc.**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**Welfare-to-Work Initiatives:** Under the Welfare-to-Work program, LINC is responsible for serving the unemployed and underemployed adults in Kansas City, Missouri and Jackson County, Missouri by developing, planning, contracting and monitoring the community-based welfare-to-work system. The system focuses on job retention issues affecting employment including: child care, job readiness, personal skills, employer training and public transportation.

**Early Childhood:** Collaborating with many community partners, this initiative is designed to increase the quality and availability of child care within the urban core by providing (a) technical assistance to area early education professionals, (b) extensive resources and support to area child care programs that are working to achieve national accreditation, and (c) other benefits to child care centers working to improve quality child care as they stay affordable. One element of this initiative rewards early education teachers for professional development through wage increases and other incentives to attract and retain qualified staff as well.

**Data:** The largest programs in this category are for LINC MIS, communications and finance costs and for data and research projects. The data and research initiatives support LINC's efforts to develop and maintain a current database of assisted families and individuals and other data support for LINC and other initiatives. The resulting system is increasingly accurate and useful with applications and capabilities that can be used internally as well as outside of LINC. Other funding in this category supports part of LINC's accounting and technology infrastructure.

**Other:** Mentoring programs make up the largest part of this category. Under the mentoring programs, outreach to low income areas identifies individuals and families in need of assistance and services. Other smaller programs are also included in this category.

***General, Administrative and Development Expenses***

For the years ended June 30, 2005 and 2004, respectively, LINC's general, administrative and development expenses accounted for 7.4% and 8.1% of LINC's total program services.

***Cash Equivalents***

At June 30, 2005 and 2004, cash equivalents consisted primarily of commercial paper, which are recorded at market value. LINC considers all liquid investments with original maturities of three months or less to be cash equivalents.

During the year, LINC held cash at institutions in excess of federally insured limits; however, management is constantly evaluating the financial stability of these institutions and believes the risk of loss is minimal.

**Greater K.C. LINC, Inc.**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

***Investments***

Investments in mutual funds and other equity securities and all debt securities are carried at market value. Other investment income, gains and losses are reflected in the statements of activities as unrestricted or temporarily restricted based upon the existence and nature of any donor or legally imposed restrictions.

***Accounts and Grants Receivable***

Accounts and grants receivable are stated at the amounts billed under the terms of the contract or grant. LINC provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Delinquent receivables are written off based on individual credit evaluation and specific circumstances.

***Property and Equipment***

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful life of each asset.

***Accounts Payable***

Accounts payable consist of trade and program-related payables incurred by LINC.

***Government Grants***

Support funded by contracts and/or grants is recognized as LINC performs the contracted services or incurs outlays eligible for reimbursement under the agreements. Certain funds are received by LINC to be passed on to eligible agencies in order to complete the purpose of the contract or grant. Such funds are initially recorded by LINC as temporarily restricted revenue. Such funds are recorded as net assets released from restrictions, upon payment of LINC to participating agencies or upon other notification that restricted purpose has been accomplished. Government grants are subject to state and federal audits.

***Contributions and Grants***

LINC reports gifts and funding of cash and other assets as restricted support if they are received with donor or grantor stipulations that limit the use of the donated assets. When a donor or grantor time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**Greater K.C. LINC, Inc.**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**Net Assets**

Temporarily restricted net assets are those whose use by LINC has been limited by grantor or donor to a specific time period or purpose. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Donor-restricted contributions and investment income whose restrictions are met in the same reporting period as earned are recorded as additions to unrestricted net assets.

**Income Taxes**

Greater K.C. LINC, Inc. is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and a similar provision of the state law. However, LINC would be subject to federal income tax if they incurred any unrelated business income.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassifications**

Certain reclassifications have been made to the 2004 financial statements to conform to the 2005 financial statement presentation. These reclassifications had no effect on the total change in net assets.

**Note 2: Investments**

Investments at June 30, 2005 and 2004 consisted of the following:

	<b>2005</b>	<b>2004</b>
Mutual Funds	\$ 4,262,682	\$ —
Money Market	20,425	—
U. S. Treasuries	1,296,982	—
	<b>\$ 5,580,089</b>	<b>\$ 0</b>

**Greater K.C. LINC, Inc.**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

For the years ended June 30, 2005 and 2004, investment return consisted of the following:

	<b>2005</b>	<b>2004</b>
Net realized gains (loss) on investments	\$ 20,040	\$ —
Net unrealized gains on investments	29,400	—
Interest and dividends	80,795	83,203
	\$ 130,235	\$ 83,203

**Note 3: Accounts and Grants Receivable**

Accounts and grants receivable at June 30 consists of amounts due from the Missouri Department of Social Services and private grantors for the following:

	<b>2005</b>	<b>2004</b>
Out of School Time Initiative	\$ —	\$ 148,273
Jim Casey Youth Opportunity Initiative	95,000	309,935
Title I Funds	—	467,625
Area Health Education Center	42,276	—
Data Management Software grant	64,074	—
Other programs	97,972	150,879
	299,322	1,076,712
Less allowance for doubtful accounts	56,000	532,860
	\$ 243,322	\$ 543,852

**Greater K.C. LINC, Inc.**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**Note 4: Assets Limited As to Use and Restricted Net Assets**

Restricted net assets are available for the following purposes at June 30:

	<u>2005</u>	<u>2004</u>
Externally restricted by funding agency		
Improved or extended services to families and children	\$ 1,353,634	\$ 1,260,622
Out of School Time Initiative	212,678	664,037
Welfare-to-Work Initiatives	320,665	361,010
Annie Casey Foundation-Child Welfare	166,666	166,666
Jim Casey Foundation Grant	—	202,992
Various special projects and programs	<u>222,161</u>	<u>221,019</u>
	2,275,804	2,876,346
Internally designated by Commission		
Designated community program funding	<u>2,000,000</u>	<u>2,000,000</u>
	<u>\$ 4,275,804</u>	<u>\$ 4,876,346</u>

**Note 5: Temporarily Restricted Assets Released from Restriction**

Net assets were released from donor or grantor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors or grantors. These amounts released are as follows:

	<u>2005</u>	<u>2004</u>
Expenses incurred on behalf of		
Out of School Time Initiative	\$ 1,107,097	\$ 1,297,342
Welfare-to-Work Initiatives	84,904	—
Jim Casey Foundation Grant	202,992	—
Other special projects and programs	<u>848,306</u>	<u>389,534</u>
	<u>\$ 2,243,299</u>	<u>\$ 1,686,876</u>

**Note 6: Operating Lease**

LINC has entered into a noncancellable operating lease for office space, which expires in 2008. Rental expense under all leases amounted to \$129,107 and \$137,982 for the years ended June 30, 2005 and 2004, respectively.

**Greater K.C. LINC, Inc.**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

Future minimum lease payments under the operating lease for office space at June 30, 2005 are as follows:

2006		\$	131,225
2007			139,178
2008			<u>139,178</u>
		\$	<u>409,581</u>

**Note 7: Payroll System**

LINC entered into an agreement with Mid-America Regional Council (MARC) in 1996 in which MARC would provide human resource, payroll and fringe benefits services for employees who work under the direction of the LINC Executive Director or are designated to implement LINC initiatives. LINC reimburses MARC for the costs of providing salary and benefits to the designated LINC employees plus a 4% administrative fee. LINC employees under the MARC system were eligible to participate in a defined contribution pension plan and a 401(k) Salary Deferral Plan sponsored by MARC. For the defined contribution pension plan, LINC contributed 7.5% of total eligible compensation paid to employees during the plan year. For the 401(k) plan, LINC matched 50% of the employees' voluntary contributions up to a maximum employer contribution of 2% of eligible gross pay. Participants' interests vested over a period from two to six years of service in the defined contribution pension plan and immediately in employee salary deferral contributions. On April 1, 2005, LINC implemented its own combined 401(k) Retirement and Savings Plan nearly identical to the MARC plan. The two differences in the plans are 1) the waiting period to participate increased from six months for the MARC plans to twelve months for the LINC plan, and 2) the vesting period for the LINC plan is five years for 100% vesting versus six years for the MARC plan. Funds attributed to LINC staff will be transferred from the MARC plans as soon as IRS approval is obtained (estimated to be January 2006). Total payments to MARC were \$4,479,529 and \$3,589,000, including contributions to the defined contribution plan of \$209,142 and \$173,726, and contributions to the 401(k) Plan of \$50,300 and \$43,652, for the years ended June 30, 2005 and 2004, respectively.

By June 30, 2006, the agreement with MARC is expected to terminate.

In June 2005, an agreement with the Kansas City, Missouri School District (KCMSD) expired. It allowed KCMSD employees to staff LINC daycare centers at school sites. In its place, LINC hired such part-time staff directly. As of June 30, 2005, such staff had been hired by LINC and paid by LINC through Automated Data Processing (ADP) payroll services. LINC expects to increase its part-time staff to approximately 425 by September 2005. In addition, when the MARC agreement terminates, LINC expects to add approximately 92 MARC paid employees to its payroll paid through ADP payroll services. LINC will also be providing human resource and fringe benefits services to its staff directly.

**Greater K.C. LINC, Inc.**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**Note 8: State-Funded Expenditures**

The Missouri Department of Social Services (MDSS) has agreed to provide LINC with funding for administrative expenses including, but not limited to, certain administrative salaries and benefits, rent, parking space, office supplies, printing and capital assets. LINC remits purchase orders or payment requests to the MDSS, who pays the invoices directly. Funding is recognized in the statements of activities as support and expenditures. Such funding and related expenditures amounted to \$183,530 and \$175,824 for the years ended June 30, 2005 and 2004, respectively.

**Note 9: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

***Revenues***

For the years ended June 30, 2005 and 2004, respectively, funding under one Missouri Department of Social Services Contract accounted for 59% and 81% of LINC's total revenues, gains and other support.

***Expenses***

LINC has entered into an agreement with MARC to provide payroll and other related services for certain employees (*see Note 7*).

***General Litigation***

LINC is subject to various claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management, that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position of LINC.



## **Supplementary Information**

**Greater K.C. LINC, Inc.**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2005**

<b>Cluster/Program</b>	<b>Federal Agency/ Pass-Through Entity</b>	<b>CFDA #</b>	<b>Amount Expended</b>
Twenty First Century Community Learning Centers	Department of Education/Missouri Department of Elementary and Secondary Education	84.287	\$ 1,706,489

**Notes to Schedule**

1. This schedule includes the federal awards activity of Greater K.C. LINC, Inc. and is presented on the accrual basis of accounting. 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.
2. No federal awards were provided to subrecipients.



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

LINC Commissioners  
and Finance Committee  
Greater K.C. LINC, Inc.  
Kansas City, Missouri

We have audited the financial statements of Greater K.C. LINC, Inc. (LINC) as of and for the year ended June 30, 2005, and have issued our report thereon dated September 30, 2005. 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 LINC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether LINC'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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to LINC's management in a separate letter dated September 30, 2005.

LINC Commissioners  
and Finance Committee  
Greater K.C. LINC, Inc.  
Page 2

This report is intended solely for the information and use of the Finance Committee, Board of Commissioners, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri  
September 30, 2005



## **Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal Awards Programs**

LINC Commissioners  
and Finance Committee  
Greater K.C. LINC, Inc.  
Kansas City, Missouri

### ***Compliance***

We have audited the compliance of Greater K.C. LINC, Inc. (LINC) 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 its major federal program for the year ended June 30, 2005. LINC's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of LINC's management. Our responsibility is to express an opinion on the compliance of Greater K.C. LINC, Inc. 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 LINC'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 on LINC's compliance with those requirements.

In our opinion, Greater K.C. LINC, Inc. complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

### ***Internal Control Over Compliance***

The management of Greater K.C. LINC, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered LINC'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.

LINC Commissioners  
and Finance Committee  
Greater K.C. LINC, Inc.  
Page 2

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Finance Committee, Board of Commissioners, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri  
September 30, 2005

**Greater K.C. LINC, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2005**

**Summary of Auditors' Results**

1. The opinion expressed in the independent accountants' report was:  
 Unqualified       Qualified       Adverse       Disclaimed
  
2. The independent accountants' report on internal control over financial reporting described:  
 Reportable condition(s) noted considered material weakness(es)?       Yes       No  
 Reportable condition(s) noted that are not considered to be a material weakness?       Yes       No
  
3. Noncompliance considered material to the financial statements was disclosed by the audit?       Yes       No
  
4. The independent accountants' report on internal control over compliance with requirements applicable to major federal awards programs described:  
 Reportable condition(s) noted considered material weakness(es)?       Yes       No  
 Reportable condition(s) noted that are not considered to be a material weakness?       Yes       No
  
5. The opinion expressed in the independent accountants' report on compliance with requirements applicable to major federal awards was:  
 Unqualified       Qualified       Adverse       Disclaimed
  
6. The audit disclosed findings required to be reported by OMB Circular A-133?       Yes       No
  
7. LINC's major program was:

<b>Cluster/Program</b>	<b>CFDA Number</b>
Twenty First Century Community Learning Centers	84.287

**Greater K.C. LINC, Inc.**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2005**

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.
9. LINC qualified as a low-risk auditee as that term is defined in OMB Circular A-133?  Yes  No



**Greater K.C. LINC, Inc.**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2005**

**Findings Required to be Reported by *Government Auditing Standards***

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
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No matters are reportable.

**Findings Required to be Reported by OMB Circular A-133**

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
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No matters are reportable.

**Greater K.C. LINC, Inc.**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2005**

<b>Reference Number</b>	<b>Summary of Finding</b>	<b>Status</b>
	No findings in prior year.	