

Greater K.C. LINC, Inc.

Accountants' Report and Financial Statements
(Including Reports Required Under OMB-133)

June 30, 2006 and 2005



Greater K.C. LINC, Inc.
June 30, 2006 and 2005

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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, 2006 and 2005, 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, 2006 and 2005, 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 October 6, 2006, 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
October 6, 2006

Greater K.C. LINC, Inc.
Statements of Financial Position
June 30, 2006 and 2005

Assets

	<u>2006</u>	<u>2005</u>
Current Assets		
Cash and cash equivalents	\$ 166,086	\$ 2,135,231
Accounts and grants receivable, net of allowance	955,597	243,322
Prepaid expenses	<u>98,477</u>	<u>173,355</u>
Total current assets	<u>1,220,160</u>	<u>2,551,908</u>
Assets Limited as to Use		
Externally restricted		
Cash and cash equivalents	2,549,504	2,275,804
Reserves for underfunded community initiatives		
Investments	<u>6,302,878</u>	<u>5,580,089</u>
	<u>8,852,382</u>	<u>7,855,893</u>
Property and Equipment	1,594,252	1,590,872
Less accumulated depreciation	<u>1,370,030</u>	<u>1,296,482</u>
	<u>224,222</u>	<u>294,390</u>
Total assets	<u>\$ 10,296,764</u>	<u>\$ 10,702,191</u>

Liabilities and Net Assets

Current Liabilities		
Accounts payable	\$ 900,044	\$ 1,278,751
Accrued payroll and benefits	958,420	677,580
Accrued expenses	<u>179,178</u>	<u>801,153</u>
Total current liabilities	<u>2,037,642</u>	<u>2,757,484</u>
Net Assets		
Unrestricted	5,709,618	5,668,903
Temporarily restricted	<u>2,549,504</u>	<u>2,275,804</u>
Total net assets	<u>8,259,122</u>	<u>7,944,707</u>
Total liabilities and net assets	<u>\$ 10,296,764</u>	<u>\$ 10,702,191</u>

Greater K.C. LINC, Inc.
Statements of Activities
Years Ended June 30, 2006 and 2005

	2006			2005		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support						
State and federal contracts and grants	\$ 7,642,807	\$ 3,437,188	\$ 11,079,995	\$ 9,019,512	\$ 1,642,757	\$ 10,662,269
Private contributions and grants	1,319,782	—	1,319,782	1,276,321	—	1,276,321
State-funded expenditures	200,200	—	200,200	183,530	—	183,530
Investment income	624,850	—	624,850	76,981	—	76,981
Other support	334,479	—	334,479	291,271	—	291,271
	10,122,118	3,437,188	13,559,306	10,847,615	1,642,757	12,490,372
Net assets released from restrictions	3,163,488	(3,163,488)	—	2,243,299	(2,243,299)	—
Total revenues, gains and other support	<u>13,285,606</u>	<u>273,700</u>	<u>13,559,306</u>	<u>13,090,914</u>	<u>(600,542)</u>	<u>12,490,372</u>
Expenses						
Program services						
Caring Communities	8,616,587		8,616,587	8,138,406		8,138,406
Child Welfare	457,468		457,468	390,651		390,651
Educare	351,161		351,161	377,843		377,843
Early Childhood	334,175		334,175	334,544		334,544
Welfare-to-Work Initiatives	71,865		71,865	68,829		68,829
Data	704,760		704,760	878,738		878,738
21 st Century	1,549,214		1,549,214	1,632,452		1,632,452
Other initiatives	252,981		252,981	397,731		397,731
	12,338,211		12,338,211	12,219,194		12,219,194
General, administrative and development	<u>906,680</u>		<u>906,680</u>	<u>925,908</u>		<u>925,908</u>
Total expenses	<u>13,244,891</u>		<u>13,244,891</u>	<u>13,145,102</u>		<u>13,145,102</u>
Change in Net Assets	40,715	273,700	314,415	(54,188)	(600,542)	(654,730)
Net Assets, Beginning of Year	<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>
Net Assets, End of Year	<u>\$ 5,709,618</u>	<u>\$ 2,549,504</u>	<u>\$ 8,259,122</u>	<u>\$ 5,668,903</u>	<u>\$ 2,275,804</u>	<u>\$ 7,944,707</u>

Greater K.C. LINC, Inc.
Statement of Functional Expenses
Year Ended June 30, 2006

	Caring Communities	Child Welfare	Educare	Welfare- to-Work Initiatives	Early Childhood	Data	21st Century	Other Initiatives	Total Program Services	General, Administrative and Development	Total Expenses
Contract program services	\$ 3,752,473	\$ 162,298	\$ 195,582	\$ —	\$ 324,638	\$ —	\$ 647,108	\$ 93,751	\$ 5,175,850	\$ —	\$ 5,175,850
Salaries	3,608,382	114,673	64,289	45,497	—	390,169	467,486	68,421	4,758,917	342,960	5,101,877
Purchased professional services	22,047	26,038	15,684	—	—	122	104,836	3,089	171,816	21,889	193,705
Employee benefits	738,133	24,495	11,047	17,415	—	120,082	71,805	19,971	1,002,948	89,970	1,092,918
Grants, stipends & scholarships	33,900	36,361	9,019	(300)	—	—	5,790	—	84,770	1,500	86,270
Administrative fees	58,759	10,000	—	—	9,537	—	27,279	—	105,575	—	105,575
Supplies	81,344	1,828	4,539	—	—	4,353	19,233	2,810	114,107	2,353	116,460
Training	8,972	9,857	14,054	4,981	—	4,383	64,278	6,054	112,579	3,164	115,743
Depreciation	17,962	848	—	—	—	33,512	21,180	12,417	85,919	27,472	113,391
Rent, facility usage and storage	1,863	443	8,493	—	—	1,691	117	1,041	13,648	122,835	136,483
Marketing	39,165	14,597	864	54	—	48,677	1,107	9,962	114,426	2,655	117,081
Equipment	18,757	3,004	3,226	1,884	—	34,338	71,427	554	133,190	44,106	177,296
Postage	20,621	809	3,779	8	—	20,419	276	910	46,822	321	47,143
Communication equipment	22,761	1,154	3,839	768	—	19,829	3,596	3,310	55,257	13,458	68,715
Equipment rental	12,238	—	169	—	—	20,506	—	30	32,943	18,816	51,759
Meetings	36,470	4,382	6,454	1,260	—	1,145	5,960	3,264	58,935	4,419	63,354
Travel and mileage	15,618	6,219	2,936	298	—	4,907	5,817	7,491	43,286	26,479	69,765
Events and facilitation services	42,419	40,462	5,165	—	—	—	20,869	19,906	128,821	79,564	208,385
Fundraising and other materials	—	—	—	—	—	627	—	—	627	503	1,130
Insurance	80,985	—	1,791	—	—	—	11,050	—	93,826	76,205	170,031
Bad debt expense (recoveries)	2,860	—	—	—	—	—	—	—	2,860	—	2,860
Other	858	—	231	—	—	—	—	—	1,089	28,011	29,100
Total expenses	\$ 8,616,587	\$ 457,468	\$ 351,161	\$ 71,865	\$ 334,175	\$ 704,760	\$ 1,549,214	\$ 252,981	\$ 12,338,211	\$ 906,680	\$ 13,244,891

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

	Caring Communities	Child Welfare	Educare	Welfare- to-Work Initiatives	Early Childhood	Data	21st Century	Other Initiatives	Total Program Services	General, Administrative and Development	Total Expenses
Contract program services	\$ 4,996,722	\$ 101,574	\$ 199,563	\$ —	\$ 324,625	\$ 12,812	\$ 683,919	\$ 139,697	\$ 6,458,912	\$ —	\$ 6,458,912
Salaries	2,165,510	82,114	95,160	48,549	—	390,424	390,229	113,114	3,285,100	318,134	3,603,234
Purchased professional services	71,541	31,104	380	70	—	7,881	211,791	17,791	340,558	33,151	373,709
Employee benefits	663,574	13,876	18,756	17,623	—	173,359	47,736	30,442	965,366	75,143	1,040,509
Grants, stipends & scholarships	3,217	41,080	100	—	—	—	2,305	250	46,952	1,500	48,452
Administrative fees	101,846	16,261	846	—	9,919	1,877	33,663	—	164,412	—	164,412
Supplies	59,584	3,598	5,165	5	—	9,704	33,989	2,702	114,747	3,934	118,681
Training	30,067	22,858	6,277	(4,925)	—	3,343	48,416	5,626	111,662	10,872	122,534
Depreciation	19,672	929	—	—	—	36,702	23,196	13,598	94,097	30,087	124,184
Rent, facility usage and storage	5,551	511	9,788	—	—	1,949	135	1,200	19,134	138,164	157,298
Marketing	40,749	5,694	669	2,136	—	32,146	1,522	20,236	103,152	2,213	105,365
Equipment	20,234	5,721	5,138	3,000	—	67,424	103,838	883	206,238	79,312	285,550
Postage	2,703	612	675	102	—	31,209	305	2,355	37,961	293	38,254
Communication equipment	30,323	1,152	2,819	746	—	14,816	2,809	4,191	56,856	3,281	60,137
Equipment rental	4,024	—	346	—	—	76,326	—	—	80,696	6,980	87,676
Meetings	32,602	7,173	5,295	1,243	—	3,580	4,952	9,271	64,116	6,812	70,928
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	141,228	53,173	15,037	—	—	131	27,425	26,161	263,155	86,144	349,299
Fundraising and other materials	—	—	—	—	—	1,807	—	2,195	4,002	169	4,171
Insurance	61,686	—	1,767	—	—	—	10,500	—	73,953	75,167	149,120
Bad debt expense (recoveries)	(328,587)	—	—	—	—	—	—	—	(328,587)	—	(328,587)
Other	919	—	—	—	—	21	—	—	940	27,388	28,328
Total expenses	\$ 8,138,406	\$ 390,651	\$ 377,843	\$ 68,829	\$ 334,544	\$ 878,738	\$ 1,632,452	\$ 397,731	\$ 12,219,194	\$ 925,908	\$ 13,145,102

Greater K.C. LINC, Inc.
Statements of Cash Flows
Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating Activities		
Change in net assets	\$ 314,415	\$ (654,730)
Items not requiring (providing) cash		
Depreciation	113,391	124,184
Net unrealized and realized gains on investments	(522,005)	(29,400)
Changes in		
Accounts, grants and pledges receivable	(712,275)	467,196
Prepaid expenses	74,878	(49,424)
Accounts payable and accrued expenses	<u>(719,842)</u>	<u>191,618</u>
Net cash provided by (used in) operating activities	<u>(1,451,438)</u>	<u>49,444</u>
Investing Activities		
Purchases of property and equipment	(43,223)	(182,312)
Proceeds from sale of investments	3,905,283	1,081,375
Purchase of investments	<u>(4,106,067)</u>	<u>(6,632,064)</u>
Net cash used in investing activities	<u>(244,007)</u>	<u>(5,733,001)</u>
Decrease in Cash and Cash Equivalents	(1,695,445)	(5,683,557)
Cash and Cash Equivalents, Beginning of Year	<u>4,411,035</u>	<u>10,094,592</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,715,590</u>	<u>\$ 4,411,035</u>
Reconciliation of Cash and Cash Equivalents to the Statements of Financial Position		
Cash and cash equivalents	\$ 166,086	\$ 2,135,231
Cash in assets limited as to use		
Externally restricted	<u>2,549,504</u>	<u>2,275,804</u>
Total Cash and Cash Equivalents	<u>\$ 2,715,590</u>	<u>\$ 4,411,035</u>

Greater K.C. LINC, Inc.
Notes to Financial Statements
June 30, 2006 and 2005

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, including Jackson, Clay and Platte counties. LINC assists neighborhoods to develop social services, supports and opportunities. Its initiatives include a 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 21st 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.

21st 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 12 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.

In total, at June 30, 2006 and 2005, there were 76 and 73 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
- Other child welfare services, including health care initiatives

Greater K.C. LINC, Inc.
Notes to Financial Statements
June 30, 2006 and 2005

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 addresses core competencies for early care and education professionals.

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.

Welfare-to-Work Initiatives

Under the welfare-to-work program, LINC addresses the needs of the unemployed and underemployed adults in Kansas City, Missouri including Jackson, Clay and Platte Counties 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.

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 relevant 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 financial and technology infrastructure.

Other

Health based activities make up the largest part of this category. LINC serves as fiscal agent for small community health based organizations.

Greater K.C. LINC, Inc.
Notes to Financial Statements
June 30, 2006 and 2005

Cash Equivalents

At June 30, 2006 and 2005, cash equivalents consisted primarily of money market funds and 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.

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 by LINC to participating agencies or upon other notification that the restricted purpose has been accomplished. Government grants are subject to state and federal audits.

Greater K.C. LINC, Inc.
Notes to Financial Statements
June 30, 2006 and 2005

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.

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.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program, management and general and fundraising categories.

General, Administrative and Development Expenses

For the years ended June 30, 2006 and 2005, respectively, LINC's general, administrative and development expenses accounted for 7.3% and 7.6% of LINC's total program services.

Greater K.C. LINC, Inc.
Notes to Financial Statements
June 30, 2006 and 2005

Reclassifications

Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 financial statement presentation. These reclassifications had no effect on the total change in net assets.

Note 2: Investments

Investments at June 30, 2006 and 2005 consisted of the following:

	<u>2006</u>	<u>2005</u>
Mutual funds – equity	\$ 2,073,887	\$ 1,253,600
Index funds	2,750,150	3,009,082
Money market	200,464	20,425
U.S. treasuries	1,052,612	1,296,982
Corporate bonds	<u>225,765</u>	<u>—</u>
	<u>\$ 6,302,878</u>	<u>\$ 5,580,089</u>

For the years ended June 30, 2006 and 2005, investment return consisted of the following:

	<u>2006</u>	<u>2005</u>
Net realized gains on investments	\$ 56	\$ —
Net unrealized gains on investments	521,949	29,400
Interest and dividends	<u>102,845</u>	<u>47,581</u>
	<u>\$ 624,850</u>	<u>\$ 76,981</u>

Greater K.C. LINC, Inc.
Notes to Financial Statements
June 30, 2006 and 2005

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:

	2006	2005
Jim Casey Youth Opportunity Initiative	\$ 100,000	\$ 95,000
Kansas City, Missouri School District	614,338	—
Area Health Education Center	27,358	42,276
Missouri Department of Social Services – Foster Care Transitioning	150,000	—
Data Management Software grant	—	64,074
Other programs	<u>122,761</u>	<u>97,972</u>
	1,014,457	299,322
Less allowance for doubtful accounts	<u>58,860</u>	<u>56,000</u>
	<u>\$ 955,597</u>	<u>\$ 243,322</u>

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

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

	2006	2005
Externally restricted by funding agency		
Improved or extended services to families and children	\$ 1,366,302	\$ 1,353,634
Out of School Time Initiative	212,894	212,678
Welfare-to-Work Initiatives	310,202	320,665
Annie Casey Foundation-Child Welfare	166,666	166,666
Jim Casey Foundation Grant	196,934	—
Various special projects and programs	<u>296,506</u>	<u>222,161</u>
	2,549,504	2,275,804
Internally designated by Commission		
Designated community program funding	<u>2,000,000</u>	<u>2,000,000</u>
	<u>\$ 4,549,504</u>	<u>\$ 4,275,804</u>

Greater K.C. LINC, Inc.
Notes to Financial Statements
June 30, 2006 and 2005

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:

	2006	2005
Expenses incurred on behalf of		
Out of School Time Initiative	\$ 2,569,742	\$ 1,107,097
Welfare-to-Work Initiatives	138,623	84,904
Jim Casey Foundation Grant	—	202,992
Other special projects and programs	455,123	848,306
	\$ 3,163,488	\$ 2,243,299

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 \$140,332 and \$129,107 for the years ended June 30, 2006 and 2005, respectively.

Future minimum lease payments under the operating lease for office space at June 30, 2006 are as follows:

2007	\$ 146,504
2008	146,504
	\$ 293,008

Note 7: Human Resources and Payroll

During 2006, the agreement with Mid-America Regional Council (MARC) was terminated. MARC had provided human resource, payroll and fringe benefit services for employees who worked under the direction of the LINC Executive Director or were designated to implement LINC initiatives. LINC brought the human resource, payroll and fringe benefit services in-house during the year.

Greater K.C. LINC, Inc.
Notes to Financial Statements
June 30, 2006 and 2005

Note 8: 401(k) Retirement and Savings Plan

LINC has a defined contribution plan that covers substantially all full-time employees of LINC who have attained the age of 18 and are eligible to participate after 12 months of service. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Participants may contribute up to 100% of their annual compensation, as defined in the Plan, subject to certain Internal Revenue Code limitations. LINC matches 50% of the employees' voluntary contributions up to a maximum employer contribution of 2.0% of eligible gross wages. LINC also makes additional contributions of 7.5% of eligible gross wages. Participants' interests vest over a period of two to five years of service for the additional contributions from LINC and immediately in employee salary deferral contributions and LINC matching contributions.

LINC's contributions for the years ended June 30, 2006 and 2005 were approximately \$273,300 and \$259,400, respectively.

Note 9: 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 \$200,200 and \$183,530 for the years ended June 30, 2006 and 2005, respectively.

Note 10: Fundraising Expense

Fundraising expense for the years ended June 30, 2006 and 2005 was \$1,130 and \$4,171, respectively.

Note 11: 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, 2006 and 2005, funding under one Missouri Department of Social Services Contract accounted for 54% and 59%, respectively, of LINC's total revenues, gains and other support.

Greater K.C. LINC, Inc.
Notes to Financial Statements
June 30, 2006 and 2005

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.

Note 12: Subsequent Event

For the year ended June 30, 2006, the Kansas City Missouri School District (KCMSD) and LINC had an understanding under which LINC was compensated in excess of \$1,400,000 for providing Out-of-School time services at certain KCMSD school sites. Management assumed that this agreement would be renewed for the year ending June 30, 2007 (FY07). Accordingly, such services have been provided by LINC through October 2006, continuing into November 2006. However, KCMSD indicated after the year began that it is considering not renewing for FY07.

Supplementary Information

Greater K.C. LINC, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA #	Amount Expended
Twenty-First Century Community Learning Centers	Department of Education/Missouri Department of Elementary and Secondary Education	84.287	<u>\$ 1,441,787</u>

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.



**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. as of and for the year ended June 30, 2006, and have issued our report thereon dated October 6, 2006. 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 an opinion 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 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 caused by error or fraud 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 or other matters 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 October 6, 2006.

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.

Kansas City, Missouri
October 6, 2006



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. 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, 2006. 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, 2006.

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 the internal control over compliance in accordance with OMB Circular A-133.

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.

Kansas City, Missouri
October 6, 2006

Greater K.C. LINC, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

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:

Cluster/Program	CFDA Number
Twenty-First Century Community Learning Centers	84.287

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, 2006

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
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No matters are reportable.

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
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No matters are reportable.

Greater K.C. LINC, Inc.
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2006

Reference Number	Summary of Finding	Status
	No findings in prior year.	