AUDIT REPORT AND FINANCIAL STATEMENTS

OF

RIVER VALLEY CHILD DEVELOPMENT SERVICES

FOR THE YEAR ENDED JUNE 30, 2020

S&CO.

SOMERVILLE & COMPANY PLLC

CPAs & CONSULTANTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
River Valley Child Development Services
Huntington, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of River Valley Child Development Services (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of River Valley Child Development Services as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of River Valley Child Development Services as of June 30, 2019, were audited by other auditors whose report dated December 16, 2019, expressed an unmodified opinion on those statements.

Other Matters

Supplementary Information

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, as required by Title 2 U.S. *Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of expenditures of state awards is presented for purposes of additional analysis as required by *West Virginia Code 12-4-14*, 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 financial statements and certain additional 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2021, on our consideration of River Valley Child Development Services' 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 solely 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 effectiveness of River Valley Child Development Services' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering River Valley Child Development Services' internal control over financial reporting and compliance.

Huntington, West Virginia
July 28, 2021

RIVER VALLEY CHILD DEVELOPMENT SERVICES
STATEMENT OF FINANCIAL POSITION
June 30, 2020

ASSETS

Current Assets		
Cash and cash equivalents	$	2,587,603
Accounts receivable		4,133
Grants receivable		512,944
Other receivable		165,643
Prepaid expenses		258,577
Other assets		12,285
Total Current Assets		3,541,185
Long-term Investments		632,445
Property and Equipment, net		728,533
Total Assets	$	4,902,163

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable	$	457,853
Accrued and withheld payroll taxes		112,073
Accrued payroll and compensated absences		408,989
Deferred revenue		1,609,813
Other liabilities		800
Total Current Liabilities		2,589,528
Net Assets		
Without donor restrictions		2,244,780
With donor restrictions		67,855
Total Net Assets		2,312,635
Total Liabilities and Net Assets	$	4,902,163

The accompanying notes are an integral part of these financial statements.

RIVER VALLEY CHILD DEVELOPMENT SERVICES
STATEMENT OF ACTIVITIES
For the year ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support			
Grants and contributions	$ 10,978	$ 9,819,904	$ 9,830,882
Other program service fees	1,184,135	-	1,184,135
Investment income, net	5,383	-	5,383
Other income	26,853	-	26,853
Total Support	1,227,349	9,819,904	11,047,253
Net Assets Released From Restrictions	9,806,281	(9,806,281)	-
Total Increase	11,033,630	13,623	11,047,253
Expenses			
Program Services			
Resource and referral	4,957,407	-	4,957,407
Training, connections, and resources	3,234,524	-	3,234,524
Birth to three program	833,892	-	833,892
Food program	304,743	-	304,743
Child development programs	307,092	-	307,092
Total Program Services	9,637,658	-	9,637,658
Supporting Services			
Management and general	1,429,233	-	1,429,233
Total Expenses	11,066,891	-	11,066,891
Change in Net Assets	(33,261)	13,623	(19,638)
Net Assets at Beginning of Year	2,278,041	54,232	2,332,273
Net Assets at End of Year	$ 2,244,780	$ 67,855	$ 2,312,635

The accompanying notes are an integral part of these financial statements.

RIVER VALLEY CHILD DEVELOPMENT SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2020

	Program Services						Supporting Services	
	Resource and Referral	Training, Connections, and Resources	Birth to Three Program	Food Program	Child Development Programs	Total Program Services	Management and General	Total June 30, 2020
Salaries and wages	$ 2,601,772	$ 1,207,323	$ 493,921	$ 45,031	$ 158,371	$ 4,506,418	$ 480,262	$ 4,986,680
Fringe benefits	868,477	324,807	148,242	6,111	32,944	1,380,581	116,023	1,496,604
Total Salaries and Related Expenses	3,470,249	1,532,130	642,163	51,142	191,315	5,886,999	596,285	6,483,284
Rent and occupancy	645,394	154,162	46,117	6,388	26,573	878,634	116,694	995,328
Grants and donations	118,743	504,527	-	238,783	-	862,053	-	862,053
Supplies and equipment	416,782	90,933	39,685	1,077	18,664	567,141	32,459	599,600
Diversion of assets	-	-	-	-	-	-	547,405	547,405
Professional services	11,777	438,262	3,485	2,703	2,875	459,102	54,356	513,458
Travel, conference, and training	108,181	265,048	43,956	1,018	6,426	424,629	8,117	432,746
Telephone, internet, and technology	24,773	109,105	26,847	2,615	10,552	173,892	28,927	202,819
Repairs, maintenance, and custodial	45,108	13,499	8,976	153	18,499	86,235	1,489	87,724
Printing and advertising	36,818	31,655	1,279	-	-	69,752	244	69,996
Insurance	27,772	13,543	4,872	481	2,066	48,734	5,205	53,939
Food	671	39,829	462	-	6,656	47,618	567	48,185
Postage	17,904	10,974	3,334	230	-	32,442	4,409	36,851
Resource materials	19,291	12,156	97	153	-	31,697	1,150	32,847
Property and other taxes	1,548	197	8,487	-	13,152	23,384	1,235	24,619
Interest	-	-	-	-	-	-	21,309	21,309
Miscellaneous	377	1,788	283	-	74	2,522	5,798	8,320
Uncollectible accounts	-	2,755	-	-	3,433	6,188	-	6,188
Total Expenses Before Depreciation	4,945,388	3,220,563	830,043	304,743	300,285	9,601,022	1,425,649	11,026,671
Depreciation	12,019	13,961	3,849	-	6,807	36,636	3,584	40,220
Total Expenses	$ 4,957,407	$ 3,234,524	$ 833,892	$ 304,743	$ 307,092	$ 9,637,658	$ 1,429,233	$ 11,066,891

The accompanying notes are an integral part of these financial statements.

RIVER VALLEY CHILD DEVELOPMENT SERVICES
STATEMENT OF CASH FLOWS
For the year ended June 30, 2020

Cash Flows From Operating Activities	
Change in Net Assets	$ (19,638)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	40,220
Unrealized loss on investments	11,535
Realized gain on sale of investments	(474)
Diversion of assets	547,405
Uncollectible accounts	6,188
(Increase) Decrease in assets	
Accounts receivable	(390,560)
Grants receivable	1,351,924
Other receivable	(149,438)
Prepaid expenses	(112,487)
Other assets	(10,835)
Increase (Decrease) in liabilities	
Accounts payable	(644,257)
Accrued and withheld payroll taxes	(31,362)
Accrued payroll and compensated absences	95,127
Deferred revenue	1,453,093
Other liabilities	(1,834)
Total adjustments	2,164,245
Net Cash Provided By Operating Activities	2,144,607
Cash Flows From Investing Activities	
Purchase of property and equipment	(48,545)
Purchase of investments	(113,142)
Proceeds from sales and maturities of investments	105,594
Net Cash Used In Investing Activities	(56,093)
Cash Flows From Financing Activities	
Proceeds from line of credit	1,050,966
Principal payments on line of credit	(1,545,966)
Net Cash Used In Financing Activities	(495,000)
Net Increase in Cash and Cash Equivalents	1,593,514
Cash and Cash Equivalents at Beginning of Year	994,089
Cash and Cash Equivalents at End of Year	$ 2,587,603
Supplemental Information:	
Cash paid for interest	$ 21,309

The accompanying notes are an integral part of these financial statements.

1. Nature of operations and summary of significant accounting policies:

A. Nature of operations:

River Valley Child Development Services (the Organization) is a nonprofit corporation incorporated in the State of West Virginia. The Organization administers five (5) major programs in the area of child development in the tri-state area.

Resource and Referral: Three childcare resource and referral programs that manage the childcare subsidy program in WV, link parents with childcare options, provide consumer information, offer technical assistance and training to childcare providers, and inform parents of other resources in their community. These programs are funded by grants from the WV Department of Health and Human Resources - Bureau for Children and Families.

Training, Connections, and Resources: A statewide program that provides professional development opportunities for the early care and education community through an extensive network of information, training and technical assistance, resources, and collaboration. This program is funded by grants from the WV Department of Health and Human Resources - Bureau for Children and Families/Division of Early Care and Education; Office of Maternal, Child and Family Health/WV Birth to Three and Home Visitation; WV Head Start State Collaboration Office; and the WV Department of Education/Office of Early Education.

Birth to Three Program (BTT): Two administrative units for the WV BTT early intervention system that are responsible for regional interagency activities, system point of entry functions, and maintenance of electronic and hard copy child and family records. These two administrative units are funded by fees for service and WV state funds.

Child Development Programs: Two after school programs that provide care for school aged children. These two programs are funded by tuition fees and childcare subsidy payments from the WV Department of Health and Human Resources.

One childcare center that provides specialized childcare services for children ranging in age from six weeks to two years. This program is funded by tuition fees, childcare subsidy payments from the WV Department of Health and Human Resources, and Temporary Assistance for Needy Families (TANF).

Food Program: A nutrition program that reimburses home based childcare providers for serving healthy meals and snacks that meet meal pattern requirements for children in their care. This program is funded through the WV Department of Education.

B. Basis of presentation and accounting and financial statement presentation:

The financial statements of the Organization have been prepared on the accrual basis of accounting in which expenditures are recognized when incurred and revenue is recognized when earned, generally when allowable expenditures are made.

The Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

1. Nature of operations and summary of significant accounting policies (Continued):

B. Basis of presentation and accounting and financial statement presentation (Continued):

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objective of the Organization. These net assets may be used at the discretion of the Organization's management and Board of Directors.

Net Assets With Donor Restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

C. Cash and cash equivalents:

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

D. Promises to give:

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are not restricted by the donor are reported as increases in net assets without donor restrictions. All donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts. An allowance for uncollectible promises is provided, when necessary, based on management's evaluation of potential uncollectible promises receivable at year end.

E. Accounts receivable:

Accounts receivable are carried at their estimated collectible amounts. Accounts receivable are periodically evaluated for collectability. Once it is determined by management that the account will not be collectible, it is charged off as uncollectible accounts.

F. Investments:

Investments consists primarily of government and agency securities, mortgage pools, corporate bonds, certificates of deposit, bond mutual funds, common stock, and equity mutual funds. Investments are reported at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets without donor restrictions. The total investment return consists of interest and dividend income, realized gains and losses, and unrealized gains and losses, net of related investment expenses.

1. Nature of operations and summary of significant accounting policies (Continued):

G. Property and equipment:

Property and equipment is stated at cost if purchased, or fair value if contributed to the Organization. Asset purchases greater than $3,000 and those which substantially increase useful lives are capitalized. Maintenance, repairs, and minor renewals are charged to operations when incurred. When property and equipment is sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

Property and equipment acquired by the Organization is considered to be owned by the Organization. However, funding sources may maintain a reversionary interest in the property and equipment purchased with grant monies as well as the right to determine the use of any proceeds from the sale of these assets.

H. Depreciation:

The cost of property and equipment is depreciated over the estimated useful lives of the related assets. Depreciation is computed on the straight-line method. The useful lives of property and equipment for purposes of computing depreciation are:

	Range of Lives
Buildings	20 Years
Building improvements	13 - 15 Years
Furniture and equipment	2 - 10 Years
Vehicles	5 Years

I. Income taxes:

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Management believes the Organization is no longer subject to income tax examinations for years prior to 2017.

J. Accounting for uncertain tax positions:

The Organization follows the provisions of Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, relating to unrecognized tax benefits. This standard requires an entity to recognize a liability for tax positions when there is a 50% or greater likelihood that the position will not be sustained upon examination. The Organization is liable for taxes to the extent of any unrelated business income as defined by IRS regulations. The Organization believes that it has not engaged in any unrelated business income as defined by IRS regulations and that it is more likely than not that this position would be sustained upon examination. As such, there were no liabilities recorded for uncertain tax positions as of June 30, 2020.

1. Nature of operations and summary of significant accounting policies (Continued):

K. Advertising:

Advertising costs are charged to operations when incurred. For the year ended June 30, 2020 advertising costs totaled $26,227.

L. Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles 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. Accordingly, actual results could differ from those estimates.

M. Functional allocation of expenses:

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. These expenses include administration (indirect costs), salaries, benefits, telephones, postage machine and copier leases and maintenance, rent and occupancy, liability insurance, and depreciation, as described below:

Expense	Method of Allocation
Management and general (indirect costs)	Percent of program salaries and benefits to total direct salaries and benefits
Direct salaries, wages, and fringe benefits	Time and effort
Telephone	Department usage (line counts)
Postage machine	Department/program usage
Copier leases and maintenance	Department/program usage
Rent and occupancy	Square footage
Liability insurance	Percent of number of program staff to total agency staff
Depreciation	Location of asset and use by function

N. Adoption of accounting pronouncement:

The Organization adopted the provisions of the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958).* The amendments in ASU 2018-08 provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. ASU 2018-08 also provides guidance on how to determine whether a contribution is conditional and how to better distinguish a donor-imposed condition from a donor-imposed restriction. The Organization has applied ASU 2018-08 on a modified prospective basis. The timing, amount, and presentation of revenue from grants has not materially changed as a result of adopting the provisions of ASU 2018-08.

2. Cash and cash equivalents:

Cash and cash equivalents at June 30, 2020 are comprised of the following:

Cash	$	2,447,591
Short-term investments		140,012
Total	$	2,587,603

3. Investments:

Investments as of June 30, 2020 are summarized as follows:

		Book Value		Fair Value		Unrealized Gain
Fixed income securities	$	235,776	$	244,221	$	8,445
Equities		350,908		388,224		37,316
Total	$	586,684	$	632,445	$	45,761

The following summarizes the investment income for the year ended June 30, 2020 inclusive of income on cash, cash equivalents, and the investments described above:

Interest and dividends	$	22,762
Realized gain		474
Unrealized loss		(11,535)
Investment fees		(6,318)
Investment income, net	$	5,383

Gain or loss on sale of investments is determined by utilizing the average cost method.

4. Fair value measurements:

The Organization determines the fair values of its financial instruments based on the fair value hierarchy established by the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification which specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Organization's market assumptions. The three levels of the fair value hierarchy based on these two types of inputs are as follows:

4. Fair value measurements (Continued):

Level 1 - Valuation is based on quoted prices in an active market for identical assets and liabilities at the measurement date.

Level 2 - Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 - Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

The hierarchy requires the use of observable market data when available. When determining fair value measurements, the Organization utilizes active and observable market prices for identical assets and liabilities whenever possible and classifies such items as Level 1. When identical assets and liabilities are not traded in active markets, the Organization utilizes market observable data for similar assets and liabilities in an active market, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market and classifies such items as Level 2. When observable data is not available, the Organization uses alternative valuation techniques using unobservable inputs to determine a fair value and classifies such items as Level 3. Items valued using such internally generated valuation techniques are based on the lowest level of input that is significant to the valuation.

Fair values of assets measured on a recurring basis at June 30, 2020 are as follows:

		Fair Value Measurements at Reporting Date Using:		
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed income securities	$ 244,221	$ 244,221	$ -	$ -
Equities	388,224	388,224	-	-
Total	$ 632,445	$ 632,445	$ -	$ -

The Organization utilizes the services of independent third parties (brokerage firms) to value their instruments on a recurring basis. The following describes the valuation methodologies used to measure financial instruments at fair value on a recurring basis.

Investments:

The Organization uses quoted market prices in an active market. These instruments consist of government and agency securities, mortgage pools, corporate bonds, certificates of deposit, bond mutual funds, common stock, and equity mutual funds and are included in Level 1.

5. Property and equipment, net:

Property and equipment at June 30, 2020 consists of the following:

Land	$ 268,474
Buildings	1,138,955
Building improvements	474,008
Furniture and equipment	958,018
Vehicles	99,670
	2,939,125
Less accumulated depreciation	(2,210,592)
	$ 728,533

Depreciation expense amounted to $40,220 for the year ended June 30, 2020.

6. Liquidity and availability of financial assets:

The following reflects the Organization's financial assets as of June 30, 2020, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the Statement of Financial Position date:

Financial assets at year-end:	
Cash and cash equivalents	$ 2,587,603
Accounts receivable	4,133
Grants receivable	512,944
Other receivable	165,643
Long-term investments	632,445
Total Financial Assets	3,902,768
Less those unavailable for general expenditures within one year due to:	
Board designations	(225,828)
Donor restrictions	(67,855)
Financial assets available to meet cash needs for general expenditures within one year	$ 3,609,085

The Organization structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, to manage liquidity, the Organization has available a $1,000,000 maximum line of credit with City National Bank to be drawn upon as needed to manage cash flows.

7. Note payable line of credit:

The Organization has a line of credit with City National Bank in the amount of $1,000,000, interest payable monthly at 4.75%, secured by accounts receivable, equipment, investments, and all financial assets, due July 19, 2021.

Interest expense on the line of credit for the year ended June 30, 2020 totaled $21,309.

8. Net assets without donor restrictions:

Net assets without donor restrictions are comprised of the following at June 30, 2020:

Board Designated:	
Safety Program	$ 6,635
Celebrating Connections Program	87,810
Camp Gizmo Program	6,011
Stars Program	47,896
Provider Quarterly Program	340
T.E.A.C.H. Program	56,068
ACDS Program	10,081
Social Emotional Institute Program	10,987
Total Board Designated	225,828
Net invested in property and equipment	728,533
Undesignated	1,290,419
Total net assets without donor restrictions	$ 2,244,780

9. Net assets with donor restrictions:

Net assets with donor restrictions are available for the following purposes at June 30, 2020:

Subject to expenditure for specific purpose:	
Child Development	$ 39,385
Connect	2,000
Choices	26,470
Total net assets with donor restrictions	$ 67,855

10. Net assets with donor restrictions (Continued):

Net assets were released from donor restrictions during the year ended June 30, 2020 by incurring expenses satisfying the purpose specified by donors as follows:

Resource and referral program	$ 5,494,218
Training, connections, and resources program	3,638,689
Birth to three program	284,527
Food program	8,673
Child development programs	380,174
Total	$ 9,806,281

11. Operating leases:

The Organization leases office and storage space at various locations under operating leases expiring in various years through 2034. Total rent expense charged to operations resulting from these lease agreements for the year ended June 30, 2020 amounted to $842,675.

Certain operating leases provide for renewal options for periods of one to five years at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases.

The Organization also leases copiers and other equipment under operating leases expiring in various years through 2023. Total rent expense charged to operations resulting from these lease agreements for the year ended June 30, 2020 amounted to $138,741.

The following is a schedule by year of future minimum lease payments required under the lease agreements:

Years Ending June 30,	
2021	$ 826,387
2022	826,465
2023	701,735
2024	542,069
2025 and thereafter	609,980
Total future minimum lease payments	$ 3,506,636

12. Retirement plans:

The Organization participates in the State of West Virginia Teachers Retirement Plan. This is a statewide, cost-sharing, multi-employer plan which consists of two components: the Teachers' Defined Benefit Retirement System and the Teachers' Defined Contribution Retirement System. For the year ended June 30, 2020, the Organization's total payroll for all employees was $4,986,680 and the payroll was $106,041 for employees covered by the State of West Virginia Teachers Retirement Plan.

The Teachers' Defined Benefit Retirement System covers employees hired prior to July 1, 1991. Under this plan, the participants contribute 6% of their salary and the Organization contributes 15% of the participants' salary. In addition, as of July 1, 2008, members of the Defined Contribution Plan who elected to transfer to the Defined Benefit Plan as prescribed by HB101 passed during the 2008 legislative session were able to transfer from the Teachers' Defined Contribution Retirement System to the Teachers' Defined Benefit Retirement System. Under this plan, the participants contribute 6% of their salary and the Organization contributes 7.5% of the participants' salary. Total payments reflected in the Organization's accounting records for the Defined Benefit Plans for the year ended June 30, 2020 were:

Employees' contribution (6%)	$ 6,966
Employer's contribution (15% or 7.5%)	17,415
Total Contribution	$ 24,381

The Teachers' Defined Contribution Retirement System covered employees hired after July 1, 1991 and before July 1, 2005. Employees covered under the Teachers' Defined Benefit Retirement System could freeze their benefits in that plan and become a participant of this plan. Participants with less than five years of service in the old Defined Benefit Plan could change to this plan and transfer the funds that were deposited in the old plan to this plan. Under this plan, the participants contribute 4.5% of their salary and the Organization contributes 7.5% of the participants' salary. The Organization has not had an employee participation in the Teacher's Defined Contribution Retirement System since August 2012.

Historical trend information relating to the accumulation of assets and the unfunded liability of the plan is available from the Consolidated Public Retirement Board. Following is select information related to the State of West Virginia Teacher's Retirement System (Defined Benefit Retirement System):

Date	Actuarial Value of Plan Assets (in thousands)	Actuarial Accrued Liability (in thousands)	Funded Ratio
July 1, 2019	$7,898,739	$10,873,910	72.64%

The Organization's contributions to the plan are less than 5% of total plan contributions per the plan's most recently available annual report.

12. Retirement plans (Continued):

When a member of the Teacher's Defined Contribution Plan leaves employment for a period longer than thirty days, the non-vested portion of the employer's contributions are placed in a suspension account within the plan and held for a five-year period. If the member is not rehired by a participating employer of the Teacher's Defined Contribution Plan within that five-year period, those non-vested contributions shall become forfeited by the member back to the originating employer. Forfeited funds are available only for reducing future employer's contributions to the Teacher's Defined Contribution Plan so long as there are participating employees in the plan. In August 2012, all remaining employees participating in the West Virginia Teacher's Defined Contribution Retirement System left the Organization's employment; therefore, the Organization fully withdrew from the Teacher's Defined Contribution Plan and received $1.073 million resulting from the prepaid retirement credit for contribution forfeitures. Total forfeitures during fiscal year ended June 30, 2020 amounted to $-0-.

Effective July 1, 2005, new employees participate in the TIAA-CREF retirement plan. This is a 403(b) defined contribution plan. Participants in the Teacher's Defined Contribution Plan had the option of remaining in that plan, or moving to the TIAA-CREF plan. All vested portions of the individual accounts rolled over to TIAA-CREF. If still employed by the Organization five years after the rollover, upon receipt of the unvested portions of the individual accounts from the TDC suspension account, these allocations will be deposited to the individual TIAA-CREF accounts.

Under the new TIAA-CREF plan, participants contribute a minimum of 3% of their salary. The Organization matches the employee contribution 100% up to a maximum of 6%.

Retirement expense for the fiscal year ended June 30, 2020 under this plan amounted to $201,301. The Organization's contributions to the plan are less than 5% of total plan contributions per the plan's most recently available annual report.

13. Concentrations of credit risk:

The Organization is a non-profit organization that provides child development services, childcare resource and referral services, and family day care food reimbursements in Huntington, West Virginia and the surrounding areas. The Organization provides these services which are reimbursed by various third parties as well as the recipients of such services without requiring collateral. Accounts receivable have been adjusted for all known uncollectible accounts and an allowance is not considered necessary.

The revenue earned under the Organization's contracts with U.S. Department of Health and Human Services account for a majority of the revenues of the Organization for the year ended June 30, 2020. A significant reduction in the revenues granted under future contracts could have a significant impact on the Organization's program services.

The Organization maintains cash balances at local banking institutions. As of June 30, 2020, all accounts are insured by the Federal Deposit Insurance Corporation up to $250,000. The Organization had bank balances in excess of the FDIC coverage of $-0- at the banking institutions at June 30, 2020.

14. Contingencies:

The Organization's programs are generally funded by federal, state, and local sources. Federal and state grants received for specific purposes are subject to audit or review by grantor agencies. Such audits and reviews could result in requests for reimbursements to grantor agencies for expenditures disallowed under the terms of the grants. The amount, if any, of expenditures which may be disallowed by grantor agencies cannot be determined at this time, although management believes such amounts, if any, would be immaterial.

15. Correction of errors:

The accompanying financial statement's beginning net assets as of July 1, 2019 have been restated to correct an error (assets understated). The effect of the restatement was to increase cash by $187,550 and increase net assets by $187,550.

The accompanying financial statement's beginning net assets as of July 1, 2019 have been restated to correct an error (assets overstated). The effect of the restatement was to increase accumulated depreciation by $46,249 and decrease net assets by $46,249.

16. Subsequent events:

The Organization has evaluated all subsequent events through July 28, 2021, the date the financial statements were available to be issued.

In early 2020, the World Health Organization declared the COVID-19 (Coronavirus) outbreak to be a pandemic. The U.S. Government's response to the pandemic included significant limitations on many aspects of Americans' daily lives, including personal mobility and closures of many public facilities. These limitations have caused significant disruption to workflow for U.S. companies. These limitations have also negatively impacted the financial markets in the U.S. and around the globe. The Organization has not made any adjustments to these financial statements as a result of this uncertainty.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Securities (CARES) Act was signed into law. The CARES Act stimulus package included a new forgivable loan product offered through the Small Business Administration. The Payroll Protection Program (PPP) is designed to assist employers with employee retention and the continuation of payroll during the COVID-19 pandemic. On May 20, 2020, the Organization received a PPP loan from the bank in the amount of $153,263. The loan amount of $153,263 was forgiven on May 28, 2021.

SUPPLEMENTARY INFORMATION

RIVER VALLEY CHILD DEVELOPMENT SERVICES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2020

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
Federal Awards			
U.S. Department of Health and Human Services			
Pass-Through - West Virginia Department of Health and Human Resources			
Child Care Development Fund Cluster:			
Child Care Mandatory and Matching Funds	93.596	G200034	$ 374,964
Child Care Mandatory and Matching Funds	93.596	G200035	424,766
Child Care Mandatory and Matching Funds	93.596	G200036	464,202
Total Child Care Mandatory and Matching Funds			1,263,932
Child Care and Development Block Grant	93.575	G200034	1,102,546
Child Care and Development Block Grant	93.575	G200035	1,236,149
Child Care and Development Block Grant	93.575	G200036	1,351,745
Child Care and Development Block Grant	93.575	G200090	3,005,309
Total Child Care and Development Block Grant			6,695,749
Subtotal Child Care Development Fund Cluster			7,959,681
Maternal, Infant, and Early Childhood Home Visitation Program	93.870	G200296	47,235
Head Start	93.600	G200090	7,139
Temporary Assistance for Needy Families	93.558	G200527	157,733
Total U.S. Department of Health and Human Services			8,171,788
U.S. Department of Education			
Pass-Through - West Virginia Department of Health and Human Resources			
Special Education - Grants for Infants and Families	84.181	G200166	390,941
Total Federal Awards			$ 8,562,729

The accompanying notes are an integral part of these financial statements.

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of River Valley Child Development Services (the Organization) under programs of the federal government for the year ended June 30, 2020. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Organization.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C - INDIRECT COST RATE

The Organization has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

RIVER VALLEY CHILD DEVELOPMENT SERVICES
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the year ended June 30, 2020

State Grantor Program Title	Grant Number	Total State Expenditures
State Awards		
West Virginia Department of Health and Human Resources		
WV Birth to Three Early Intervention System	G200169	$ 139,695
WV Birth to Three Early Intervention System	G200170	144,832
Child Care Development	G200034	158,869
Child Care Development	G200035	179,970
Child Care Development	G200036	196,679
Child Care Development	G200090	1,785
Office of Drug Control Policy	G200296	70,350
Total West Virginia Department of Health and Human Resources		892,180
Total State Awards		$ 892,180

The accompanying notes are an integral part of these financial statements.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
River Valley Child Development Services
Huntington, West Virginia

We have audited, in accordance with the 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, the financial statements of River Valley Child Development Services (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 28, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered River Valley Child Development Services' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of River Valley Child Development Services' internal control. Accordingly, we do not express an opinion on the effectiveness of the River Valley Child Development Services' internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Item 2020-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether River Valley Child Development Services' financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering River Valley Child Development Services' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Huntington, West Virginia

July 28, 2021

Somerville & Company, P.L.L.C.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
River Valley Child Development Services
Huntington, West Virginia

Report on Compliance for Each Major Federal Program

We have audited River Valley Child Development Services' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of River Valley Child Development Services' major federal programs for the year ended June 30, 2020. River Valley Child Development Services' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of River Valley Child Development Services' major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 River Valley Child Development Services' 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 on compliance for each major federal program. However, our audit does not provide a legal determination of River Valley Child Development Services' compliance.

Opinion on Each Major Federal Program

In our opinion, River Valley Child Development Services complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control over Compliance

Management of River Valley Child Development Services is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered River Valley Child Development Services' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of River Valley Child Development Services' 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Item 2020-001 to be a material weakness.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Somerville & Company, P.L.L.C.

Huntington, West Virginia

July 28, 2021

RIVER VALLEY CHILD DEVELOPMENT SERVICES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2020

1. SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiencies identified?	None Reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weakness(es) identified?	Yes
Significant deficiencies identified?	None Reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	Yes

Identification of Major Programs:
U.S. Department of Health and Human Services Pass-through State of West Virginia
West Virginia Department of Health and Human Services
Child Care Development Fund Cluster:
CFDA 93.596 – Child Care Mandatory and Matching Funds
CFDA 93.575 – Child Care and Development Block Grant

Dollar threshold used to distinguish between type A and type B program:	$ 750,000
Auditee qualified as low-risk auditee?	Yes

2. FINDINGS - FINANCIAL STATEMENTS AND FEDERAL AWARDS

2020-001 Bank Reconciliation Review

Finding Type: Material Weakness

Criteria:
Organizations should adopt bank reconciliation and bank statement review procedures to be performed by individuals independent of bank reconciliation preparation.

Condition:
During the year ended June 30, 2020, fraudulent checks totaling $547,405 cleared the Organization's bank account.

Cause:
The Organization's current internal controls do not facilitate a review of the bank reconciliations.

Effect:
Misappropriation of funds resulting in cash shortages for payroll taxes and pension contributions.

Recommendation:
The bank reconciliation process should be segregated as much as possible and an individual independent of the bank reconciliation process should review the completed bank reconciliations and bank statements on a timely basis.

Views of Responsible Officials:
Board of Directors is aware of the lack of internal controls related to the review of bank reconciliations.

3. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None noted.

RIVER VALLEY CHILD DEVELOPMENT SERVICES

A leader in providing high quality early childhood care and education services for children, families and communities.

CORRECTIVE ACTION PLAN

July 28, 2021

This letter sets forth River Valley Child Development Services' corrective action plan for the June 30, 2020 audit finding. Susan Brodof (Executive Director) and Karen Lyzenga (Comptroller) are primarily responsible for the response and corrective action for the audit finding.

Name and address of independent public accounting firm:

Somerville & Company, P.L.L.C.
501 Fifth Avenue
Huntington, WV 25701

Audit period: June 30, 2020

The finding from the July 28, 2021 Schedule of Findings and Questioned Costs is discussed below. The finding is numbered consistently with the number assigned in the schedule.

FINDINGS – FINANCIAL STATEMENTS AND FEDERAL AWARDS

MATERIAL WEAKNESS

2020-001 Bank Reconciliation Review

Please refer to the Schedule of Findings and Questioned Costs which explains the root causes for this finding. Management has corrected this finding during the year ended June 30, 2021 and will be so noted on the June 30, 2021 audited financial statements.

Recommendation: The bank reconciliation process should be segregated as much as possible and an individual independent of the bank reconciliation process should review the completed bank reconciliations and bank statements on a timely basis.

Action Taken: We concur with the recommendation, and it was implemented effective September 30, 2020. The individual preparing the bank reconciliations is not responsible for entries in the receipts and disbursements records. An individual independent of the bank reconciliation process is reviewing the bank reconciliations and bank statements focusing on unusual checks and other transactions, transfers, reconciling items, and paid items.

Sincerely,

Susan Brodof
Susan Brodof, Executive Director

Karen Lyzenga
Karen Lyzenga, Comptroller

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