

**Community Action
Organization**

**Audited Financial
Statements**

**For the Year Ended
June 30, 2011**



MCDONALD JACOBS

INDEPENDENT AUDITOR'S REPORT

Jake Jacobs, CPA

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The Board of Directors
Community Action Organization
Hillsboro, Oregon

We have audited the accompanying statement of financial position of Community Action Organization (a nonprofit corporation) as of June 30, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2010 financial statements which were audited by other auditors whose report dated December 16, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Action Organization as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Strength in Numbers

ACCOUNTANTS & CONSULTANTS

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In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2011 on our consideration of Community Action Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

McDonald Jacobz, P.C.

November 16, 2011

COMMUNITY ACTION ORGANIZATION
STATEMENT OF FINANCIAL POSITION
June 30, 2011
(With comparative totals for 2010)

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 674,445	\$ 1,307,773
Accounts receivable	1,146,723	1,229,246
Pledges receivable	11,184	21,509
Prepaid expenses	23,186	3,045
Property and equipment, net	<u>2,233,458</u>	<u>2,303,405</u>
TOTAL ASSETS	<u><u>\$ 4,088,996</u></u>	<u><u>\$ 4,864,978</u></u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 441,313	\$ 631,735
Accounts payable - construction defects	161,844	-
Accrued payroll and related expenses	444,103	387,418
Accrued vacation payable	210,168	235,343
Deferred revenue	90,154	324,339
Notes payable	<u>2,040,390</u>	<u>1,343,334</u>
Total liabilities	<u>3,387,972</u>	<u>2,922,169</u>
Net assets (deficit):		
Unrestricted:		
Undesignated	(583,148)	(201,783)
Board designated	1,084,273	1,184,521
Net investment in property and equipment	<u>193,068</u>	<u>960,071</u>
Total unrestricted	694,193	1,942,809
Temporarily restricted	<u>6,831</u>	<u>-</u>
Total net assets	<u>701,024</u>	<u>1,942,809</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,088,996</u></u>	<u><u>\$ 4,864,978</u></u>

See notes to financial statements.

COMMUNITY ACTION ORGANIZATION
STATEMENT OF ACTIVITIES
For the year ended June 30, 2011
(With comparative totals for 2010)

	2011			2010 Total
	Unrestricted	Temporarily Restricted	Total	
Support and revenue:				
Government revenue:				
Federal awards:				
Direct federal	\$ 5,361,331	\$ -	\$ 5,361,331	\$ 5,912,710
Passed through State of Oregon	4,254,998	-	4,254,998	4,556,434
Passed through Washington County	811,908	-	811,908	193,294
Passed through local government	40,000	-	40,000	-
Total federal awards	10,468,237	-	10,468,237	10,662,438
State of Oregon	7,612,502	-	7,612,502	8,673,661
Washington County	579,187	-	579,187	864,946
Local government	25,250	-	25,250	43,775
Total government revenue	18,685,176	-	18,685,176	20,244,820
Private contracts, grants and contributions:				
Contracts and grants	375,142	-	375,142	110,317
Contributions	358,939	6,831	365,770	823,940
United Way	73,385	-	73,385	157,617
Inkind donations	251,975	-	251,975	255,514
Total private contracts, grants and contributions	1,059,441	6,831	1,066,272	1,347,388
Other revenue				
Reimbursements	170,782	-	170,782	275,691
Fees and other revenue	175,644	-	175,644	171,201
Total other revenue	346,426	-	346,426	446,892
Total support and revenue	20,091,043	6,831	20,097,874	22,039,100
Expenses:				
Program services	18,043,315	-	18,043,315	19,802,365
Management and general	2,114,231	-	2,114,231	2,478,711
Fundraising	214,216	-	214,216	189,280
Total expenses	20,371,762	-	20,371,762	22,470,356
Change in net assets before other expense	(280,719)	6,831	(273,888)	(431,256)
Repair of construction defects	(967,897)	-	(967,897)	(150,499)
Change in net assets	(1,248,616)	6,831	(1,241,785)	(581,755)
Net assets:				
Beginning of year	1,942,809	-	1,942,809	2,524,564
End of year	\$ 694,193	\$ 6,831	\$ 701,024	\$ 1,942,809

See notes to financial statements.

COMMUNITY ACTION ORGANIZATION
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2011
(With comparative totals for 2010)

	2011						
	Early Childhood Development	Family and Community Resources	Community Outreach	Total Program Services	Management and General	Fund-raising	2010 Total
Employee costs	\$ 6,063,644	\$ 3,252,940	\$ 85,077	\$ 9,401,661	\$ 1,305,134	\$ 148,105	\$ 10,854,900
Professional fees	41,917	-	-	41,917	170,857	-	212,774
Travel	103,302	65,202	431	168,935	12,956	946	182,837
Occupancy	352,826	99,698	7,458	459,982	-	12,470	472,452
Rent expense	202,076	60,338	-	262,414	242,670	-	505,084
Depreciation and amortization	6,421	27,656	-	34,077	101,030	-	135,107
Supplies	40,867	72,503	234	113,604	24,063	17,549	155,216
Communications	119,065	106,507	7,541	233,113	115,578	9,705	358,396
Marketing	2,018	4,221	4,332	10,571	2,299	3,106	15,976
Insurance	25,505	13,742	-	39,247	73,522	-	112,769
Repairs and maintenance	101,793	17,647	-	119,440	4,799	-	124,239
Miscellaneous	130,033	90,684	2,042	222,759	61,020	10,981	294,760
Client expense	727,844	5,941,048	499	6,669,391	-	2,090	6,671,481
Capital outlay	23,796	-	-	23,796	-	-	23,796
Inkind expense	13,491	228,917	-	242,408	303	9,264	251,975
Total expenses	\$ 7,954,598	\$ 9,981,103	\$ 107,614	\$18,043,315	\$ 2,114,231	\$ 214,216	\$ 20,371,762
							\$ 22,470,356

See notes to financial statements.

COMMUNITY ACTION ORGANIZATION
STATEMENT OF CASH FLOWS
For the year ended June 30, 2011
(With comparative totals for 2010)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$(1,241,785)	\$ (581,755)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	135,107	128,421
Gain on disposal of assets	(6,000)	-
(Increase) decrease in:		
Accounts receivable	82,523	319,645
Pledges receivable	10,325	12,531
Prepaid expenses	(20,141)	10,000
Increase (decrease) in:		
Accounts payable	(190,422)	(135,729)
Accounts payable - construction defects	161,844	-
Accrued payroll and related expenses	56,685	125,309
Accrued vacation payable	(25,175)	27,313
Deferred revenue	<u>(234,185)</u>	<u>(79,463)</u>
Net cash used in operating activities	<u>(1,271,224)</u>	<u>(173,728)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(65,160)	(131,605)
Proceeds from sale of property and equipment	<u>6,000</u>	<u>-</u>
Net cash used in investing activities	<u>(59,160)</u>	<u>(131,605)</u>
Cash flows from financing activities:		
Proceeds on notes payable	733,664	-
Principal payments on notes payable	<u>(36,608)</u>	<u>(35,913)</u>
Net cash provided by (used in) financing activities	<u>697,056</u>	<u>(35,913)</u>
 Net decrease in cash and cash equivalents	 (633,328)	 (341,246)
Cash and cash equivalents - beginning of year	<u>1,307,773</u>	<u>1,649,019</u>
Cash and cash equivalents - end of year	<u>\$ 674,445</u>	<u>\$ 1,307,773</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	<u>\$ 81,205</u>	<u>\$ 93,086</u>

See notes to financial statements.

COMMUNITY ACTION ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

Community Action Organization (CAO or the Organization) is a nonprofit entity operating primarily as the sponsoring agency of various federal, state and locally funded programs designed to provide a range of services that assist low-income residents of Washington County, Oregon, to achieve self-determination. CAO has a genuine concern and knowledge regarding issues of poverty and economic stability; is recognized, respected and works collaboratively with all sectors of the community; is a community leader in the area of early childhood development and family support; and is a catalyst in community efforts to address issues of homelessness and housing stability. Programs include Head Start and Early Head Start, Housing and Homeless Services, Energy and Emergency Rent, Weatherization, Child Care Resource and Referral, Opening Doors Prenatal and Parenting Support, and Information and Referral.

Basis of Presentation

Net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as unrestricted or restricted net assets. Unrestricted net assets are those that are not subject to donor-imposed stipulations. Temporarily restricted net assets are subject to donor-imposed stipulations that will be met, either by actions of the Organization and/or the passage of time.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with maturities of three months or less at the time of purchase to be cash equivalents.

Accounts Receivable

Accounts receivable are reported at the amount management expects to collect on balances outstanding at year-end. Based on an assessment of the credit history with those having outstanding balances and current relationships with them, management has concluded that realization losses on balances outstanding at year-end will be immaterial.

Pledges Receivable

Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period the Organization is notified of the commitment. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Bequests are recorded as revenue at the time the Organization has an established right to the bequest and the proceeds are measurable.

COMMUNITY ACTION ORGANIZATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2011

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Property and Equipment

Acquisitions of property and equipment in excess of \$5,000 are capitalized. Property and equipment purchased are recorded at cost. Donated assets are reflected as contributions at their estimated values on the date received.

Depreciation

Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets which range from 3 to 40 years.

Loan Fees

Loan fees are amortized on a straight-line basis over the term of the loan, which is 10 years.

Deferred Revenue

Deferred revenue is recorded for program (grant) advances received by CAO in excess of current grant expenditures. Such amounts can only be maintained and used in accordance with the respective contracts.

Income Tax Status

Community Action Organization is a nonprofit corporation exempt from federal and state income tax under section 501(c)(3) of the Internal Revenue Code and applicable state law. No provision for income taxes is made in the accompanying financial statements, as the Organization has no activities subject to unrelated business income tax. The Organization is not a private foundation.

Management believes that the Organization's information returns for years ended June 30, 2007 and prior are no longer subject to examination by taxing authorities in its major tax jurisdictions.

Restricted and Unrestricted Revenue and Support

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. 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 statement of activities as net assets released from restrictions.

**COMMUNITY ACTION ORGANIZATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2011**

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Donated Assets and Services

Donations of property, equipment, materials and other assets are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

The Organization recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

During the years ended June 30, 2011 and 2010, the Organization received donated rent, materials and services, which were for program services, as follows:

	2011	2010
Rent	\$ 137,934	\$ 189,951
Goods and materials	44,947	65,563
Professional services	69,094	-
Total donated rent, materials and services	\$ 251,975	\$ 255,514

The estimated value of contributed services received for which no amounts were recorded was \$350,000 and \$328,000 for the years ended June 30, 2011 and 2010, respectively.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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. Actual results could differ from those estimates.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

COMMUNITY ACTION ORGANIZATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2011

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Summarized Financial Information for 2010

The financial information as of June 30, 2010 and for the year then ended is presented for comparative purposes and is not intended to be a complete financial statement presentation.

Subsequent Events

The Organization has evaluated all subsequent events through November 16, 2011, the date the financial statements were available to be issued.

2. ACCOUNTS AND PLEDGES RECEIVABLE

Accounts and pledges receivable are unsecured and consist of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Accounts receivable:		
Oregon Housing and Community Services	\$ 579,246	\$ 419,383
U.S. Department of Health and Human Services	121,084	82,243
Other	<u>446,393</u>	<u>727,620</u>
	<u>1,146,723</u>	<u>1,229,246</u>
Pledges receivable:		
Due within one year	6,134	7,994
Due in two to five years	<u>5,050</u>	<u>13,515</u>
	<u>11,184</u>	<u>21,509</u>
Accounts and pledges receivable	<u>\$ 1,157,907</u>	<u>\$ 1,250,755</u>

COMMUNITY ACTION ORGANIZATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2011

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Land	\$ 3,014,576	\$ 3,014,576
Leasehold improvements	11,275	11,275
Vehicles	397,053	382,326
Furniture and fixtures	193,555	193,555
Computers and software	30,038	-
Loan fees	14,592	14,592
Total property and equipment	<u>3,661,089</u>	<u>3,616,324</u>
Less accumulated depreciation and amortization	<u>1,427,631</u>	<u>1,312,919</u>
Net property and equipment	<u>\$ 2,233,458</u>	<u>\$ 2,303,405</u>

4. NOTES PAYABLE

Notes payable consist of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Note payable to Columbia Community Bank, payable in monthly installments of \$8,908, including interest at 5.1% through November 2015; secured by real property.	\$ 1,306,726	\$ 1,343,334
Note payable for construction to Columbia Community Bank, interest payments only at a rate of 5.1% through July 2012; secured by real property.	<u>733,664</u>	<u>-</u>
Total notes payable	<u>\$ 2,040,390</u>	<u>\$ 1,343,334</u>

Future principal payments are as follows:

June 30, 2012	\$ 40,044
2013	776,012
2014	44,590
2015	46,951
2016	<u>1,132,793</u>
	<u>\$ 2,040,390</u>

COMMUNITY ACTION ORGANIZATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2011

5. LINE OF CREDIT

The Organization has available a \$300,000 revolving line of credit with Columbia Community Bank. The line is secured by real property. Interest is payable monthly at the prime rate (3.25% at June 30, 2011 and 2010). No balances were outstanding as of June 30, 2011 and 2010. The line matures January 31, 2012.

6. LEASE COMMITMENTS

The Organization leases administrative and program offices, equipment and vehicles under various operating leases that expire August 2011 through August 2015, with monthly rents approximating \$49,000. Rent expense paid for these leases approximated \$464,000 and \$476,000 for the years ended June 30, 2011 and 2010, respectively.

Future minimum lease commitments under noncancellable leases are as follows:

June 30, 2012	\$ 476,300
2013	404,000
2014	289,900
2015	<u>7,900</u>
	\$ <u><u>1,178,100</u></u>

7. CONTINGENCIES

Amounts received or receivable from various contracting agencies are subject to audit and potential adjustment by the contracting agencies. Any disallowed claims, including amounts already collected, would become a liability of the Organization if so determined in the future. It is management's belief that no significant amounts received or receivable will be required to be returned in the future.

8. BOARD DESIGNATED NET ASSETS

Board designated net assets include funds relating to prior program surpluses that the board as designated for use in specific programs. In addition, during the year ended June 30, 2006, the Organization entered into a contractual agreement with Washington County to provide funds for discretionary spending, capital improvement reserves and financial stability. CAO will annually receive \$25,000 for a capital reserve fund, \$30,000 for discretionary needs and \$60,000 up to five years or \$300,000 maximum for financial stability. Per the contractual agreement, CAO must provide a \$60,000 match to release the \$60,000 contribution from Washington County for financial stability.

COMMUNITY ACTION ORGANIZATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2011

8. BOARD DESIGNATED NET ASSETS, Continued

Board designated net assets are as follows:

	2011	2010
Washington County - financial stability	\$ 60,000	\$ 60,000
Head Start	288,025	418,945
Energy Assistance	23,947	23,947
Weatherization	712,301	681,629
Total board designated net assets	\$ 1,084,273	\$ 1,184,521

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2011 consist of amount restricted by donors to be used for specific programs that were not expended by June 30, 2011.

10. RETIREMENT PLAN

The Organization sponsors a 403(b), tax-sheltered annuity benefit plan for qualifying employees. Beginning in the third year of employment, CAO contributes between \$25 and \$100 per month to each employee's qualified plan, based on the employee's number of years of service. The Organization also sponsors a 457 deferred compensation plan for executive directors and agency staff directors.

Contributions to the plans for 2011 and 2010 approximated \$121,200 and \$104,400, respectively.

11. RELATED PARTIES

The Organization's notes payable are held at a bank where a finance committee member is employed. Additionally, an employee of the Organization is the son of a committee member.

**COMMUNITY ACTION ORGANIZATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2011**

12. CONCENTRATIONS AND COMMITMENTS

CAO has entered into a contract to repair one of its facilities. Approximately \$970,000 has been spent to date and the estimated cost to complete is \$300,000.

The Organization maintains its cash balances in one financial institution. Balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The balances, at times, may exceed the federally insured limit. Cash balances were fully insured at June 30, 2011 and 2010.

Credit risk for accounts receivable is concentrated as well because 51% and 34% of the balances June 30, 2011 and 2010, respectively, are from one governmental agency. Revenues are concentrated in that approximately 72% is from four governmental agencies for each of the years ending June 30, 2011 and 2010, respectively. In addition, substantially all revenues and receivable balances are from organizations and individuals located within the same geographic region.

13. PRIOR YEAR RECLASSIFICATION

As of June 30, 2010, net assets relating to prior surpluses that have been reserved for use in specific programs were reclassified from temporarily restricted to board designated as follows (also see Note 8):

	<u>Undesignated Net Assets</u>	<u>Board Designated Net Assets</u>	<u>Temporarily Restricted Net Assets</u>
As reported previously, June 30, 2010	\$ 522,970	\$ 60,000	\$ 1,359,839
Reclassification	<u>235,318</u>	<u>1,124,521</u>	<u>(1,359,839)</u>
Adjusted balance, June 30, 2010	\$ <u>758,288</u>	\$ <u>1,184,521</u>	\$ <u>-</u>

14. CONSTRUCTION DEFECTS

CAO is in the process of performing substantial repairs to its main facility. These repairs were required, per CAO, to address substandard work performed during the initial construction and subsequent repair of the facility. These repairs will restore the facility to its original state, but will not extend the useful life nor increase the value of the facility. CAO is currently involved in legal proceedings against the contractor who performed the construction.