

**COMMUNITY ACTION
ORGANIZATION**

**Audited Financial
Statements**

**For the Year Ended
June 30, 2013**



MCDONALD JACOBS

INDEPENDENT AUDITOR'S REPORT

Jake Jacobs, CPA
Shareholder

Susan J. Marks, CPA
Shareholder

Mark A. Clift, CPA
Shareholder

Karin S. Wandtke, CPA
Shareholder

Sang Ahn, CPA
Shareholder

Gerard DeBlois Jr., CPA
Shareholder

Jill Oswald
Shareholder

Mary Strasdin, CPA
Principal

Dennis C. Johnson, CPA
of counsel

To the Board of Directors
Community Action Organization

We have audited the accompanying financial statements of Community Action Organization (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2013, and the related statements 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.

Auditor's 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 organization'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 organization'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.

Strength in Numbers

ACCOUNTANTS & CONSULTANTS
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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 Community Action Organization as of June 30, 2013, and 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.

Report on Summarized Comparative Information

We have previously audited Community Action Organization's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 14, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2013 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* in considering Community Action Organization's internal control over financial reporting and compliance.

McDonald Jacobson, P.C.

Portland, Oregon
November 20, 2013

COMMUNITY ACTION ORGANIZATION
STATEMENT OF FINANCIAL POSITION
June 30, 2013
(With comparative totals for 2012)

	2013	2012
ASSETS		
Cash and cash equivalents	\$ 583,460	\$ 754,714
Accounts receivable	1,273,292	1,265,788
Pledges receivable	-	1,300
Prepaid expenses	36,716	28,689
Deferred compensation plan assets	88,129	58,113
Property and equipment, net	1,962,656	2,095,957
TOTAL ASSETS	\$ 3,944,253	\$ 4,204,561
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 722,421	\$ 788,411
Accrued payroll and related expenses	115,717	124,366
Accrued vacation payable	174,353	164,073
Deferred revenue	127,914	180,942
Deferred compensation plan liability	88,129	58,113
Notes payable	2,270,466	2,316,820
Total liabilities	3,499,000	3,632,725
Net assets (deficit):		
Unrestricted:		
Undesignated	(179,041)	(235,996)
Board designated	857,104	1,028,695
Net deficit in property and equipment	(307,810)	(220,863)
Total unrestricted	370,253	571,836
Temporarily restricted	75,000	-
Total net assets	445,253	571,836
TOTAL LIABILITIES AND NET ASSETS	\$ 3,944,253	\$ 4,204,561

See notes to financial statements.

COMMUNITY ACTION ORGANIZATION
STATEMENT OF ACTIVITIES
For the year ended June 30, 2013
(With comparative totals for 2012)

	2013			2012 Total
	Unrestricted	Temporarily Restricted	Total	
Support and revenue:				
Government revenue:				
Federal awards:				
Direct federal	\$ 5,029,474	\$ -	\$ 5,029,474	\$ 4,822,848
Passed through State of Oregon	3,678,892	-	3,678,892	5,675,426
Passed through Washington County	239,030	-	239,030	268,838
Passed through local government	161,201	-	161,201	36,000
Total federal awards	9,108,597	-	9,108,597	10,803,112
State of Oregon	8,892,991	-	8,892,991	8,523,138
Washington County	601,986	-	601,986	734,474
Local government	23,703	-	23,703	20,230
Total government revenue	18,627,277	-	18,627,277	20,080,954
Private contracts, grants and contributions:				
Contracts and grants	341,135	-	341,135	354,647
Contributions	389,190	75,000	464,190	496,277
United Way	94,990	-	94,990	92,908
Inkind donations	359,491	-	359,491	224,524
Total private contracts, grants and contributions	1,184,806	75,000	1,259,806	1,168,356
Other revenue				
Reimbursements	146,050	-	146,050	270,434
Fees and other revenue	211,769	-	211,769	121,159
Total other revenue	357,819	-	357,819	391,593
Total support and revenue	20,169,902	75,000	20,244,902	21,640,903
Expenses:				
Program services	18,180,646	-	18,180,646	19,020,391
Management and general	1,922,156	-	1,922,156	2,020,050
Fundraising	232,449	-	232,449	248,892
Total expenses	20,335,251	-	20,335,251	21,289,333
Change in net assets before other expenses	(165,349)	75,000	(90,349)	351,570
Legal defense costs, net of associated revenues (including \$78,931 of inkind services for 2012)	(36,234)	-	(36,234)	(480,758)
Change in net assets	(201,583)	75,000	(126,583)	(129,188)
Net assets:				
Beginning of year	571,836	-	571,836	701,024
End of year	\$ 370,253	\$ 75,000	\$ 445,253	\$ 571,836

See notes to financial statements.

COMMUNITY ACTION ORGANIZATION
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2013
(With comparative totals for 2012)

	2013						
	Early Childhood Development	Family and Community Resources	Community Outreach	Total Program Services	Management and General	Fund- raising	Total
Employee costs	\$ 7,117,849	\$ 2,900,699	\$ 24,477	\$ 10,043,025	\$ 1,255,042	\$ 102,753	\$ 11,400,820
Professional fees	-	71,620	19	71,639	107,236	37,009	215,884
Travel	111,217	44,701	1,963	157,881	24,466	5,595	187,942
Occupancy	647,288	171,009	-	818,297	168,132	70,596	1,057,025
Depreciation and amortization	4,080	17,856	-	21,936	110,370	-	132,306
Supplies	66,107	106,660	-	172,767	36,185	5,965	214,917
Communications	115,245	104,403	16,492	236,140	63,253	9,023	308,416
Marketing	-	2,238	366	2,604	440	1,142	4,186
Insurance	43,174	21,362	-	64,536	69,954	-	134,490
Repairs and maintenance	116,850	13,489	-	130,339	31,991	-	162,330
Training	77,549	116,980	1,246	195,775	13,840	25	209,640
Miscellaneous	38,118	15,790	1,605	55,513	32,902	341	88,756
Client expense	726,564	5,483,630	-	6,210,194	8,345	-	6,218,539
Capital outlay	-	-	-	-	-	-	-
Total expenses	<u>\$ 9,064,041</u>	<u>\$ 9,070,437</u>	<u>\$ 46,168</u>	<u>\$ 18,180,646</u>	<u>\$ 1,922,156</u>	<u>\$ 232,449</u>	<u>\$ 20,335,251</u>

See notes to financial statements.

COMMUNITY ACTION ORGANIZATION
STATEMENT OF CASH FLOWS
For the year ended June 30, 2013
(With comparative totals for 2012)

	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ (126,583)	\$ (129,188)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	132,306	137,676
Loss on disposal of assets	7,112	-
(Increase) decrease in:		
Accounts receivable	(7,504)	(119,065)
Pledges receivable	1,300	9,884
Prepaid expenses	(8,027)	(5,503)
Increase (decrease) in:		
Accounts payable	(65,990)	346,923
Accounts payable - construction defects	-	(161,844)
Accrued payroll and related expenses	(8,649)	(319,737)
Accrued vacation payable	10,280	(46,095)
Deferred revenue	(53,028)	90,788
Net cash used in operating activities	(118,783)	(196,161)
Cash flows from financing activities:		
Proceeds from notes payable	2,302,352	316,336
Principal payments on notes payable	(2,348,706)	(39,906)
Payment of loan fees	(6,117)	-
Net cash provided by (used in) financing activities	(52,471)	276,430
Net increase (decrease) in cash and cash equivalents	(171,254)	80,269
Cash and cash equivalents - beginning of year	754,714	674,445
Cash and cash equivalents - end of year	\$ 583,460	\$ 754,714
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 111,460	\$ 102,355

See notes to financial statements.

COMMUNITY ACTION ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

Community Action Organization (CAO or the Organization) is a 501(c)(3) private, non-profit agency serving primarily Washington County to eliminate conditions of poverty and create opportunities for people and the community to thrive. The Organization operates a range of programs and services, funded by public and private grants, contracts and contributions, to assist primarily low-income residents of Washington County, Oregon in achieving economic security. 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/Healthy Start 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, 2013

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.

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.

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.

COMMUNITY ACTION ORGANIZATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2013

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

Donated Assets and Services, Continued

During the years ended June 30, 2013 and 2012, the Organization received donated facilities, materials and services as follows:

	2013	2012
Facilities	\$ 115,366	\$ 137,934
Materials and goods	30,945	51,324
Services	213,180	114,197
Total donated facilities, materials and services	\$ 359,491	\$ 303,455

These amounts are reported in their natural classification in statement of functional expenses. The estimated value of contributed volunteer services hours received for which no amounts were recorded was \$341,000 (15,700 hours) and \$445,000 (20,400 hours) for the years ended June 30, 2013 and 2012, 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.

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.

The Organization's information returns for years ended June 30, 2009 and prior are generally no longer subject to examination by taxing authorities in its major tax jurisdictions.

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.

COMMUNITY ACTION ORGANIZATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2013

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

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. Reclassified amounts include deferred compensation plan assets and liabilities (previously netted) and inkind expenses recorded in their natural expense classification (previously aggregated).

Summarized Financial Information for 2012

The financial information as of June 30, 2012 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 20, 2013, the date the financial statements were available to be issued.

2. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Land and leasehold improvements	\$ 3,025,851	\$ 3,025,851
Vehicles	397,053	397,053
Furniture and fixtures	193,555	193,555
Computers and software	30,213	30,213
Loan fees	<u>6,109</u>	<u>14,592</u>
Total property and equipment	3,652,781	3,661,264
Less accumulated depreciation and amortization	<u>1,690,125</u>	<u>1,565,307</u>
Property and equipment, net	<u>\$ 1,962,656</u>	<u>\$ 2,095,957</u>

The Organization received an appraisal of the real property in March of 2012 valuing the land and buildings at approximately \$3,050,000.

COMMUNITY ACTION ORGANIZATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2013

3. NOTES PAYABLE

Notes payable consist of the following at June 30, 2013 and 2012:

	2013	2012
Note payable to Columbia Community Bank, payable in monthly installments of \$8,908, including interest at 5.1% through November 2015; secured by property.	\$ -	\$ 1,266,820
Note payable to Columbia Community Bank, interest-only, at a rate of 5.1% through July 2012; secured by property.	-	1,050,000
Note payable to Columbia Community Bank, payable in monthly installments of \$13,066 including interest of 4.42% through November 2017. Thereafter, monthly installments are \$13,152 with a variable interest rate of based on Federal Home Loan Bank of Seattle 5-year Intermediate Long-Term Advance Rate (currently 1.25%) plus a margin of 3.25% through November 2022; secured by land.	<u>2,270,466</u>	<u>-</u>
Total notes payable	<u>\$ 2,270,466</u>	<u>\$ 2,316,820</u>

Future principal payments are as follows:

For the year ending June 30, 2014	\$	56,177
2015		58,747
2016		61,171
2017		64,232
2018		66,840
Thereafter		<u>1,963,299</u>
	<u>\$</u>	<u>2,270,466</u>

COMMUNITY ACTION ORGANIZATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2013

4. 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, 2013 and 2012). No balances were outstanding as of June 30, 2013 and 2012. The line matures November 2014.

5. LEASE COMMITMENTS

The Organization leases administrative and program offices, equipment and vehicles under various operating leases that expire October 2013 through February 2018, with monthly rents approximating \$41,000. Rent expense for these leases approximated \$524,000 and \$474,000 for the years ended June 30, 2013 and 2012, respectively.

Approximate future minimum lease commitments under non-cancellable leases are as follows:

For the year ending June 30, 2014	\$ 64,000
2015	64,000
2016	38,900
2017	35,300
2018	<u>23,600</u>
	<u>\$ 225,800</u>

6. 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.

COMMUNITY ACTION ORGANIZATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2013

7. BOARD DESIGNATED NET ASSETS

Board designated net assets include funds relating to prior program surpluses that the board has designated for use in specific programs. Board designated net assets are as follows:

	<u>2013</u>	<u>2012</u>
Washington County - financial stability	\$ 60,000	\$ 60,000
Head Start	-	201,946
Energy Assistance	23,947	23,947
Weatherization	<u>773,157</u>	<u>742,802</u>
Total board designated net assets	<u>\$ 857,104</u>	<u>\$ 1,028,695</u>

8. RETIREMENT PLAN

The Organization sponsors a 403(b), tax-sheltered annuity benefit plan for qualifying employees. The plan allows for a discretionary matching contribution which is determined as a percentage of salary deferrals the employee makes each payroll period or as a uniform dollar amount. Currently, the discretionary match is up to 3% of the employees per pay period salary deferral. The employer discretionary match is subject to a two year vesting period. The Organization also sponsors a 457 deferred compensation plan for the executive director and agency staff directors. The current contribution rate by Community Action is 6% of per pay period salary. This contribution is fully vested.

Contributions to the plans for 2013 and 2012 approximated \$218,000 and \$226,200, respectively.

9. RELATED PARTY DISCLOSURE

The Organization's debt is held at a bank where a finance committee member is employed. Additionally, an employee of the Organization is the son of a finance committee member. Neither finance committee member serves on the Organization's board of directors. The Organization also received donated legal services valued at \$5,700 and \$23,450 for the years ended June 30, 2013 and 2012, respectively. A portion of these services was provided by a family member of the senior management team. In addition, one of the business administrative staff is the son of a senior management team member.

COMMUNITY ACTION ORGANIZATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2013

10. CONCENTRATIONS AND COMMITMENTS

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 in excess of the FDIC limits approximated \$470,000 at June 30, 2013. Cash balances at June 30, 2012 were fully insured.

The Organization's revenues are concentrated with 78% and 73% of total revenues coming from three sources for the years ended June 30, 2013 and 2012, respectively. The Organization's credit risk for accounts receivable is concentrated with 58% of the balances coming from one agency as of June 30, 2013 and 61% of the balances coming from two agencies as of June 30, 2012. In addition, substantially all revenues and receivable balances are from organizations and individuals located within the same geographic region.

11. LEGAL DEFENSE COSTS

The Organization incurred substantial legal defense costs during the fiscal year ended June 30, 2012 as a result of legal proceedings involving the contractor whom performed initial construction of the main facility. The case has since been settled.