



**COMMUNITY ACTION
ORGANIZATION**

**Audited Financial
Statements**

**For the Year Ended
June 30, 2014**



MCDONALD JACOBS
ACCOUNTANTS & CONSULTANTS



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

Report on the Financial Statements

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, 2014, 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.

Strength in Numbers

ACCOUNTANTS & CONSULTANTS

McDonald Jacobs, PC

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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 Community Action Organization as of June 30, 2014, 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 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 20, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 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 19, 2014 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 19, 2014

COMMUNITY ACTION ORGANIZATION
STATEMENT OF FINANCIAL POSITION
June 30, 2014
(With comparative totals for 2013)

	2014	2013
ASSETS		
Cash and cash equivalents	\$ 651,567	\$ 583,460
Accounts receivable	1,553,731	1,273,292
Prepaid expenses	40,212	36,716
Deferred compensation plan assets	134,326	88,129
Property and equipment, net	1,924,011	1,962,656
TOTAL ASSETS	\$ 4,303,847	\$ 3,944,253
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 700,503	\$ 722,421
Accrued payroll and related expenses	133,634	115,717
Accrued vacation payable	176,787	174,353
Deferred revenue	196,760	127,914
Deferred compensation plan liability	134,326	88,129
Notes payable	2,178,321	2,270,466
Total liabilities	3,520,331	3,499,000
Net assets (deficit):		
Unrestricted:		
Undesignated	4,274	(179,041)
Board designated	975,140	857,104
Net deficit in property and equipment	(254,310)	(307,810)
Total unrestricted	725,104	370,253
Temporarily restricted	58,412	75,000
Total net assets	783,516	445,253
TOTAL LIABILITIES AND NET ASSETS	\$ 4,303,847	\$ 3,944,253

See notes to financial statements.

COMMUNITY ACTION ORGANIZATION
STATEMENT OF ACTIVITIES
For the year ended June 30, 2014
(With comparative totals for 2013)

	2014			2013 Total
	Unrestricted	Temporarily Restricted	Total	
Support and revenue:				
Government revenue:				
Federal awards:				
Direct federal	\$ 4,771,164	\$ -	\$ 4,771,164	\$ 5,029,474
Passed through State of Oregon	4,122,661	-	4,122,661	3,678,892
Passed through Washington County	260,012	-	260,012	239,030
Passed through local governments	371,909	-	371,909	161,201
Total federal awards	9,525,746	-	9,525,746	9,108,597
State of Oregon	8,649,112	-	8,649,112	8,892,991
Washington County	640,683	25,000	665,683	601,986
Local government	17,800	-	17,800	23,703
Total government revenue	18,833,341	25,000	18,858,341	18,627,277
Private contracts, grants and contributions:				
Contracts and grants	370,155	-	370,155	341,135
Contributions	401,419	-	401,419	464,190
United Way	154,987	-	154,987	94,990
Inkind donations	364,516	-	364,516	359,491
Total private contracts, grants and contributions	1,291,077	-	1,291,077	1,259,806
Other revenue:				
Reimbursements	155,110	-	155,110	146,050
Fees and other revenue	109,808	-	109,808	211,769
Total other revenue	264,918	-	264,918	357,819
Net assets released from restrictions:				
Satisfaction of purpose restrictions	41,588	(41,588)	-	-
Total support and revenue	20,430,924	(16,588)	20,414,336	20,244,902
Expenses:				
Program services	17,572,148	-	17,572,148	18,180,646
Management and general	2,211,049	-	2,211,049	1,922,156
Fundraising	292,876	-	292,876	232,449
Total expenses	20,076,073	-	20,076,073	20,335,251
Change in net assets before other expenses	354,851	(16,588)	338,263	(90,349)
Legal defense costs, net of associated revenues	-	-	-	(36,234)
Change in net assets	354,851	(16,588)	338,263	(126,583)
Net assets:				
Beginning of year	370,253	75,000	445,253	571,836
End of year	\$ 725,104	\$ 58,412	\$ 783,516	\$ 445,253

See notes to financial statements.

COMMUNITY ACTION ORGANIZATION
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2014
(With comparative totals for 2013)

	2014					2013 Total	
	Early Childhood Development	Family and Community Resources	Community Outreach	Total Program Services	Management and General		Fund- raising
Employee costs	\$ 6,309,917	\$ 3,043,281	\$ 35,237	\$ 9,388,435	\$ 1,253,335	\$ 153,248	\$11,416,589
Professional fees	-	48,079	-	48,079	408,800	12,785	215,884
Travel	92,609	38,560	3,193	134,362	19,083	3,389	187,942
Occupancy	494,976	150,590	-	645,566	84,119	90,425	829,431
Depreciation and amortization	30,214	29,707	-	59,921	80,820	-	132,306
Supplies	53,817	74,571	-	128,388	63,161	20,693	219,227
Communications and marketing	94,603	77,974	4,403	176,981	109,649	10,093	312,603
Insurance	46,213	31,534	-	77,747	73,814	-	134,490
Repairs and maintenance	118,497	11,018	-	129,515	5,998	-	162,330
Training	51,287	99,972	795	152,054	13,317	799	205,227
Miscellaneous	37,250	17,934	1,493	56,677	18,020	1,444	68,677
Client expense	746,323	5,767,209	-	6,513,531	6,640	-	6,222,951
Equipment leasing	60,893	-	-	60,893	74,292	-	227,594
Total expenses	\$ 8,136,599	\$ 9,390,429	\$ 45,121	\$ 17,572,148	\$ 2,211,049	\$ 292,876	\$ 20,076,073
							\$ 20,335,251

See notes to financial statements.

COMMUNITY ACTION ORGANIZATION
STATEMENT OF CASH FLOWS
For the year ended June 30, 2014
(With comparative totals for 2013)

	2014	2013
Cash flows from operating activities:		
Cash received grants, contract and contributions	\$ 19,573,309	\$ 19,463,335
Cash received for programs and services	264,918	357,819
Cash paid to suppliers	(8,711,141)	(8,429,288)
Cash paid for interest	(90,071)	(111,460)
Cash paid for payroll and related expenses	<u>(10,774,667)</u>	<u>(11,399,189)</u>
Net cash provided by (used in) operating activities	<u>262,348</u>	<u>(118,783)</u>
 Cash flows from investing activities:		
Additions to property and equipment	<u>(102,096)</u>	<u>-</u>
Net cash used in investing activities	<u>(102,096)</u>	<u>-</u>
 Cash flows from financing activities:		
Proceeds from notes payable	-	2,302,352
Principal payments on notes payable	(92,145)	(2,348,706)
Payment of loan fees	<u>-</u>	<u>(6,117)</u>
Net cash used in financing activities	<u>(92,145)</u>	<u>(52,471)</u>
 Net increase (decrease) in cash and cash equivalents	68,107	(171,254)
 Cash and cash equivalents - beginning of year	<u>583,460</u>	<u>754,714</u>
 Cash and cash equivalents - end of year	<u>\$ 651,567</u>	<u>\$ 583,460</u>

See notes to financial statements.

COMMUNITY ACTION ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

Community Action Organization (CAO or the Organization) is private, non-profit agency serving primarily Washington County, Oregon, 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 unsecured and 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.

COMMUNITY ACTION ORGANIZATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2014

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, 2014

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

Donated Assets and Services, Continued

During the years ended June 30, 2014 and 2013, the Organization received donated facilities, materials and services as follows:

	<u>2014</u>	<u>2013</u>
Facilities	\$ 125,191	\$ 115,366
Materials and goods	35,424	30,945
Services	<u>203,901</u>	<u>213,180</u>
Total donated facilities, materials and services	<u>\$ 364,516</u>	<u>\$ 359,491</u>

These amounts are reported in their natural classification in statement of functional expenses. The estimated contributed volunteer services hours received for which no amounts were recorded was 12,000 hours and 15,700 hours for the years ended June 30, 2014 and 2013, 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 follows the provisions of FASB ASC *Topic Accounting for Uncertainty in Income Taxes*. Management has evaluated the Organization's tax positions and concluded that there are no uncertain tax positions that require adjustment to the financial statements to comply with provisions of this Topic.

The Organization's information returns for years ended June 30, 2010 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, 2014

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 relate to how expenses are categorized in the statement of functional expenses.

Summarized Financial Information for 2013

The financial information as of June 30, 2013 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 19, 2014, the date the financial statements were available to be issued.

2. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2014 and 2013:

	2014	2013
Land and leasehold improvements	\$ 3,025,851	\$ 3,025,851
Vehicles	466,295	397,053
Furniture and fixtures	205,844	193,555
Computers and software	30,038	30,213
Loan fees	6,109	6,109
Total property and equipment	3,734,137	3,652,781
Less accumulated depreciation and amortization	1,810,126	1,690,125
Property and equipment, net	\$ 1,924,011	\$ 1,962,656

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, 2014

3. NOTES PAYABLE

Notes payable consist of the following at June 30, 2014 and 2013:

	2014	2013
Note payable to Premier 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>\$ 2,178,321</u>	<u>\$ 2,270,466</u>

Future principal payments are as follows:

For the year ending June 30, 2015	\$ 61,745
2016	64,530
2017	67,441
2018	70,483
2019	73,662
Thereafter	<u>1,840,460</u>
	<u>\$ 2,178,321</u>

4. LINE OF CREDIT

The Organization has available a \$300,000 revolving line of credit with Premier Community Bank. The line is secured by real property. Interest is payable monthly at the prime rate (3.25% at June 30, 2014 and 2013). No balances were outstanding as of June 30, 2014 and 2013. The line matures November 2014. As of the date of this report, the Organization is in the process of renewing the line of credit for another year.

5. LEASE COMMITMENTS

The Organization leases administrative and program offices, equipment, and vehicles under various operating leases that expire June 2015 through June 2019, with monthly rents approximating \$37,000. Rent expense for these leases approximated \$435,000 and \$524,000 for the years ended June 30, 2014 and 2013, respectively.

COMMUNITY ACTION ORGANIZATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2014

5. LEASE COMMITMENTS, Continued

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

For the year ending June 30, 2015	\$	320,900
2016		237,900
2017		230,400
2018		41,100
2019		15,400
		\$ 845,700

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.

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:

	2014	2013
Washington County - financial stability	\$ 60,000	\$ 60,000
Head Start	28,838	-
Energy assistance	74,920	23,947
Weatherization	801,217	773,157
Homeless services	10,165	-
Total board designated net assets	\$ 975,140	\$ 857,104

COMMUNITY ACTION ORGANIZATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2014

8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	2014	2013
Technology infrastructure	\$ 33,412	\$ 75,000
Shelter maintenance	25,000	-
Total temporarily restricted net assets	\$ 58,412	\$ 75,000

9. 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 the Organization is 6% of per pay period salary. This contribution is fully vested.

Contributions to the plans for 2014 and 2013 approximated \$181,000 and \$218,000, respectively.

10. 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 \$34,500 and \$5,700 for the years ended June 30, 2014 and 2013, respectively. A portion of these services was provided by a family member of the senior management team.

COMMUNITY ACTION ORGANIZATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2014

11. 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 \$670,000 and \$470,000 at June 30, 2014 and June 30, 2013, respectively.

The Organization's revenues are concentrated with 78% of total revenues coming from three sources for each of the years ended June 30, 2014 and 2013, respectively. The Organization's credit risk for accounts receivable is concentrated with 64% of the balances coming from two agencies as of June 30, 2014 and 58% of the balances coming from one agency as of June 30, 2013. In addition, substantially all revenues and receivable balances are from organizations and individuals located within the same geographic region.

12. RECONCILIATION OF CASH FLOW ACTIVITY

The following presents a reconciliation of the change in net assets (as reported on the statement of activities) to net cash provided by (used in) operating activities (as reported on the statement of cash flows):

	<u>2014</u>	<u>2013</u>
Change in net assets	\$ 338,263	\$ (126,583)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	140,741	132,306
Loss on disposal of assets	-	7,112
(Increase) decrease in:		
Accounts receivable	(280,439)	(7,504)
Pledges receivable	-	1,300
Prepaid expenses	(3,496)	(8,027)
Increase (decrease) in:		
Accounts payable	(21,918)	(65,990)
Accrued payroll and related expenses	17,917	(8,649)
Accrued vacation payable	2,434	10,280
Deferred revenue	<u>68,846</u>	<u>(53,028)</u>
Net cash provided by (used in) operating activities	<u>\$ 262,348</u>	<u>\$ (118,783)</u>