

**Community Action
Organization**

**Audited Financial
Statements**

**For the Year Ended
June 30, 2012**



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, 2012, 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 Community Action Organization's 2011 financial statements and, in our report dated November 16, 2011 we 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, 2012, 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 14, 2012 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 14, 2012

COMMUNITY ACTION ORGANIZATION
STATEMENT OF FINANCIAL POSITION
June 30, 2012
(With comparative totals for 2011)

	2012	2011
ASSETS		
Cash and cash equivalents	\$ 754,714	\$ 674,445
Accounts receivable	1,265,788	1,146,723
Pledges receivable	1,300	11,184
Prepaid expenses	28,689	23,186
Property and equipment, net	2,095,957	2,233,458
TOTAL ASSETS	\$ 4,146,448	\$ 4,088,996
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 788,411	\$ 441,313
Accounts payable - construction defects	-	161,844
Accrued payroll and related expenses	124,366	444,103
Accrued vacation payable	164,073	210,168
Deferred revenue	180,942	90,154
Notes payable	2,316,820	2,040,390
Total liabilities	3,574,612	3,387,972
Net assets (deficit):		
Unrestricted:		
Undesignated	(235,996)	(583,148)
Board designated	1,028,695	1,084,273
Net investment (deficit) in property and equipment	(220,863)	193,068
Total unrestricted	571,836	694,193
Temporarily restricted	-	6,831
Total net assets	571,836	701,024
TOTAL LIABILITIES AND NET ASSETS	\$ 4,146,448	\$ 4,088,996

See notes to financial statements.

COMMUNITY ACTION ORGANIZATION
STATEMENT OF ACTIVITIES
For the year ended June 30, 2012
(With comparative totals for 2011)

	2012			2011 Total
	Unrestricted	Temporarily Restricted	Total	
Support and revenue:				
Government revenue:				
Federal awards:				
Direct federal	\$ 5,192,315	\$ -	\$ 5,192,315	\$ 5,361,331
Passed through State of Oregon	5,305,959	-	5,305,959	4,254,998
Passed through Washington County	268,838	-	268,838	811,908
Passed through local government	36,000	-	36,000	40,000
Total federal awards	10,803,112	-	10,803,112	10,468,237
State of Oregon	8,523,138	-	8,523,138	7,612,502
Washington County	734,474	-	734,474	579,187
Local government	20,230	-	20,230	25,250
Total government revenue	20,080,954	-	20,080,954	18,685,176
Private contracts, grants and contributions:				
Contracts and grants	354,647	-	354,647	375,142
Contributions	496,277	-	496,277	365,770
United Way	92,908	-	92,908	73,385
Inkind donations	224,524	-	224,524	251,975
Total private contracts, grants and contributions	1,168,356	-	1,168,356	1,066,272
Other revenue				
Reimbursements	270,434	-	270,434	170,782
Fees and other revenue	121,159	-	121,159	175,644
Total other revenue	391,593	-	391,593	346,426
Net assets released from restrictions:				
Satisfaction of purpose restrictions	6,831	(6,831)	-	-
Total support and revenue	21,647,734	(6,831)	21,640,903	20,097,874
Expenses:				
Program services	19,020,391	-	19,020,391	18,043,315
Management and general	2,020,050	-	2,020,050	2,114,231
Fundraising	248,892	-	248,892	214,216
Total expenses	21,289,333	-	21,289,333	20,371,762
Change in net assets before other income (expens	358,401	(6,831)	351,570	(273,888)
Repair of construction defects	-	-	-	(967,897)
Legal defense costs, net of associated revenues (including \$78,931 of inkind services)	(480,758)	-	(480,758)	-
Change in net assets	(122,357)	(6,831)	(129,188)	(1,241,785)
Net assets:				
Beginning of year	694,193	6,831	701,024	1,942,809
End of year	\$ 571,836	\$ -	\$ 571,836	\$ 701,024

See notes to financial statements.

COMMUNITY ACTION ORGANIZATION
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2012
(With comparative totals for 2011)

	2012						2011 Total
	Early Childhood Development	Family and Community Resources	Community Outreach	Total Program Services	Management and General	Fund- raising	
Employee costs	\$ 6,472,941	\$ 3,050,875	\$ 81,746	\$ 9,605,562	\$ 1,273,601	\$ 189,538	\$ 11,068,701
Professional fees	5,190	50,200	-	55,390	133,004	8,703	197,097
Travel	123,860	57,970	217	182,047	15,953	1,379	199,379
Occupancy	226,065	56,454	4,833	287,352	160	8,077	295,589
Rent expense	205,716	83,377	-	289,093	236,883	-	525,976
Depreciation and amortization	6,888	23,400	-	30,288	107,388	-	137,676
Supplies	56,904	74,826	76	131,806	24,430	21,673	177,909
Communications	112,300	111,125	1,504	224,929	102,233	10,841	338,003
Marketing	-	6,355	1,545	7,900	-	1,911	9,811
Insurance	33,561	13,515	-	47,076	70,882	-	117,958
Repairs and maintenance	89,337	43,880	-	133,217	2,976	-	136,193
Miscellaneous	107,146	150,444	2,322	259,912	42,124	2,136	304,172
Client expense	757,391	6,752,129	-	7,509,520	-	1,176	7,510,696
Capital outlay	45,650	-	-	45,650	-	-	45,650
Inkind expense	140,621	70,028	-	210,649	10,416	3,458	224,523
Total expenses	\$ 8,383,570	\$ 10,544,578	\$ 92,243	\$ 19,020,391	\$ 2,020,050	\$ 248,892	\$ 21,289,333
							\$ 20,371,762

See notes to financial statements.

COMMUNITY ACTION ORGANIZATION
STATEMENT OF CASH FLOWS
For the year ended June 30, 2012
(With comparative totals for 2011)

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ (129,188)	\$(1,241,785)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	137,676	135,107
Gain on disposal of assets	-	(6,000)
(Increase) decrease in:		
Accounts receivable	(119,065)	82,523
Pledges receivable	9,884	10,325
Prepaid expenses	(5,503)	(20,141)
Increase (decrease) in:		
Accounts payable	346,923	(190,422)
Accounts payable - construction defects	(161,844)	161,844
Accrued payroll and related expenses	(319,737)	56,685
Accrued vacation payable	(46,095)	(25,175)
Deferred revenue	90,788	(234,185)
Net cash used in operating activities	(196,161)	(1,271,224)
Cash flows from investing activities:		
Purchase of property and equipment	-	(65,160)
Proceeds from sale of property and equipment	-	6,000
Net cash used in investing activities	-	(59,160)
Cash flows from financing activities:		
Proceeds on notes payable	316,336	733,664
Principal payments on notes payable	(39,906)	(36,608)
Net cash provided by financing activities	276,430	697,056
Net increase (decrease) in cash and cash equivalents	80,269	(633,328)
Cash and cash equivalents - beginning of year	674,445	1,307,773
Cash and cash equivalents - end of year	\$ 754,714	\$ 674,445
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 102,355	\$ 81,205

See notes to financial statements.

COMMUNITY ACTION ORGANIZATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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, 2012

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.

The Organization's information returns for years ended June 30, 2008 and prior are generally 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, 2012

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, 2012 and 2011, the Organization received donated rent, materials and services, which were for program services, as follows:

	2012	2011
Rent	\$ 137,934	\$ 137,934
Goods and materials	51,324	44,947
Professional services	114,197	69,094
Total donated rent, materials and services	\$ 303,455	\$ 251,975

The estimated value of contributed volunteer services hours received for which no amounts were recorded was \$445,000 and \$350,000 for the years ended June 30, 2012 and 2011, 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, 2012

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

Summarized Financial Information for 2011

The financial information as of June 30, 2011 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 14, 2012, 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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Accounts receivable:		
Oregon Housing and Community Services	\$ 623,714	\$ 579,246
U.S. Department of Health and Human Services	149,899	121,084
Other	<u>492,175</u>	<u>446,393</u>
Total accounts receivable	<u>1,265,788</u>	<u>1,146,723</u>
Pledges receivable:		
Due within one year	1,300	6,134
Due in two to five years	<u>-</u>	<u>5,050</u>
Total pledges receivable	<u>1,300</u>	<u>11,184</u>
Total accounts and pledges receivable	<u>\$ 1,267,088</u>	<u>\$ 1,157,907</u>

COMMUNITY ACTION ORGANIZATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2012

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Land and buildings	\$ 3,014,576	\$ 3,014,576
Leasehold improvements	11,275	11,275
Vehicles	397,053	397,053
Furniture and fixtures	193,555	193,555
Computers and software	30,213	30,038
Loan fees	<u>14,592</u>	<u>14,592</u>
Total property and equipment	3,661,264	3,661,089
Less accumulated depreciation and amortization	<u>1,565,307</u>	<u>1,427,631</u>
Net property and equipment	<u>\$ 2,095,957</u>	<u>\$ 2,233,458</u>

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

4. NOTES PAYABLE

Notes payable consist of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</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.	\$ 1,266,820	\$ 1,306,726
Note payable for construction to Columbia Community Bank, interest payments only at a rate of 5.1% through November 2012; secured by real property.	<u>1,050,000</u>	<u>733,664</u>
Total notes payable	<u>\$ 2,316,820</u>	<u>\$ 2,040,390</u>

Future principal payments are as follows:

June 30, 2013	\$ 1,092,348
2014	44,590
2015	46,951
2016	<u>1,132,931</u>
	<u>\$ 2,316,820</u>

The Organization is in the process of refinancing the aforementioned notes. The refinancing is expected to be completed by the end of November.

COMMUNITY ACTION ORGANIZATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2012

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, 2012 and 2011). No balances were outstanding as of June 30, 2012 and 2011. The line matures November 2012. The Organization is in the process of renewing the line of credit which is expected to be completed by the end of November.

6. LEASE COMMITMENTS

The Organization leases administrative and program offices, equipment and vehicles under various operating leases that expire December 2012 through August 2015, with monthly rents approximating \$41,700. Rent expense for these leases approximated \$474,000 and \$464,000 for the years ended June 30, 2012 and 2011, respectively.

Future minimum lease commitments under noncancellable leases are as follows:

For the year ending June 30, 2013	\$ 401,000
2014	289,900
2015	7,900
	<u>\$ 698,800</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 has 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 and \$30,000 for discretionary needs.

**COMMUNITY ACTION ORGANIZATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2012**

8. BOARD DESIGNATED NET ASSETS, Continued

Board designated net assets are as follows:

	<u>2012</u>	<u>2011</u>
Washington County - financial stability	\$ 60,000	\$ 60,000
Head Start	201,946	288,025
Energy Assistance	23,947	23,947
Weatherization	<u>742,802</u>	<u>712,301</u>
 Total board designated net assets	 <u>\$ 1,028,695</u>	 <u>\$ 1,084,273</u>

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. For the year ended June 30, 2011, the Organization contributed between \$25 and \$100 per month to each employee's qualified plan, based on the employee's number of years of service. The employer discretionary match is subject to a two year vesting period. The Organization also sponsors a 457 deferred compensation plan for executive directors 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 2012 and 2011 approximated \$226,200 and \$121,200, respectively.

10. RELATED PARTY DISCLOSURE

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 finance committee member. Neither finance committee member serves on the Organization's board of directors. The Organization also received donated legal services valued at \$23,450 for the year ended June 30, 2012. 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, 2012

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 for interest bearing accounts and fully insurable for non-interest bearing accounts. The balances, at times, may exceed the federally insured limit. Cash balances were fully insured at June 30, 2012 and 2011.

Credit risk for accounts receivable is concentrated as well because 61% of the balances for each of the years ended June 30, 2012 and 2011 are from two governmental agencies. Revenues are concentrated in that approximately 73% and 72% is from three and four governmental agencies for each of the years ending June 30, 2012 and 2011, respectively. In addition, substantially all revenues and receivable balances are from organizations and individuals located within the same geographic region.

12. CONSTRUCTION DEFECTS

During 2011, CAO performed substantial repairs to its main facility. These repairs were required to address substandard work performed during the initial construction and subsequent repair of the facility. These repairs restored the facility to its original state, and did 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.