

**COMMUNITY ACTION ORGANIZATION, INC.  
OF WASHINGTON COUNTY, OREGON**

---

**FINANCIAL STATEMENTS**  
For the Year Ended June 30, 1998

## CONTENTS

---

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Cash Flows	4
Notes to Financial Statements	5-11
Single Audit:	
Schedule of Expenditures of Federal Awards	12-13
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	14
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	15-16
Schedule of Findings and Questioned Costs	17-19
Summary Schedule of Prior Audit Findings	20



**JONES & ROTH**  
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Community Action Organization, Inc.  
Washington County, Oregon

We have audited the accompanying statement of financial position of Community Action Organization, Inc. as of June 30, 1998, and the related statements of activities, and cash flows for the year then ended. These financial statements are the responsibility of CAO's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 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, Inc. as of June 30, 1998, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 1999 on our consideration of Community Action Organization, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Community Action Organization, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

JONES & ROTH, P.C.

Hillsboro, Oregon  
February 12, 1999

-1-

Jones & Roth, P.C.  
Member of Affiliated  
Conference of  
Practicing Accountants,  
ACPA, International

260 East 11th Avenue  
P.O. Box 10086  
Eugene, OR 97440  
(541) 687-2320  
FAX (541) 485-0960

444 B Street  
Springfield, OR 97477  
(541) 746-4466  
FAX (541) 746-0059

4110 Pacific Avenue  
Suite 102  
Forest Grove, OR 97116  
(503) 357-6141  
FAX (503) 357-5329

445 East Main Street  
Suite 100  
Hillsboro, OR 97123  
(503) 648-0521  
FAX (503) 648-2692

COMMUNITY ACTION ORGANIZATION OF WASHINGTON COUNTY, OREGON  
STATEMENT OF FINANCIAL POSITION  
June 30, 1998

---

ASSETS	
Cash	\$ 206,134
Accounts receivable	381,866
Investments	610
Prepaid expenses	2,000
Property and equipment, net of acculated depreciation of \$840,831	<u>2,917,971</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 3,508,581</u></b>

LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable	\$ 388,880
Interest payable	23,513
Payroll payable	59,609
Employee benefits payable	57,175
Accrued vacation payable	42,743
Capital leases payable	45,842
Notes and mortgage payable	<u>1,683,150</u>
<b>Total liabilities</b>	<b><u>2,300,912</u></b>
Net Assets:	
Unrestricted	87,154
Temporarily restricted	<u>1,120,515</u>
<b>Total net assets</b>	<b><u>1,207,669</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 3,508,581</u></b>

See accompanying notes and independent auditors' report.

COMMUNITY ACTION ORGANIZATION OF WASHINGTON COUNTY, OREGON  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 1998

	Unrestricted	Temporarily Restricted	Total
<b>PUBLIC SUPPORT AND REVENUE:</b>			
Grants and contracts	\$ 39,715	\$ 6,238,848	\$ 6,278,563
Program income	121,405	107,079	228,484
Contributions	291,194	47,445	338,639
Interest income	733	-	733
Net assets released from restrictions:			
Satisfaction of program restrictions	6,293,996	(6,293,996)	-
Total public support and revenues	6,747,043	99,376	6,846,419
 <b>EXPENSES:</b>			
Program services:			
Child development	3,979,837	-	3,979,837
Homeless, housing and energy	1,354,326	-	1,354,326
Emergency and basic needs	366,866	-	366,866
Administration	939,720	-	939,720
Fund raising	174,891	-	174,891
Total expenses	6,815,640	-	6,815,640
 CHANGE IN NET ASSETS	(68,597)	99,376	30,779
NET ASSETS, BEGINNING OF YEAR	155,751	1,021,139	1,176,890
 NET ASSETS, END OF YEAR	\$ 87,154	\$ 1,120,515	\$ 1,207,669

See accompanying notes and independent auditors' report.

COMMUNITY ACTION ORGANIZATION OF WASHINGTON COUNTY, OREGON  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 1998

---

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Increase in net assets	\$ 30,779
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	164,060
Increase in accounts receivable	(100,504)
Decrease in pledges receivable	8,910
Decrease in prepaid expenses	292
Decrease in bank overdraft	(59,257)
Increase in accounts payable	87,210
Increase in interest payable	23,513
Increase in payroll liabilities	15,563
Increase in employee benefits payable	57,175
Increase in accrued vacation payable	5,613
Decrease in retainage payable	(23,061)
Decrease in deferred revenue	<u>(150,884)</u>
Net cash provided by operating activities	<u>59,409</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Purchase of property and equipment	<u>(59,069)</u>
Net cash used by investing activities	<u>(59,069)</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Proceeds from long-term debt	429,266
Payments on capital leases	(11,892)
Payments on long-term debt	<u>(211,955)</u>
Net cash provided by financing activities	<u>205,419</u>
 INCREASE IN CASH	 205,759
CASH, BEGINNING OF YEAR	<u>375</u>
CASH, END OF YEAR	<u>\$ 206,134</u>
 <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>	
Cash paid for interest	<u>\$ 153,224</u>

See accompanying notes and independent auditors' report.

COMMUNITY ACTION ORGANIZATION, INC.  
NOTES TO FINANCIAL STATEMENTS

---

1. Nature of Activities and Summary of Significant Accounting Policies:

Nature of Activities

Community Action Organization (CAO) is a non-profit corporation organized under Section 501(c)(3) of the Internal Revenue Code. CAO engages in numerous social and public welfare activities in Washington County, Oregon. Its principal programs include the Headstart program, USDA childcare food program, and housing and individual assistance programs. The Head Start Program provides approximately 24% of CAO's revenue. Revenues are received primarily from governmental grants from the Federal, State and local governments and from private contributions.

Effective on October 1, 1997, Family Care of West Tuality, Inc., a non-profit organization, merged with Community Action Organization. Beginning July 1, 1997, the USDA childcare food program was transferred to Community Action Organization.

Estimates

The preparation of financial statements 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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, CAO considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable consists primarily of amounts due from grantors.

Pledges Receivable

Pledges are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Investments

Investments are recorded at market value. Donated investments are recorded at their market value at the date of donation.

COMMUNITY ACTION ORGANIZATION, INC.  
NOTES TO FINANCIAL STATEMENTS, (Continued)

---

1. Nature of Activities and Summary of Significant Accounting Policies (Continued):

Property and Equipment

Property and equipment is recorded at cost, with all significant acquisitions, renovations, and repairs that increase the value of assets being capitalized. Contributed property and equipment are recorded at its fair market value at the date of the gift. All expenditures for repairs and maintenance, which do not appreciably extend the useful life or increase the value of the asset, are expensed in the period in which the cost is incurred.

Depreciation

CAO depreciates property and equipment over its estimated useful life. Depreciation is computed principally using the straight-line method.

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.

Grants and Contracts

Support received under grants and contracts with the United States Government and local governments are recorded as grants when the related direct costs are incurred. Grants and contracts receivable represent amounts due for expenditures incurred prior to year end. Deferred revenue amounts represent cash received in advance of the related expenditures.

Donated Materials, Property and Equipment

Donations of materials, property and equipment 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. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, CAO reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. CAO reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Donated Services

No amounts have been reflected in the financial statements for donated services. CAO pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist CAO with specific assistance programs, campaign solicitations, and various committee assignments. CAO receives more than 11,000 volunteer hours per year.



COMMUNITY ACTION ORGANIZATION, INC.  
NOTES TO FINANCIAL STATEMENTS, (Continued)

---

1. Nature of Activities and Summary of Significant Accounting Policies (Continued):

Functional Allocation of Expenses

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

Income Tax Status

Community Action Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to CAO's tax-exempt purpose is subject to taxation as unrelated business income. It is management's belief that none of its activities are subject to unrelated business income taxes; therefore, no provision has been made for federal and state income taxes in the accompanying financial statements. In addition, Community Action Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

2. Cash and Cash Equivalents:

Cash includes demand deposits and money market accounts with financial institutions covered by the Federal Deposit Insurance Corporation (FDIC) for \$100,000. At various times throughout the year ended June 30, 1998, CAO had cash balances in these financial institutions that exceeded the FDIC limit. At June 30, 1998, the balance exceeding the FDIC limit was \$425,629.

3. Investments:

Investments are stated at market value as of June 30, 1998 and consist of the following:

Common stocks	\$ 260
Savings bonds	350
	<u>\$ 610</u>

COMMUNITY ACTION ORGANIZATION, INC.  
NOTES TO FINANCIAL STATEMENTS, (Continued)

---

4. Property and Equipment:

At June 30, 1998, property and equipment consists of the following:

Land and building	\$ 2,939,609
Furniture and equipment	493,283
Vehicles	<u>325,910</u>
	3,758,802
Less: accumulated depreciation	<u>(840,831)</u>
Total property and equipment	<u>\$ 2,917,971</u>

CAO's land and building are pledged as collateral for CAO's mortgage note payable. The majority of CAO's furniture and equipment and vehicles were purchased with restricted grant funds.

5. Long-term Debt:

At June 30, long-term debt consists of the following:

Mortgage payable to US Bank, payable in monthly installments of \$10,486, including interest of 8.85%, with final payment due May 1, 2021. This mortgage is secured by building and equipment.	\$ 1,221,605
Note payable to West Coast Bank, payable in monthly installments of \$1,974, including interest at the prime rate (8.5% at June 30, 1998) with final payment due March 15, 2003. This note is secured by equipment.	91,544
Note payable to West Coast Bank, payable in monthly installments of \$395, including interest at the prime rate (8.5% at June 30, 1998) with final payment due June 15, 2003. This note is secured by equipment.	19,360
Note payable to Western Bank, payable in monthly installments of all accrued unpaid interest at 0.5% over prime (9.0% at June 30, 1998) with final payment of all unpaid principal and accrued interest due July 31, 1999. This note is secured by vehicles.	99,885
Note payable to Western Bank, payable in monthly installments of \$1,957, including interest at 2.5% over the Treasury Maturities Rate. The rate is scheduled for adjustment in October 2000 (8.39% at June 30, 1998). Estimated final payment of \$160,517 due October 10, 2002. This note is secured by equipment.	196,453
Note payable to Blue Bird Leasing, payable in annual installments of \$11,442, including interest at 10.5% with final payment due September 23, 2002. This note is secured by a school bus.	42,824

COMMUNITY ACTION ORGANIZATION, INC.  
 NOTES TO FINANCIAL STATEMENTS, (Continued)

---

5. Long-term Debt, (Continued):

Note payable to Blue Bird Leasing, payable in annual installments of \$12,684, including interest at 10.5% with final payment due September 20, 1998. This note is secured by a school bus. 11,479

Total long-term debt \$ 1,683,150

Annual maturities of long-term debt obligations in each of the next five years are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
1999	\$ 63,978
2000	157,128
2001	62,497
2002	68,236
2003	220,638
Thereafter	<u>1,110,673</u>
Total	<u>\$ 1,683,150</u>

6. Leases:

Operating Leases

Community Action Organization leases equipment under operating leases expiring in various years through 2002.

Minimum future rental payments under non-cancelable operating leases having remaining terms of one year or more as of June 30, 1998 for each of the next five years and in the aggregate are:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
1999	\$ 22,612
2000	5,556
2001	2,125
2002	735
2003	-
Total minimum future rental payments	<u>\$ 31,028</u>

COMMUNITY ACTION ORGANIZATION, INC.  
 NOTES TO FINANCIAL STATEMENTS, (Continued)

---

6. Leases, (Continued):

Building space is leased under one-year agreements. Rent expense was \$41,940 for the year ended June 30, 1998.

Capital Leases

CAO leases a vehicle and telephone equipment, which meet the criteria for capitalization. As of June 30, 1998, the cost and accumulated depreciation for these assets was \$77,855 and \$41,560, respectively. Depreciation expense on these assets was \$14,503 for the year ended June 30, 1998. Such leases have been capitalized and, at June 30, 1998, the future minimum lease payments (excluding executory costs, which are paid by CAO) for such leases are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
1999	\$ 19,542
2000	19,542
2001	8,788
2002	<u>4,741</u>
Total minimum lease payments	\$ 52,613
Less amount representing interest	<u>(6,771)</u>
Present value of net minimum lease payments	<u>\$ 45,872</u>

7. Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for the following purposes or periods at June 30, 1998:

Property and equipment funded by federal grants	<u>\$ 1,120,515</u>
---	---------------------

8. Donated Materials :

The estimated value of donated materials is included in in-kind donations and in-kind materials. Donated materials were valued at \$159,885 for the year ended June 30, 1998.

COMMUNITY ACTION ORGANIZATION, INC.  
NOTES TO FINANCIAL STATEMENTS, (Continued)

---

9. Retirement Plan:

Community Action Organization maintains an employer paid defined contribution pension plan. Beginning the third year of employment, CAO will contribute between \$25 and \$100 per month to a qualified employee's tax sheltered annuity, based on an employee's number of years of service. CAO contributed \$102,194 to the tax sheltered annuities during the year ended June 30, 1998. The annuities were fully funded at June 30, 1998, according to the terms of the plan with the exception of June 1998 premiums being paid in July 1998.

10. Commitments and Contingencies:

Amounts received or receivable from grantor agencies are subject to adjustment upon audit by the grantor agency. Any disallowed costs, including amounts already collected, may constitute a liability to the applicable funds.

11. Subsequent Event:

In October 1998 CAO's mortgage payable to U.S. Bank was restructured. A balance of \$360,264 is payable in monthly installments of \$4,838, including interest at 8.17%, with final payment due October 1, 2007. The remaining \$847,004 has an interest rate of 7% and requires monthly interest payments only of \$4,941. Principal payments are optional, with the remaining balance due October 1, 2008.

**SINGLE AUDIT**

---

COMMUNITY ACTION ORGANIZATION OF WASHINGTON COUNTY, OREGON  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended June 30, 1998

<u>Federal Grantor/Pass-Through/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Expenditures</u>
<b>U.S. Department of Agriculture</b>			
Passed through Oregon Department of Education:			
Child and Adult Care Food Program	10.558		\$ 1,515,281
Child and Adult Care Food Program - Head Start	10.588		<u>90,302</u>
Total U.S. Department of Agriculture			<u>1,605,583</u>
<b>U.S. Department of Housing and Urban Development</b>			
Passed through Washington County Office of Community Development:			
Community Development Block Grants:			
Pre-agreement Costs	14.218	9277	300,000
Fair Housing Services	14.218	9326	18,090
Enhanced Information and Referral	14.218	9322	32,038
Homeless Prevention	14.218	9323	47,099
Self-Help Weatherization	14.218	9502	25,000
Comprehensive Weatherization	14.218	9501	19,817
Passed through Washington County Department of Housing Services:			
Emergency Shelter Grants	14.231	97-799	7,500
Emergency Shelter Grants	14.231	97-800	3,000
Passed through Oregon Housing and Community Services Department:			
Supplemental Assistance for Facilities to Assist the Homeless (SAFAH)	14.235		<u>168,735</u>
Total U.S. Department of Housing and Urban Development			<u>621,279</u>
<b>U.S. Department of Energy</b>			
Passed through Oregon Housing and Community Services Department:			
BPA	81.016		12,217
Weatherization Assistance for Low Income Persons	81.042		<u>122,096</u>
Total U.S. Department of Energy			<u>134,313</u>

COMMUNITY ACTION ORGANIZATION OF WASHINGTON COUNTY, OREGON  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued  
 For the Year Ended June 30, 1998

<u>Federal Grantor/Pass-Through/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Expenditures</u>
<b>Federal Emergency Management Agency</b>			
Emergency Food and Shelter National Board Program	83.523		<u>77,798</u>
<b>U.S. Department of Health and Human Services</b>			
Direct from Department of Health and Human Services Headstart	93.600		1,651,196
Passed through Oregon Housing and Community Services Department:			
Temporary Assistance to Needy Families	93.558		1,780
Low-Income Home Energy Assistance	93.568		484,232
Community Services Block Grant	93.569		289,221
Passed through Child Care Support Services, Inc.			
Child Care and Development Block Grant			
Oregon 1080 - Childcare Resource and Referral	93.575		17,296
AFS Child Care	93.575	70931	16,190
Passed through Washington County Commission on Children			
Child Care and Development Block Grant	93.575		75,893
Passed through Oregon Employment Department - Childcare Division			
Child Care and Development Block Grant	93.575		45,471
Passed through Oregon Department of Human Resources			
Child Care and Development Fund	93.596		<u>36,697</u>
Total U.S. Department of Health and Human Services			<u>2,617,976</u>
Total federal expenditures			<u>\$ 5,056,949</u>

Amounts are reported on the accrual basis of accounting.





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

Board of Directors  
Community Action Organization, Inc.  
Washington County, Oregon

We have audited the financial statements of Community Action Organization, Inc. as of and for the year ended June 30, 1998, and have issued our report thereon dated February 12, 1999. We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Compliance

As part of obtaining reasonable assurance about whether Community Action Organization, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Community Action Organization, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Community Action Organization, Inc.'s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 98-1 and 98-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 98-1 to be a material weakness.

This report is intended for the information of the Board of Directors, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

JONES & ROTH, P.C.

Hillsboro, Oregon  
February 12, 1999

-14-

Jones & Roth, P.C.  
Member of Affiliated  
Conference of  
Practicing Accountants,  
ACPA, International

260 East 11th Avenue  
P.O. Box 10086  
Eugene, OR 97440  
(541) 687-2320  
FAX (541) 485-0960

444 B Street  
Springfield, OR 97477  
(541) 746-4466  
FAX (541) 746-0059

4110 Pacific Avenue  
Suite 102  
Forest Grove, OR 97116  
(503) 357-6141  
FAX (503) 357-5329

445 East Main Street  
Suite 100  
Hillsboro, OR 97123  
(503) 648-0521  
FAX (503) 648-2692



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors  
Community Action Organization, Inc.  
Washington County, Oregon

Compliance

We have audited the compliance of Community Action Organization, Inc. with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A -133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1998. Community Action Organization, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Community Action Organization, Inc.'s management. Our responsibility is to express an opinion on Community Action Organization, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Community Action Organization, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Community Action Organization, Inc.'s compliance with those requirements.

As described in item 98-3 in the accompanying schedule of findings and questioned costs, we were unable to test whether Community Action Organization, Inc. complied with requirements regarding the income level of the families of Head Start enrollees. Compliance with such requirements is necessary, in our opinion, for Community Action Organization, Inc. to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Community Action Organization, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1998.

Internal Control Over Compliance

The management of Community Action Organization, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Community Action Organization, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Community Action Organization, Inc.'s ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 98-4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of the Board of Directors, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



JONES & ROTH, P.C.

Hillsboro, Oregon  
February 12, 1999

COMMUNITY ACTION ORGANIZATION, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 1998

---

A. Summary of Audit Results:

1. The auditor's report expresses an unqualified opinion on the financial statements of Community Action Organization, Inc.
2. Two reportable conditions in internal control were disclosed in the audit of the financial statements. One of the conditions is considered to be a material weakness.
3. No instances of noncompliance material to the financial statements of Community Action Organization, Inc. were disclosed during the audit.
4. Three reportable conditions in internal control were disclosed during the audit of the major federal award programs. None of the conditions was considered to be a material weakness.
5. The auditors' report on compliance for the major federal award program for Community Action Organization, Inc. expresses a qualified opinion.
6. Audit findings relative to the major federal award programs of Community Action Organization, Inc. are reported in Part C. of this Schedule.
7. The programs tested as major programs included:

<u>CFDA</u> <u>Number</u>	<u>Name of Program</u>
10.558	Child Care Food Program
14.218	Community Development Block Grant
93.568	Low-income Home Energy Assistance
93.600	Head Start
8. The threshold for distinguishing between Type A and Type B programs was \$300,000.
9. Community Action Organization, Inc. does not qualify as a low-risk auditee under §530 of OMB Circular A-133.

COMMUNITY ACTION ORGANIZATION, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)  
For the Year Ended June 30, 1998

---

B. Findings - Financial Statement Audit:

Reportable Condition:

98-1 – Bank Reconciliation

*Condition:* Bank statement balances were not reconciled to the general ledger on a timely basis.

*Criteria:* Bank statement balances should be reconciled to the general ledger on a monthly basis to insure that all cash transactions are recorded in the general ledger.

*Effect of Condition:* Transactions that were not entered into accounting records were not discovered within a timely period by employees in the normal course of performing their assigned functions.

*Recommendation:* Reconcile all bank accounts to the general ledger account balances within thirty days of the end of each month.

*Management's response:* The fiscal director currently reconciles the bank statement balances to the general ledger within thirty days of the end of each month and resolves any differences.

Reportable Condition:

98-2 – Cash disbursement approval

*Condition:* Program employees who are responsible for approving the verification of eligible participants were also writing checks.

*Criteria:* Personnel who are not responsible for approval of the disbursements should sign checks.

*Effect of Condition:* Disbursements are made without supervisor approval.

*Recommendation:* Procedures should be implemented to require supervisor approval on all disbursements for assistance to clients.

*Management's response:* Forms are being designed to require supervisor approval.

COMMUNITY ACTION ORGANIZATION, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)  
For the Year Ended June 30, 1998

---

C. Findings and Questioned Costs - Major Federal Awards Programs Audit:

CFDA 13.600 Headstart program:

Finding:

98-3 – Head Start eligibility documentation not kept on file

*Condition:* Eligibility documentation for Head Start students who did not return for the next year was purged from the files.

*Criteria:* Eligibility documentation should be kept on file for at least three years.

*Effect of Condition:* We were not able to test whether Community Action Organization complied with the requirements regarding income level of the families of Head Start enrollees.

*Recommendation:* Change procedures to require that eligibility documentation be kept on file and communicate those procedures to administrative personnel responsible for filing.

*Management's response:* All files with eligibility documentation will be kept for a minimum of three years. Procedures have been changed and all Head Start administrative employees have been informed of the new procedures.

All major programs:

Finding:

98-4 – Lack of accounting records to back up federal grant reports

*Condition:* Some grant reports were prepared when the financial records of CAO were not accurate and copies of financial reports were not kept in the grant files.

*Criteria:* Some of the grant reports for each of the major programs could not be reconciled to the accounting records

*Effect of Condition:* We were not able to verify the amounts reported on some mid-year grant reports.

*Recommendation:* Prepare all grant reports from actual financial data and keep copies of the financial reports in the grant report files.

*Management's response:* All grant reports for the 1998-99 fiscal year are prepared based on actual financial data and copies of financial reports are kept in the grant report files.

COMMUNITY ACTION ORGANIZATION, INC.  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended June 30, 1998

---

CFDA 13.600 - Headstart Program

Head Start eligibility documentation not kept on file

Eligibility documentation for Head Start students who did not return for the next year was purged from the files.

This condition was not corrected since the prior year audit.

See description of current year finding.