
**COMMUNITY ACTION
ORGANIZATION**

An Oregon Non-Profit Corporation

Financial Statements

For the Fiscal Year Ended June 30, 2006

Aiken & Sanders, Inc PS

**Certified Public Accountants
& Management Consultants**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Community Action Organization
1001 SW Baseline St.
Hillsboro, OR 97123

We have audited the accompanying statement of financial position of Community Action Organization (CAO) as of June 30, 2006; the related statements of activities and changes in net assets; functional revenues, expenses, changes in net assets; and cash flows for the fiscal 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. The prior year summarized comparative information has been derived from CAO's 2005 financial statements and, in our report dated November 4, 2005, we expressed an unqualified opinion on those financial statements.

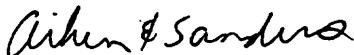
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 CAO as of June 30, 2006, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2006 on our consideration of CAO'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 the 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 read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of CAO taken as a whole. The accompanying schedule of revenues, expenses, and changes in net assets by activities and the 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.

As discussed in Note 20 to the financial statements, the CAO's fiscal year ended June 30, 2006 financial statements were reported under the grant basis of accounting and should have been reported under the accounting principles generally accepted in the United States of America. This discovery was made subsequent to the issuance of the financial statements. The financial statements have been restated to reflect this correction.



Aiken & Sanders, Inc., PS
Certified Public Accountants
& Management Consultants

December 4, 2006, except for Note 20, as to which the date is August 15, 2008

COMMUNITY ACTION ORGANIZATION

STATEMENT OF FINANCIAL POSITION

<u>June 30, 2006 (With Comparative Totals for 2005)</u>	<u>2006</u>	<u>2005</u>
ASSETS		
Current Assets		
Cash	\$ 370,849	\$ 539,095
Restricted Cash	515,587	493,557
Accounts Receivable	477,167	542,487
Pledges Receivable	65,380	62,335
Prepaid Expenses	3,045	3,045
	<u>1,432,028</u>	<u>1,640,519</u>
Property & Equipment		
Property and Equipment, net	<u>2,266,107</u>	<u>2,342,448</u>
Other Assets		
Long-Term Pledges Receivable	15,976	50,819
Loan Costs, net	13,741	-
Investments	350	350
	<u>30,067</u>	<u>51,169</u>
Total Assets	\$ <u>3,728,202</u>	\$ <u>4,034,136</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 391,756	\$ 790,254
Accrued Vacation Payable	141,693	166,875
Payroll Tax Payable	45,324	61,663
Deferred Revenue	311,880	138,212
Line of Credit	-	250,000
Current Portion of Long-Term Debt	24,747	189,199
	<u>915,400</u>	<u>1,596,203</u>
Long-Term Liabilities		
Notes and Mortgages Payable, net	<u>1,484,988</u>	<u>1,242,025</u>
	<u>2,400,388</u>	<u>2,838,228</u>
Net Assets		
Unrestricted Net Assets	637,109	664,287
Board Designated Net Assets	60,000	-
	697,109	664,287
Temporarily Restricted Net Assets	630,705	531,621
	<u>1,327,814</u>	<u>1,195,908</u>
Total Liabilities and Net Assets	\$ <u>3,728,202</u>	\$ <u>4,034,136</u>

The accompanying notes are an integral part of these financial statements.

COMMUNITY ACTION ORGANIZATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Fiscal Year Ended June 30, 2006 (With Comparative Totals for 2005)	2006	2005		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	TOTAL
Support and Revenue				
Grants & Contracts	\$ 12,939,069	\$ -	\$ 12,939,069	\$ 13,258,252
United Way	79,477	-	79,477	117,466
Contributions - Other	187,934	40,257	228,191	126,256
Contributions - Corp. & Foundations	67,659	389,203	456,862	534,805
In-Kind Revenue	397,247	-	397,247	477,894
Fees	107,527	-	107,527	170,551
Reimbursements	225,545	-	225,545	109,773
Nets Assets Released from Restrictions:				
Satisfaction of Program Restrictions	330,376	(330,376)	-	-
Total Support and Revenue	14,334,834	99,084	14,433,918	14,794,997
Expenses:				
Program Services	12,521,860	-	12,521,860	13,073,617
Administration	1,445,811	-	1,445,811	1,373,110
Resource Development	334,341	-	334,341	274,594
Total Expenses	14,302,012	-	14,302,012	14,721,321
Change in Net Assets before Other Revenue and Expenses	32,822	99,084	131,906	73,676
Other Revenue and Expenses (See Note 17)				
Revenue for Funding of Repairs	-	-	-	368,162
Expenses for Repairs	-	-	-	(945,709)
Total Other Revenue and Expenses	-	-	-	(577,547)
Change in Net Assets	32,822	99,084	131,906	(503,871)
Net Assets at Beginning of Year	664,287	531,621	1,195,908	1,699,779
Net Assets at End of Year	\$ 697,109	\$ 630,705	\$ 1,327,814	\$ 1,195,908

The accompanying notes are an integral part of these financial statements.

COMMUNITY ACTION ORGANIZATION

STATEMENT OF FUNCTIONAL REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Fiscal Year Ended June 30, 2006 (With Comparative Totals for 2005)	2006		2005					
	Early Childhood Development	Family & Community Resources	Community Partners	Total Program Services	Administration	Resource Development	Total	Total
Support and Revenue								
Grants:	\$ 6,762,625	\$ 5,895,547	\$ -	\$ 12,658,172	\$ 280,897	\$ -	\$ 12,939,069	\$ 13,258,252
Private Revenue:								
United Way	47	68,126	-	68,173	-	11,304	79,477	117,466
Contributions - Other	3,148	36,709	-	39,857	400	187,934	228,191	126,256
Contributions - Corp. & Foundations	22,417	366,786	-	389,203	-	67,659	456,862	534,805
	<u>25,612</u>	<u>471,621</u>	<u>-</u>	<u>497,233</u>	<u>400</u>	<u>266,897</u>	<u>764,530</u>	<u>778,527</u>
Income:								
Fees	53,030	54,479	-	107,509	-	18	107,527	170,551
Reimbursements	11,877	205,727	-	217,604	7,694	247	225,545	109,773
	<u>64,907</u>	<u>260,206</u>	<u>-</u>	<u>325,113</u>	<u>7,694</u>	<u>265</u>	<u>333,072</u>	<u>280,324</u>
In-Kind Revenue	269,508	125,215	-	394,723	2,054	470	397,247	477,894
Total Support and Revenue	7,122,652	6,752,589	-	13,875,241	291,045	267,632	14,433,918	14,794,997
Expenses								
Employee Costs	4,578,654	2,175,895	-	6,754,549	834,227	242,199	7,830,975	7,797,649
Professional Costs	3,655	10,955	-	14,610	150,686	-	165,296	160,828
Travel	52,942	44,787	-	97,729	18,198	2,458	118,385	120,018
Occupancy	305,355	90,023	-	395,378	-	11,600	406,978	452,991
Other Rent	134,139	45,221	-	179,360	50,462	-	229,822	248,110
Depreciation & Amortization	-	-	-	-	94,336	-	94,336	80,984
Supplies	58,378	46,431	-	104,809	54,215	20,539	179,563	153,841
Communications	102,842	86,621	-	189,463	33,028	23,919	246,410	254,482
Marketing	4,388	4,003	-	8,391	347	11,030	19,768	13,638
Insurance	27,089	9,970	-	37,059	42,481	-	79,540	85,062
Repairs and Maintenance	43,726	2,496	-	46,222	13,529	125	59,876	32,949
Miscellaneous	65,025	45,505	-	110,530	38,334	6,064	154,928	154,189
Client Expenses	746,546	3,415,022	-	4,161,568	96,000	-	4,257,568	4,592,751
Bad Debt Expense	-	-	-	-	770	15,937	16,707	7,590
Capital Outlay	26,127	18,486	-	44,613	-	-	44,613	88,345
In-Kind Expenses	269,508	125,215	-	394,723	2,054	470	397,247	477,894
Total Expenses	6,418,374	6,120,630	-	12,539,004	1,428,667	334,341	14,302,012	14,721,321
Change in Net Assets before Other Revenue & Expenses	704,278	631,959	-	1,336,237	(1,137,622)	(66,709)	131,906	73,676
Other Revenue & Expenses (See Note 17)								
Revenues for Funding of Repairs	-	-	-	-	-	-	-	368,162
Expenses for Repairs	-	-	-	-	-	-	-	(945,709)
Total Other Revenue & Expenses	-	-	-	-	-	-	-	(577,547)
Transfers from CSBG	-	(111,431)	-	(111,431)	236,566	(125,135)	-	-
Administration Allocation	633,996	657,332	-	1,291,328	(1,327,232)	35,904	-	-
Other Fund Sources & Transfers	(16,132)	16,025	-	(107)	72	35	-	-
Total Other	617,864	561,926	-	1,179,790	(1,090,594)	(89,196)	-	-
Change in Net Assets	86,414	70,033	-	156,447	(47,028)	22,487	131,906	(503,871)
Net Assets at Beginning of Year	39,311	727,602	(48)	766,865	182,384	246,659	1,195,908	1,699,779
Fund Transfer	-	(541)	48	(493)	106,651	(106,158)	-	-
Net Assets at End of Year	\$ 125,725	\$ 797,094	\$ -	\$ 922,819	\$ 242,007	\$ 162,988	\$ 1,327,814	\$ 1,195,908

The accompanying notes are an integral part of these financial statements.

COMMUNITY ACTION ORGANIZATION

STATEMENT OF CASH FLOWS

Fiscal Year Ended June 30, 2006 <i>(With Comparative Totals for 2005)</i>	2006	2005
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 131,906	\$ (503,871)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation & Amortization	94,336	80,984
Revenue for Repairs	-	(332,654)
Expenses for Repairs	-	910,201
(Increase) Decrease in Accounts Receivable	65,320	21,847
(Increase) Decrease in Pledges Receivable	31,798	25,327
Increase (Decrease) in Accounts Payable	(398,498)	188,524
Increase (Decrease) in Accrued Vacation Payable	(25,182)	26,267
Increase (Decrease) in Payroll Liabilities	(16,339)	2,889
Increase (Decrease) in Deferred Revenue	173,668	(79,126)
Total Adjustments	<u>(74,897)</u>	<u>844,259</u>
Net Cash Provided by Operating Activities	<u>57,009</u>	<u>340,388</u>
Cash Flows from Investing Activities:		
Purchase of Equipment	(17,144)	(56,066)
Expenses for Repairs (See Note 17)	-	(910,201)
Net Cash Used by Investing Activities	<u>(17,144)</u>	<u>(966,267)</u>
Cash Flows from Financing Activities:		
Payments on Long-Term Debt	(21,426)	(12,360)
Payments on Short-Term Debt	-	(173,643)
Proceeds on Long-Term Debt	85,345	338,447
Proceeds (Payments) on Line of Credit	(250,000)	250,000
Revenues for Repairs (See Note 17)	-	332,654
Net Cash Provided (Used) by Financing Activities	<u>(186,081)</u>	<u>735,098</u>
Net Increase (Decrease) in Cash & Cash Equivalents	(146,216)	109,219
Cash and Cash Equivalents at Beginning of Year	<u>1,032,652</u>	<u>923,433</u>
Cash and Cash Equivalents at End of Year	<u><u>886,436</u></u>	<u><u>1,032,652</u></u>
Supplemental Disclosures of Cash Flow Information:		
Cash Paid During the Fiscal Year for Interest	<u>\$ 118,327</u>	<u>\$ 140,091</u>

The accompanying notes are an integral part of these financial statements.

COMMUNITY ACTION ORGANIZATION

NOTES TO THE FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Community Action Organization (CAO) is a non-profit entity exempt from federal income tax under Internal Revenue Code Section 501(c)(3) and is not classified as a private foundation. CAO operates primarily as the sponsoring agency of various federal, state and locally funded programs aimed at providing various services to assist low-income residents of Washington county, state of Oregon. The programs include Head Start preschool, USDA childcare food program, shelter and housing, child care, pregnancy support, energy and other individual assistance programs.

Support and Revenues

CAO receives a substantial amount of its annual support in the form of government grants and contributions. A significant reduction in the level of this support, if it were to occur, might have a significant effect on CAO's programs and activities.

Accounting Basis

CAO maintains its financial records on the accrual basis of accounting. Revenues on all grants are recognized (accrued) when qualifying expenditures under the grant are made. Grant funds are accounted for as temporarily restricted or unrestricted as provided in the particular terms of the respective grant contracts.

When restrictions on grant funds are met in the same year that the funds are awarded, it is the policy of CAO to record the grant funds as unrestricted on the statement of activities and changes in net assets.

Recognition of Contribution Revenue

CAO reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 are reported in the statement of activities and changes in net assets as net assets released from restrictions. However, restricted gifts for which the donor restriction is met in the same period that the gift is received are recorded as unrestricted.

CAO reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the assets are to be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how those long-lived assets must be maintained, CAO reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

COMMUNITY ACTION ORGANIZATION

NOTES TO THE FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Property and Equipment

Property and equipment purchased by CAO is recorded at cost. Items of less than \$5,000 per unit cost are charged to expense as minor equipment or supplies.

For property and equipment, depreciation is provided over the estimated useful lives of the assets using the straight-line method. Maintenance and repairs are charged to expense as incurred; major renewals and improvements are capitalized. When items of equipment are sold or are otherwise disposed of, the appropriate cost and related accumulated depreciation amounts are removed from the accounts, and any gain or loss is included in income.

Straight-line depreciation is provided over the estimated useful lives of the assets as follows:

Buildings	40 years
Office equipment	3 to 5 years
Vehicles	7 years

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions affecting certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Advertising Costs

It is CAO's policy to expense all advertising costs as incurred.

NOTE 2: ACCOUNTS RECEIVABLE

Accounts (Grants) receivable are recorded to the extent of qualifying grant expenditures made during the current year that are to be reimbursed after year end.

Historically, bad debts have been immaterial. CAO uses the direct write-off method. When an amount becomes uncollectible, it is charged to expense in the year it is deemed to be uncollectible. During 2006 and 2005, there were bad debts of \$770 and \$0, respectively. As of June 30, 2006, management estimated that all accounts receivable were collectible.

NOTE 3: EMPLOYEE BENEFITS

CAO sponsors a 403(b) tax sheltered annuity benefit for qualifying employees. Beginning in the third year of employment, CAO contributes between \$25 and \$100 per month to a qualified employee's tax sheltered annuity, based on an employee's number of years of service. For the fiscal years ended June 30, 2006 and 2005, the pension expense was \$74,544 and \$69,324, respectively.

CAO also provides its employees with paid annual and sick leave in accordance with its current policies. Sick leave benefits are cumulative only to the extent of use for illness. Unused annual leave is paid to the employee in cash upon termination.

COMMUNITY ACTION ORGANIZATION

NOTES TO THE FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2006

NOTE 4: DEFERRED REVENUES

Deferred revenue is recognized for program (grant) advances received by CAO that is in excess of current grant expenditures. Such amounts are restricted funds and as such can only be maintained and used in accordance with the respective grant contracts.

NOTE 5: IN-KIND CONTRIBUTIONS

Volunteers contribute services toward the fulfillment of programs sponsored by CAO. Donated services are not recorded in the financial statements because they do not meet the requirements set out in SFAS 116. During the fiscal years ended June 30, 2006 and 2005, the estimated fair value was \$246,163 and \$155,189, respectively.

CAO receives donated materials and rent that are used in CAO programs. Donated materials and rent are recorded as in-kind revenue at estimated fair market value with an offsetting entry to in-kind expense. During the fiscal years ended June 30, 2006 and 2005, donated supplies were \$138,172 and \$149,675, respectively. During the fiscal years ended June 30, 2006 and 2005, donated rent was \$259,075 and \$363,727, respectively.

NOTE 6: LEASE COMMITMENTS

CAO leases various facilities and equipment. These operating leases expire at various times through 2011. Lease expense for facilities and equipment for the fiscal years ended June 30, 2006 and 2005, was \$229,822 and \$248,110, respectively.

Future obligations under currently executed non-cancelable leases are as follows:

<u>Year</u>		
2007	\$	218,841
2008		156,128
2009		138,763
2010		43,582
2011		<u>20,569</u>
	\$	<u><u>577,883</u></u>

NOTE 7: LINE-OF-CREDIT

CAO has available a line of credit with Columbia Community Bank in the amount of \$600,000. The interest rate on the line of credit is Prime (currently 8.25%). At June 30, 2006 and 2005, the outstanding balance on the line of credit was \$0 and \$250,000, respectively. The expiration date of the line of credit agreement was January 2007.

COMMUNITY ACTION ORGANIZATION

NOTES TO THE FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2006

NOTE 8: LONG-TERM DEBT

As of June 30, 2006 and 2005, long-term debt was as follows:

	<u>2006</u>	<u>2005</u>
Columbia Community Bank - payable \$11,030 per month including interest accrued at the Treasury Maturities Rate (currently at 8.6%) - Secured by Building. The loan was refinanced in November 2005. Monthly payments are now \$10,778 at 6.9% interest rate.	\$ 1,509,735	\$ 1,266,420
Columbia Community Bank - payable monthly interest only and one principle payment by 8/31/06. Interest is at prime (currently at 6.0%) - Secured by Building	-	164,804
Less current maturities	<u>(24,747)</u>	<u>(189,199)</u>
	<u>\$ 1,484,988</u>	<u>\$ 1,242,025</u>

Maturity of debt due within 5 years:

2007	\$ 24,747
2008	27,732
2009	29,708
2010	31,823
2011	34,090
Thereafter	<u>1,361,635</u>
Total	<u>\$ 1,509,735</u>

NOTE 9: SUPPLEMENTAL DISCLOSURES - STATEMENT OF CASH FLOWS

Cash and cash equivalents include cash on hand and cash on deposit in financial institutions.

NOTE 10: CONCENTRATIONS OF CREDIT RISK

As of June 30, 2006 and 2005, CAO has cash accounts with Columbia Community Bank that exceeded the \$100,000 amount insured by the Federal Deposit Insurance Corporation (FDIC). Columbia Community Bank has collateralized the amounts that are in excess of the amount insured by FDIC.

The pledges receivable are primarily from donors located in Washington County, Oregon. Consequently, the CAO's ability to collect the pledges is affected by the economy in Washington County.

COMMUNITY ACTION ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2006

NOTE 11: RESTRICTED CASH

The Opening Doors program has a cash reserve that is restricted for use on expenditures for that program. As of June 30, 2006 and 2005, the unexpended balance of this cash reserve was \$242,322 and \$249,521, respectively.

The Weatherization program also has a cash reserve that is restricted for use on expenditures for that program. As of June 30, 2006 and 2005, the unexpended balance of this cash reserve was \$273,265 and \$244,036, respectively.

NOTE 12: PROPERTY AND EQUIPMENT

At June 30, 2006 and 2005, property and equipment consists of the following:

	2006	2005
Land and Building	\$ 2,939,611	\$ 2,939,611
Furniture and Equipment	180,758	163,614
Vehicles	162,854	162,854
Accumulated Depreciation	(1,017,116)	(923,631)
	\$ 2,266,107	\$ 2,342,448

NOTE 13: SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying schedule of expenditures of federal awards include the federal grant activity of CAO and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of the financial statements.

NOTE 14: LONG-TERM PLEDGES RECEIVABLE

As of June 30, 2006 and 2005, the CAO has pledges that will be received over the next four years. Historically, bad debts have been immaterial. CAO uses the direct write-off method. When an amount becomes uncollectible, it is charged to expense in the year it is deemed to be uncollectible. During 2006 and 2005, there were bad debts of \$15,937 and \$7,590, respectively. As of June 30, 2006, management estimated that all pledges receivable were collectible. The long-term pledges are adjusted to present value using a risk free rate of return. Long-term pledges due in the following years are as follows:

2008	\$12,500
2009	4,120
2010	1,825
2011	100
Present Value Adjustment	(2,569)
Net Long-Term Pledges Receivable	\$ 15,976

COMMUNITY ACTION ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2006

NOTE 15: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2006 and 2005:

	2006	2005
Head Start	\$ 104,035	\$ 26,653
Opening Doors	242,322	249,521
Energy Assistance	11,083	11,411
Weatherization	273,265	244,036
	\$ 630,705	\$ 531,621

NOTE 16. SUPPLEMENTAL SCHEDULE OF NON-FEDERAL AWARDS

The CAO received certain non-federal awards through various departments of the state of Oregon, Washington county, and local government. These awards are summarized as follows:

Program Titles	Contract Number	Expenditures
Local Government		
Passed Through City of Beaverton:		
Child Care Resource and Referral	None	\$ 5,000
Transitional Housing-Beaverton	None	10,000
Passed Through Other Cities:		
City of Gaston	None	500
City of Forest Grove-Westco	None	3,700
City of Tigard-Emergency Needs	None	10,000
City of Hillsboro-Information & Referral	None	8,000
City of North Plains-Information & Referral	None	1,000
City of Tualatin-Emergency Needs	None	2,000
		40,200

COMMUNITY ACTION ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2006

NOTE 16: SUPPLEMENTAL SCHEDULE OF NON-FEDERAL AWARDS (CON'T.)

Program Titles	Contract Number	Expenditures
Oregon Department of Education		
Oregon Head Start	2001-30	1,944,294
Oregon Department of Health and Human Services		
Oregon Mother's Care	None	14,229
Oregon Housing and Community Services Department		
Emergency Housing Assistance	None	241,959
State Homeless Assistance Program	None	117,485
Low Income Rental Housing Fund	None	16,554
Echo Weatherization	None	792,864
Oregon Energy Assistance	None	1,517,647
Williams Settlement	None	4,561
Williams Weatherization	None	47,277
		2,738,347
Washington County		
Opening Doors	None	15,000
Shelter Levy	None	122,658
Emergency Needs	None	15,000
		152,658
Private		
Various Private Grants	None	123,064
Total		\$ 5,012,792

COMMUNITY ACTION ORGANIZATION

NOTES TO THE FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2006

NOTE 17: REPAIRS

During the fiscal year ended June 30, 2005, the CAO raised funds and obtained financing to pay for repairs on the main facility. The repairs were needed due to the problems from the original construction of the facility. These repairs got the facility back to its original state, and did not extend the life nor increase the value of the facility. The revenues and expenses for the repairs are summarized below and are shown as other revenues and expenses on the statement of financial position:

Grants & Contracts	\$ 150,000
Contributions - Other	7,654
Contributions - Corp. & Foundations	175,000
In-Kind Revenue	35,508
In-Kind Expense	(35,508)
Interest Expense	(14,966)
Repairs	<u>(895,235)</u>
	\$ <u>(577,547)</u>

NOTE 18: CONTINGENCIES

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

NOTE 19: BOARD DESIGNATED NET ASSETS

During the fiscal year ended June 30, 2006, the CAO entered into a contractual agreement with Washington County which will provide funds for CAO over three years beginning in the fiscal year ending June 30, 2007. CAO will receive \$110,000 each year for three years and the monies are for discretionary spending, capital improvement reserves, and to ensure financial stability. Per the contractual agreement, CAO has to match the monies from Washington County for the financial stability funds to be able to receive the funds. During the fiscal year ended June 30, 2006, CAO designated \$60,000 to be used for matching the financial stability funds to be received in future fiscal years.

NOTE 20: RESTATED FINANCIAL STATEMENTS

For the fiscal year ended June 30, 2006, CAO reported the financial statements under the grant basis of accounting. Subsequent to the issuance of the financial statements, it was discovered that the financial statements should have been reported under the accounting principles generally accepted in the United States of America. For comparative purposes, the 2005 year is also shown under the generally accepted accounting principles method. Net assets as of July 1, 2005, was increased by \$89,884 for equipment purchases previously expensed and now are capitalized less additional depreciation. For the fiscal year ended June 30, 2006, additional equipment was capitalized for \$17,144 that was previously expensed, and additional depreciation was \$21,292.

COMMUNITY ACTION ORGANIZATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2006

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor's Number	Federal Expenditures
Department of Health & Human Services			
Head Start	93.600	None	\$ 4,211,616
Passed Through Oregon Housing & Community Services:			
Community Services Block Grant	93.569	533	280,897
Temporary Assistance For Needy Families	93.558	533	36,622
Low Income Housing Energy Assistance Program	93.568	533	1,275,036
Passed Through Hillsboro School District:			
Consolidated Health Centers	93.224	None	79,292
Passed Through Employment Department:			
Migrant & Seasonal Childcare	93.575	06-082	81,005
Passed Through Childcare Resource & Network DHS:			
Childcare Resource & Referral	93.575	None	212,993
Passed Through Washington County Dept. DHS:			
Medical Assistance Program	93.778	05-0894	54,940
Childcare & Development Block Grant	93.575	113278	14,229
Stabilization of Child Care Providers	93.575	None	123,760
			<u>6,370,390</u>
Department of Energy			
Passed Through Oregon Housing & Community Services:			
Bonneville Power Administration	81.999	533	30,807
Weatherization Assistance For Low Income Persons	81.042	533	148,448
			<u>179,255</u>
Department of Agriculture			
Passed Through Oregon Dept. of Education:			
Child & Adult Care Food Program	10.558	34-03001	<u>244,740</u>

COMMUNITY ACTION ORGANIZATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONT.)

Fiscal Year Ended June 30, 2006

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor's Number	Federal Expenditures
Department of Homeland Security			
Emergency Food & Shelter National Board Program	97.024	None	<u>280,167</u>
Department of Housing and Urban Development			
Supportive Housing Program	14.235	None	105,480
Passed Through Washington County Office of Community Development:			
CDBG-Self Help Weatherization	14.218	7502	25,000
CDBG-Comprehensive Weatherization	14.218	7501	20,000
CDBG-Homeless	14.218	3337	9,455
CDBG-Homeless Children	14.218	7324	41,584
CDBG-Basic Needs	14.218	7323	25,000
CDBG-Housing Locator	14.218	6324	37,560
CDBG-Information & Referral	14.218	6323	43,786
Emergency Shelter Grant	14.231	533	<u>72,476</u>
			<u>380,341</u>
Total Federal Awards			\$ <u><u>7,454,893</u></u>

COMMUNITY ACTION ORGANIZATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Fiscal Year Ended June 30, 2006

No matters are reportable.



CERTIFIED PUBLIC ACCOUNTANTS
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

December 4, 2006

To the Board of Directors
Community Action Organization
1001 SW Baseline St.
Hillsboro, OR 97123

We have audited the financial statements of Community Action Organization (CAO) as of and for the fiscal year ended June 30, 2006, and have issued our report thereon dated December 4, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered CAO'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 a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 CAO's ability to record, process, summarize, and report financial data consistent with the assertion of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2006-1.

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, for the reportable condition described above, we consider it to be a material weakness. Also, we have noted other matters involving the internal control over financial reporting, which we have reported to management of CAO in a separate letter dated December 4, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CAO's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board of Directors, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Aiken & Sanders

Aiken & Sanders, Inc., PS
Certified Public Accountants and
Management Consultants

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

December 4, 2006

To the Board of Directors
Community Action Organization
1001 SW Baseline St.
Hillsboro, OR 97123

Compliance

We have audited the compliance of Community Action Organization (CAO) 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 fiscal year ended June 30, 2006. CAO's major federal programs are identified in the summary of auditor's 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 CAO's management. Our responsibility is to express an opinion on CAO's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 the CAO'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 CAO's compliance with those requirements.

In our opinion, CAO complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2006.

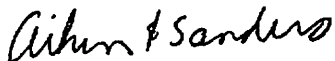
Internal Control Over Compliance

The management of CAO 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 CAO'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 a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. 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 CAO's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as items 2006-1.

A material weakness is a reportable 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, the reportable condition described above, we consider it to be a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of CAO in a separate letter dated December 4, 2006.

This report is intended for the information of the Board of Directors, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Aiken & Sanders, Inc., PS
Certified Public Accountants and
Management Consultants

COMMUNITY ACTION ORGANIZATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2006

Section I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified: Yes

Reportable conditions identified not considered to be material weaknesses: No

Noncompliance material to financial statements noted: No

Federal Awards

Internal control over major programs:

Material weaknesses identified: Yes

Reportable conditions identified not considered to be material weaknesses: No

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a): Yes

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
93.569	Community Services Block Grant
93.600	Head Start
10.558	Child & Adult Care Food Program

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee: Yes

Section II - Financial Statement Findings:

Finding #2006-01:

Criteria:

The objective of internal controls over financial reporting is to be able to record, process, summarize and report financial data that accurately reflects the operations of the organization in a timely matter.

COMMUNITY ACTION ORGANIZATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2006

Conditions:

Journal entries were made at fiscal year end to move salaries and related costs to the correct program.

Context:

During the fiscal year, salaries and related costs were coded to particular programs. At year end, management discovered that some of the salaries and related costs were coded to the wrong program. We noted a number of journal entries at year end to move salaries and related costs to the appropriate programs.

Effect:

If an organization maintains an ineffective system of internal controls, the detection and monitoring of errors is difficult. Prompt detection through monitoring provides timely and effective responses to errors when they occur. With properly functioning controls, management and the board of directors is able to make business decisions based on accounting information that accurately reflects the operations of the organization and reduces the risk that unallowable costs be charged to a grant.

Cause:

The review process of timesheets did not detect that incorrect program code were used on the timesheets.

Recommendation:

Management needs to be more diligent in reviewing monthly timesheets and correct program code errors in a timely matter.

Management's Response:

For the fiscal year ending June 30, 2007, the budget was developed listing each individual position. Staff member names are filled in once placements have been determined. The spreadsheet is set up with all Child Development fund codes as columns and salaries or portions of salaries are budgeted into the appropriate columns.

Program managers are provideds simplified spreadsheet that shows staff names, positions and locations, and the fund codes the position is expected to work under. Managers have conducted training to explain the fund codes to employees. Employee timesheets allow employees to record actual time worked for specific fund accounts.

In addition, management staff now have access to a reporting system that makes it possible to review the actual amounts paid to individuals in the various fund codes. This can be accessed at any time and enables managers to monitor closely and make timely corrections if needed.

COMMUNITY ACTION ORGANIZATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2006

Section III – Federal Award Findings and Questioned Costs:

Finding #2006-02:

Information on Federal Program:

- Program: Head Start
- CFDA: 93.600
- Contract Number: 10CH0071/40

Summary:

Journal entries were made at fiscal year end to move salaries and related costs to the correct program.

See finding #2006-01 for detail of finding and management's response.

Community Action Organization

Supplementary Schedule of Revenues, Expenses and Changes in Net Assets by Activity

For the Fiscal Year Ended June 30, 2006

	Early Childhood Development		Family & Community Resources							Community Partners	Resource Development	Administration		
	Total	Head Start	A-Kids Domain	CCRR	Opening Doors	Shelter	Transitional Housing	Emergency Needs	Information Referral			Weatherization	Energy	CSBG
Support and Revenue														
Government Revenue														
Federal	\$ 4,699,622	\$ 4,211,616	\$ -	\$ -	\$ 14,229	\$ 79,292	\$ 105,480	\$ 289,005	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State	7,296,648	2,469,928	81,081	212,993	-	359,444	53,176	-	-	1,313,501	2,525,628	-	280,897	-
Local	942,799	-	-	128,760	349,732	261,173	47,560	41,200	52,786	45,000	14,588	-	-	-
	<u>12,939,069</u>	<u>6,681,544</u>	<u>81,081</u>	<u>341,753</u>	<u>363,961</u>	<u>701,909</u>	<u>206,216</u>	<u>330,205</u>	<u>52,786</u>	<u>1,358,501</u>	<u>2,540,216</u>	-	<u>280,897</u>	-
Private Revenue														
United Way	79,477	-	47	47,889	20,237	-	-	-	-	-	-	11,304	-	-
Contributions	228,191	3,073	75	-	202	3,558	-	32,949	-	-	-	187,934	-	400
Corporations & Foundations	456,862	22,417	-	112,064	111,539	20,359	55,299	-	66,525	-	-	67,659	-	-
	<u>764,530</u>	<u>25,490</u>	<u>122</u>	<u>160,953</u>	<u>131,978</u>	<u>23,917</u>	<u>55,299</u>	<u>32,949</u>	<u>66,525</u>	-	-	<u>266,897</u>	-	<u>400</u>
Income														
Fees / Sales	107,527	47,427	5,603	49,514	-	-	-	-	4,965	-	-	18	-	-
Reimbursements	225,545	5,190	6,687	122	17,201	18,142	950	14,580	-	154,720	12	247	-	7,694
	<u>333,072</u>	<u>52,617</u>	<u>12,290</u>	<u>49,636</u>	<u>17,201</u>	<u>18,142</u>	<u>950</u>	<u>14,580</u>	<u>4,965</u>	<u>154,720</u>	<u>12</u>	<u>265</u>	-	<u>7,694</u>
Total Inkind Revenue	<u>397,247</u>	<u>257,098</u>	<u>12,410</u>	-	<u>95,492</u>	<u>29,603</u>	-	<u>120</u>	-	-	-	<u>470</u>	-	<u>2,054</u>
Total Revenue	<u>14,433,918</u>	<u>7,016,749</u>	<u>105,903</u>	<u>552,342</u>	<u>608,632</u>	<u>773,571</u>	<u>262,465</u>	<u>377,854</u>	<u>124,276</u>	<u>1,513,221</u>	<u>2,540,228</u>	-	<u>267,632</u>	<u>10,148</u>
Expenses														
Employee Costs	7,830,975	4,500,259	78,395	350,298	458,547	180,969	146,574	9,509	102,995	187,438	339,565	-	242,199	834,227
Supplies	179,563	57,142	1,236	9,224	7,196	4,406	662	532	632	21,723	2,056	-	20,539	54,215
Professional Costs	165,296	3,655	-	-	1,900	9,456	-	-	-	-	-	-	-	150,685
Communications	246,410	102,258	584	20,689	24,366	9,282	177	1,741	9,015	14,773	6,578	-	23,919	33,028
Transportation & Travel	118,385	52,659	283	5,437	20,348	2,446	3,055	-	1,790	8,419	3,291	-	2,458	18,035
Marketing	19,768	4,388	-	1,998	381	400	-	-	-	772	452	-	11,030	347
Occupancy	406,978	304,791	564	19,696	9,138	15,092	940	1,902	7,467	20,194	15,594	-	11,600	-
Other Rents	229,822	134,139	-	-	26,352	-	440	-	-	8,400	10,029	-	-	50,462
Insurance	79,540	26,656	433	-	689	940	-	162	-	8,179	-	-	-	42,481
Repair & Maintenance	59,876	43,726	-	-	-	1,590	-	-	-	906	-	-	125	13,529
Miscellaneous Expenses	154,928	64,691	334	31,203	1,543	2,667	1,050	168	1,652	6,951	271	-	6,064	38,334
Capital Outlay	44,613	26,127	-	-	-	18,486	-	-	-	-	-	-	-	-
Client Expenses	4,257,568	746,372	174	24,876	1,883	230,113	86,238	308,514	121	854,511	1,908,766	-	-	96,000
Inkind	397,247	257,098	12,410	-	95,492	29,603	-	120	-	-	-	-	470	2,054
Bad Debt Expense	16,707	-	-	-	-	-	-	-	-	-	-	-	15,937	770
Depreciation Expenses	94,336	-	-	-	-	-	-	-	-	-	-	-	-	94,336
Administrative Charges	-	631,596	2,400	62,400	47,148	62,084	44,692	23,172	12,864	151,592	253,380	-	35,904	44,167
Total Expenditures	<u>14,302,012</u>	<u>6,955,557</u>	<u>96,813</u>	<u>525,821</u>	<u>694,583</u>	<u>767,534</u>	<u>283,828</u>	<u>345,820</u>	<u>136,536</u>	<u>1,483,858</u>	<u>2,539,982</u>	-	<u>370,245</u>	<u>57,104</u>
Change in Net Assets before Other Revenue & Expenses	<u>131,906</u>	<u>61,192</u>	<u>9,090</u>	<u>26,521</u>	<u>(85,951)</u>	<u>6,037</u>	<u>(21,363)</u>	<u>32,034</u>	<u>(12,260)</u>	<u>29,363</u>	<u>246</u>	-	<u>(102,613)</u>	<u>236,566</u>
Other Revenue & Expenses														
Revenue for Funding of Repairs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses for Repairs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Other Revenue & Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted Expenditures	-	<u>(16,187)</u>	<u>55</u>	<u>16,067</u>	<u>(78,754)</u>	<u>2,999</u>	<u>(26,727)</u>	<u>8,731</u>	<u>(17,855)</u>	<u>133</u>	-	-	<u>(125,100)</u>	<u>236,566</u>
Change in Net Assets	<u>131,906</u>	<u>77,379</u>	<u>9,035</u>	<u>10,454</u>	<u>(7,197)</u>	<u>3,038</u>	<u>5,364</u>	<u>23,303</u>	<u>5,595</u>	<u>29,230</u>	<u>246</u>	-	<u>22,487</u>	<u>(47,028)</u>
Beginning of Year Net Assets	1,195,908	39,311	-	37,006	249,519	142,810	(3,192)	(22,645)	14,455	298,239	11,410	(48)	246,659	182,384
Fund Transfer	-	-	-	-	-	7,302	(7,302)	-	36	-	(577)	48	(106,158)	106,651
End of Year Net Assets	<u>\$ 1,327,814</u>	<u>\$ 116,690</u>	<u>\$ 9,035</u>	<u>\$ 47,460</u>	<u>\$ 242,322</u>	<u>\$ 152,150</u>	<u>\$ (5,130)</u>	<u>\$ 658</u>	<u>\$ 20,086</u>	<u>\$ 327,469</u>	<u>\$ 11,079</u>	<u>\$ -</u>	<u>\$ 162,988</u>	<u>\$ 242,007</u>

The accompanying notes are an integral part of these financial statements.