



FINANCIAL STATEMENTS

Year Ended June 30, 2022

with

Independent Auditors' Report

COMMUNITY ACTION ORGANIZATION

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Independent Auditors' Report

The Board of Directors
Community Action Organization

Opinion

We have audited the accompanying financial statements of Community Action Organization, which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Community Action Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Community Action Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Community Action Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Community Action Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Community Action Organization's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 16, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated [DATE], 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, grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of Community Action Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Community Action Organization's internal control over financial reporting and compliance.

Hellman, Stewart & Schmitz, P.C.

Lake Oswego, Oregon
February 15, 2023

COMMUNITY ACTION ORGANIZATION

Statement of Financial Position

June 30, 2022 <i>(With Comparative Totals for 2021)</i>	2022	2021
ASSETS		
Cash and cash equivalents	\$ 2,788,161	\$ 4,022,191
Contracts and grants receivable	4,301,713	8,925,236
Prepaid expenses	117,296	184,290
Deferred compensation plan assets <i>(Notes 9 and 10)</i>	366,700	395,170
Property and equipment - net <i>(Notes 3 and 4)</i>	1,634,161	1,717,058
Restricted cash <i>(Note 8)</i>	85,004	83,504
Total assets	<u>\$ 9,293,035</u>	<u>\$ 15,327,449</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 1,569,801	\$ 6,796,213
Accrued payroll and related expenses	250,752	623,445
Accrued vacation payable	345,621	326,703
Refundable advances	675,639	1,427,493
Deferred compensation plan liability <i>(Notes 9 and 10)</i>	366,700	395,170
Note payable <i>(Note 4)</i>	1,641,488	1,717,710
Deferred lease obligation <i>(Note 5)</i>	134,299	146,111
Total liabilities	4,984,300	11,432,845
Commitments and contingencies <i>(Notes 5, 6, and 9)</i>		
Net assets:		
Without donor restrictions	3,879,613	3,509,979
With donor restrictions <i>(Note 7)</i>	429,122	384,625
Total net assets	<u>4,308,735</u>	<u>3,894,604</u>
Total liabilities and net assets	<u>\$ 9,293,035</u>	<u>\$ 15,327,449</u>

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

COMMUNITY ACTION ORGANIZATION

Statement of Activities

June 30, 2022 *(With Comparative Totals for 2021)*

	Without Donor Restrictions	With Donor Restrictions	Total	
			2022	2021
Revenues and support:				
Government contracts and grants	\$ 66,541,662	\$ -	\$ 66,541,662	\$ 54,889,956
Other contracts and grants	1,086,545	127,121	1,213,666	1,119,604
Contributions	923,939	1,500	925,439	972,386
Contributed nonfinancial assets	149,280	-	149,280	169,584
Gross proceeds from special events	219,992	-	219,992	210,049
Less direct costs	(46,889)	-	(46,889)	(47,723)
Net special events	173,103	-	173,103	162,326
Other revenue	56,864	-	56,864	107,849
Net assets released from restrictions <i>(Note 7)</i>	84,124	(84,124)	-	-
Total revenue and support	69,015,517	44,497	69,060,014	57,421,705
Expenses:				
Program services	65,420,670	-	65,420,670	54,485,697
Administration and general	2,918,677	-	2,918,677	2,542,261
Resource development/Agency communications	306,536	-	306,536	362,442
Total expenses	68,645,883	-	68,645,883	57,390,400
Increase in net assets	369,634	44,497	414,131	31,305
Net assets, beginning of year	3,509,979	384,625	3,894,604	3,863,299
Net assets, end of year	\$ 3,879,613	\$ 429,122	\$ 4,308,735	\$ 3,894,604

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

COMMUNITY ACTION ORGANIZATION

Statement of Functional Expenses

Year Ended June 30, 2022 *(With Comparative Totals for 2021)*

	Early Childhood Development	Child Care Resource and Referral	Family Development	Housing and Homeless Services	Energy and Emergency Rent	Energy Conservation	Total Program Services
Employee costs	\$ 10,161,735	\$ 1,416,503	\$ 1,798,110	\$ 2,235,621	\$ 2,489,308	\$ 1,360,325	\$ 19,461,602
Professional fees	6,135	-	3,495	14,043	-	19,976	43,649
Supplies	94,737	32,684	18,795	26,268	15,230	80,680	268,394
Occupancy	643,882	105,545	46,196	82,622	137,163	102,244	1,117,652
Repairs and maintenance	113,547	-	-	12,548	-	4,174	130,269
Telephone	61,180	10,786	30,495	15,172	37,674	8,332	163,639
Postage and printing	25,558	4,311	1,658	1,210	36,008	6,127	74,872
Travel	44,671	778	3,747	4,977	10,416	9,975	74,564
Conferences, meetings, and training	151,013	46,582	36,290	3,128	4,945	42,093	284,051
Insurance	55,050	2,627	225	3,237	-	16,880	78,019
Miscellaneous	9,608	1,916	525	751	897	9,643	23,340
In-kind	110,545	722	12,268	20,485	300	1,000	145,320
Dues and licenses	50,266	20,118	29,712	46,876	18,290	1,918	167,180
Direct assistance to individuals	395,674	63,725	491,303	5,167,198	32,416,842	4,013,713	42,548,455
	11,923,601	1,706,297	2,472,819	7,634,136	35,167,073	5,677,080	64,581,006
Allocated shared costs	158,797	23,302	23,009	101,775	479,017	53,764	839,664
Total expenses	\$ 12,082,398	\$ 1,729,599	\$ 2,495,828	\$ 7,735,911	\$ 35,646,090	\$ 5,730,844	\$ 65,420,670

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

COMMUNITY ACTION ORGANIZATION

Statement of Functional Expenses - Continued

Year Ended June 30, 2022 (With Comparative Totals for 2021)

	Administration and General	Resource	Technology and Facilities Costs	Total Supporting Services	Total	
		Development/ Agency Communications			2022	2021
Employee costs	\$ 2,188,618	\$ 232,049	\$ 388,740	\$ 2,809,407	\$ 22,271,009	\$ 19,522,664
Professional fees	169,835	11,825	25,000	206,660	250,309	203,212
Supplies	71,716	3,514	113,547	188,777	457,171	649,661
Occupancy	190,925	17,483	67,370	275,778	1,393,430	1,299,032
Repairs and maintenance	733	-	21,734	22,467	152,736	164,425
Telephone	11,165	2,622	254,662	268,449	432,088	282,127
Postage and printing	16,220	15,210	-	31,430	106,302	100,038
Travel	2,478	135	10,491	13,104	87,668	34,453
Conferences, meetings, and training	52,496	6,976	12,092	71,564	355,615	262,612
Insurance	83,972	-	7,516	91,488	169,507	171,696
Miscellaneous	50,274	7,040	196	57,510	80,850	71,612
In-kind	1,360	460	3,500	5,320	150,640	170,786
Dues and licenses	19,206	3,717	-	22,923	190,103	169,351
Direct assistance to individuals	-	-	-	-	42,548,455	34,288,731
	<u>2,858,998</u>	<u>301,031</u>	<u>904,848</u>	<u>4,064,877</u>	<u>68,645,883</u>	<u>57,390,400</u>
Allocated shared costs	<u>59,679</u>	<u>5,505</u>	<u>(904,848)</u>	<u>(839,664)</u>	<u>-</u>	<u>-</u>
Total expenses	<u>\$ 2,918,677</u>	<u>\$ 306,536</u>	<u>\$ -</u>	<u>\$ 3,225,213</u>	<u>\$ 68,645,883</u>	<u>\$ 57,390,400</u>

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

COMMUNITY ACTION ORGANIZATION

Statement of Cash Flows

June 30, 2022 (With Comparative Totals for 2021)	2022	2021
Cash flows from operating activities:		
Cash received from grantors, customers, and donors	\$ 72,780,903	\$ 53,682,347
Cash paid to employees and vendors	(22,654,536)	(19,134,874)
Cash paid for interest	(80,359)	(84,104)
Cash paid for specific assistance	<u>(51,144,977)</u>	<u>(31,715,280)</u>
Net cash provided (used) by operating activities	(1,098,969)	2,748,089
Cash flows from investing activities:		
Additions to property and equipment	<u>(58,839)</u>	<u>(23,431)</u>
Net cash used in investing activities	(58,839)	(23,431)
Cash flows from financing activities:		
Endowment contributions received	1,500	500
Principal payments on note payable	<u>(76,222)</u>	<u>(72,261)</u>
Net cash used in financing activities	(74,722)	(71,761)
Net increase (decrease) in cash, cash equivalents, and restricted cash	(1,232,530)	2,652,897
Cash, cash equivalents, and restricted cash, beginning of year	<u>4,105,695</u>	<u>1,452,798</u>
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 2,873,165</u>	<u>\$ 4,105,695</u>
Reconciliation to statement of financial position:		
Cash and cash equivalents	\$ 2,788,161	\$ 4,022,191
Restricted cash	<u>85,004</u>	<u>83,504</u>
	<u>\$ 2,873,165</u>	<u>\$ 4,105,695</u>

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

COMMUNITY ACTION ORGANIZATION

Notes to Financial Statements

1. Organization

Community Action Organization (CAO) is a private, non-profit agency serving primarily Washington County, Oregon, to eliminate conditions of poverty and create opportunities for people and the community to thrive. CAO operates a range of programs and services, funded by public and private grants, contracts, and contributions, to assist primarily low-income residents 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.

Program Services - During the year ended June 30, 2022, CAO incurred program service expenses in the following major categories:

Early Childhood Development - Early Childhood Development encompasses CAO's Head Start and Early Head Start programs.

- Head Start is funded for 817 primarily low-income pre-school children, ages 3 to 5, including those with special needs, and strives to prepare them for success in school and life. Children were in the following models: 583 in part-day pre-kindergarten; 212 in full school day-full school year; 18 in full-day full-year; and 4 at Coffee Creek Correctional Facility.
- Early Head Start is funded for 142 children, ages 0 to 3, with 114 children and pregnant women in a Home-Based model; 24 in full-day full-year classrooms; and 4 at the Coffee Creek Correctional Facility. Early Head Start promotes physical, social, emotional, cognitive, and language development of infants and toddlers and supports positive parent-child relationships.
- Teaching Strategies GOLD, a research-based assessment tool that aligns with the Creative Curriculum (research-based curriculum), Head Start Child Development Early Learning Framework, and our program's school readiness goals are used to track children's development in multiple domains. Children made significant, measurable gains in social-emotional development, cognitive reasoning, fine and gross motor coordination, language literacy development, and mathematical skills.

Child Care Resource and Referral - Child Care Resource and Referral provides professional development opportunities and coaching, which includes participating in Oregon's Quality Rating and Improvement System, called Spark. We also support early educators with technical assistance in understanding the Employment Related Daycare System (ERDC) with families who receive subsidies through the Department of Human Services (DHS). We offer employers technical assistance around child care options as well as informing them on how quality child care supports their work force.

- The quality of local child care resources improved as 1,460 providers participated in 28,818 hours of training in early childhood development.
- 6 new providers serving high poverty neighborhoods successfully submitted Spark portfolios and received their Spark rating. There are currently 75 providers with Spark rating serving Washington County Children.

COMMUNITY ACTION ORGANIZATION

Notes to Financial Statements - Continued

1. Organization - Continued Program Services - Continued

Family Development - Family Development provides assessment and assistance connecting to resources and home visiting case management to help families meet their goals, increase housing and income stability, and improve family functioning and parenting skills. Program services also help families take charge of their finances and plan for their future by providing financial literacy classes and Individual Development Accounts.

- 926 new parents were provided with information about early child development and parenting resources.
- 96 pregnant women enrolled in the Oregon Health Plan and 191 women were connected to prenatal care.
- 79 at-risk families received parenting support to prevent child abuse and neglect.
- 269 families participated in home-visiting support services to set and achieve goals to help avoid or recover from homelessness and maintain a stable home.
- 5 new families began the process of saving funds to increase their education or start a business through CAO's Individual Development Account program. 15 families in total are currently saving towards their asset goal.
- 86 individuals learned skills to take control of their financial future through CAO's financial education classes.
- 80 individuals participated in our Career Coaching services.

Housing and Homeless Services - Housing and Homeless Services focuses on identifying long-term, stable solutions for renters, and utilizes a Housing First model - getting homeless people housed as quickly as possible and getting them the supportive services necessary to maintain long-term stability. Rent assistance funds aim to intervene and prevent homelessness from happening in the first place by providing a range of support from emergency payments to longer term assistance depending on eligibility requirements. Additionally, our Hillsboro Family Shelter is the lead partner in a three-shelter network in Washington County. During a stay in our shelter, staff help residents develop a plan to find permanent housing and address other needs that will support long-term self-sufficiency and stability.

- 101 homeless children and parents had the chance to get back on their feet by staying at CAO's Hillsboro Family Shelter.
- 2,232 families experiencing homelessness or at imminent risk of homelessness were assessed for eligibility for the continuum of housing programs in Washington County.
- 279 families experiencing homelessness were re-housed with short-term rent assistance.

Energy and Emergency Rent - Energy and Emergency Rent prevents homelessness and assures that families can remain safe and warm in their homes by providing financial assistance for those facing eviction or termination of heat and electricity services.

- 7,325 families stayed warm and safe in their homes with heat and electricity bill paying assistance from CAO.
- 3,494 families at risk of homelessness were stabilized with short-term rent assistance.

COMMUNITY ACTION ORGANIZATION

Notes to Financial Statements - Continued

1. Organization - Continued Program Services - Continued

Energy Conservation - Energy Conservation helps families reduce energy bills by assessing home energy use, recommending cost saving measures and connecting with resources to improve energy efficiency.

- 188 families had lower heating costs and warmer, safer, healthier homes because CAO provided comprehensive weatherization services.
- 227 households reduced energy costs, improved home safety and increased energy efficiency by receiving energy education and conservation services.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by CAO are described below to enhance the usefulness of the financial statements to the reader.

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 CAO and changes therein are classified and reported as follows:

Net assets without donor restrictions - Net assets not subject to donor-imposed stipulations.

Net assets with donor restrictions - Net assets subject to donor-imposed stipulations that will be met either by actions of CAO and/or the passage of time. Some net assets with donor restrictions include a stipulation that the resources be maintained permanently, but permit CAO to use the income.

Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Use of Estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, gains and other support, and expenses during the year. Actual results could differ from those estimates. Significant estimates made by management include depreciation and amortization expense (based on the estimated useful lives of the underlying assets), refundable advances, the allowance for doubtful accounts, and the allocation of certain shared expenses.

COMMUNITY ACTION ORGANIZATION

Notes to Financial Statements - Continued

2. Summary of Significant Accounting Policies - Continued

Cash and Cash Equivalents, Restricted Cash, and Concentrations of Risk - For the purposes of the financial statements, CAO considers all liquid investments having initial maturities of three months or less to be cash equivalents. At June 30, 2022, and on occasion throughout the year, CAO's cash and cash equivalents and restricted cash balances exceeded federally insured limits.

Contracts and Grants Receivable - Contracts and grants receivable are primarily due from government agencies and are recognized as underlying conditions outlined in the specific grant or contract agreement have been satisfied. Management believes these are fully collectible within one year and as such no allowance for doubtful accounts has been recorded. As of June 30, 2022, 33 percent of the outstanding balance is from two agencies.

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 fair values on the date received. Depreciation and amortization of property and equipment are calculated using the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years.

Revenue Recognition - CAO's major sources of revenue and support and related recognition policies are summarized as follows:

Contracts and Grant Revenue - CAO's contract and grant revenue is substantially derived from federal, state, and local government grants and contracts, including funds received from various governmental entities for COVID relief. These contracts and grants are considered conditional contributions due to the presence of certain barriers (typically specific performance requirements and/or the incurrence of allowable qualifying expenses). Amounts received are recognized as revenue when CAO has satisfied the related barrier. Also, included in other contracts and grants are amounts received from certain public utilities for weatherizing eligible households. The revenue is based on standard energy saving measures installed and is restricted to using the funds in the specified operating area of the public utility. CAO reports the revenue as restricted by donors to the extent the restriction has not been satisfied as of June 30, 2022.

At June 30, 2022, CAO had remaining available award balances on grants and contracts of approximately \$26,400,000 that have not yet been recognized in the financial statements. These award balances will be recognized as revenue when the related barriers are satisfied.

Conditional grants and contracts whose conditions are satisfied in the same reporting period in which the funding is received are reported as an increase in net assets without donor restrictions. Amounts received in advance of the barrier being satisfied are not recognized as revenue until the conditions are met and are classified as refundable advances on the statement of financial position.

COMMUNITY ACTION ORGANIZATION

Notes to Financial Statements - Continued

2. Summary of Significant Accounting Policies - Continued Revenue Recognition - Continued

Contribution Recognition - CAO recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized as revenue until the conditions on which they depend have been met.

Support that is restricted by the donor is reported as an increase in net assets without donor restrictions 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 net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Contributions of nonfinancial assets - 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 support without donor restrictions unless the donor has restricted the donated asset to a specific purpose.

CAO 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 year ended June 30, 2022, CAO received donated rent of \$101,170 and supplies of \$48,110. CAO estimates it received 201 volunteer service hours for the year ended June 30, 2022. The value of such services does not meet the requirements for recognition and have therefore not been included in the accompanying financial statements.

Revenue Concentrations - A significant portion of CAO's revenues is derived from grants and contracts with various federal, state, and local government agencies. During the year ended June 30, 2022, approximately 43 percent of government contract revenue was provided under contracts with the U.S. Department of Treasury Program, 13 percent was provided by the Oregon Housing and Community Services Department, 20 percent was provided by the U.S. Department of Health and Human Services' Head Start Program, and 11 percent was provided by the Oregon Pre-kindergarten Program.

Functional Allocation of Expenses - The expenses of providing various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited. Where not specifically identifiable, costs are allocated based on estimates of time and effort expended. Technology and facilities costs are accumulated in a shared cost pool, then allocated among the various program and supporting services based on specific identification of costs.

COMMUNITY ACTION ORGANIZATION

Notes to Financial Statements - Continued

2. Summary of Significant Accounting Policies - Continued

Income Tax Status - CAO 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 CAO has no activities subject to unrelated business income tax. CAO is not a private foundation.

It is management's belief that none of CAO's activities have resulted in unrelated business income over \$1,000; therefore, no provision for income taxes related to the activities of CAO has been made.

GAAP prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters such as interest, penalties, and required disclosures. Management does not believe CAO has any entity level uncertain tax positions. CAO files informational returns in the U.S. federal jurisdiction and the state of Oregon. Generally, the returns are subject to examination by these taxing authorities for three years from the filing of the return. There are currently no audits for any tax periods in progress. Interest or penalties assessed by taxing authorities, if any, are included with administration and general expenses. CAO did not incur any interest or penalties assessed by taxing authorities during the year ended June 30, 2022.

Summarized Financial Information for 2021 - The financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with CAO's financial statements as of and for the year ended June 30, 2021, from which the summarized information was derived.

Recent Accounting Pronouncement - In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. This ASU, among other things, will require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and a right-of-use asset, which represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 is effective for CAO on July 1, 2022. CAO is evaluating the potential impact of this ASU on CAO's financial statements.

Subsequent Events - On November 1, 2022, CAO refinanced the note payable on their main headquarters to avoid an upcoming balloon payment. The terms of the new note and future payments are reflected in *Note 4* of the financial statements.

CAO has evaluated subsequent events through February 15, 2023, the date the financial statements were available for issue.

COMMUNITY ACTION ORGANIZATION

Notes to Financial Statements - Continued

3. Property and Equipment

Property and equipment consist of the following at June 30, 2022:

Land, buildings, and leasehold improvements	\$ 3,464,427
Vehicles	717,305
Equipment	228,124
Software	<u>30,038</u>
	4,439,894
Less accumulated depreciation and amortization	<u>(2,805,733)</u>
Property and equipment - net	<u><u>\$ 1,634,161</u></u>

Depreciation and amortization expense totaled \$141,736 for the year ended June 30, 2022.

4. Note Payable

During the year ended June 30, 2022, CAO had a note payable from Heritage Bank that called for monthly installments of \$13,048 with a fixed interest rate of 4.72 percent per annum. This note payable had a balloon payment of the outstanding balance due during November, 2022. Before this payment came due, and subsequent to the year ended June 30, 2022, CAO refinanced the loan with different loan terms from Heritage Bank. The note payable now calls for monthly installments of \$11,099 with a fixed interest rate of 5.35 percent through November 2032. The note is secured by a trust deed of certain real property with a net book value of \$1,253,179 at June 30, 2022. The outstanding balance on the note is \$1,641,488 at June 30, 2022. Interest expense incurred on the debt for the year ended June 30, 2022 totaled \$80,359.

Future principal payments are as follows at June 30, 2022:

Years Ending June 30,	Amount
2023	\$ 52,824
2024	49,006
2025	51,693
2026	54,528
2027	57,517
Thereafter	<u>1,375,920</u>
	<u><u>\$ 1,641,488</u></u>

COMMUNITY ACTION ORGANIZATION

Notes to Financial Statements - Continued

5. Lease Commitments

CAO leases administrative and program offices, equipment, and vehicles under various operating leases that expire through September 2029.

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

Years Ending June 30,	Amount
2023	\$ 402,255
2024	349,010
2025	271,197
2026	213,041
2027	203,731
Thereafter	<u>356,960</u>
	<u>\$ 1,796,194</u>

Rent expense for facilities and office equipment totaled \$463,990 for the year ended June 30, 2022.

In accordance with GAAP, CAO is recording rent expense using the straight-line method over the life of the lease. Accordingly, a liability for deferred lease obligation has been established to reflect the difference between actual rental expense based on the straight-line method and actual amounts paid under the terms of the lease. At June 30, 2022, the deferred lease obligation liability was \$134,299.

6. Contingencies

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

COMMUNITY ACTION ORGANIZATION

Notes to Financial Statements - Continued

7. Net Assets With Donor Restrictions

Net assets with donor restrictions are as follows at June 30, 2022:

Subject to expenditure for specified purpose:	
Housing and Homeless Services	\$ 45,743
Energy Assistance and Emergency Rents	93,477
Administration	122,275
Other	<u>82,623</u>
	344,118
 Endowment funds held by CAO restricted to be invested in perpetuity	 <u>85,004</u>
 Total net assets with donor restrictions	 <u><u>\$ 429,122</u></u>

During the year ended June 30, 2022, net assets of \$84,124 were released from restriction due to the satisfaction of restrictions imposed by donors.

8. Endowment Funds

Financial accounting standards provide guidance for the classification of donor-restricted endowment funds that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

Interpretation of Relevant Law

The Board of Directors of CAO has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, CAO classifies net assets with donor restrictions as: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument, if any, at the time the accumulation is added to the fund.

COMMUNITY ACTION ORGANIZATION

Notes to Financial Statements - Continued

8. Endowment Funds - Continued

The remaining portion of the donor restricted endowment fund that is not classified in restricted net assets in perpetuity is classified as restricted net assets due to purpose restrictions until those amounts are appropriated for expenditure by CAO in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, CAO considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of CAO, and (7) CAO's investment policies.

Investment Strategy and Endowment Spending Policies

CAO received its first contribution restricted to the permanent endowment during the fiscal year ended June 30, 2015. At this time, the endowment investing and spending policies are in development, but have not yet been adopted by the board. The funds are currently being held in a bank account and are not earning a return.

Endowment net asset composition by type of fund as of June 30, 2022, is as follows:

Ness Endowment Fund	<u>\$ 85,004</u>
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Change in endowment funds for the year ended June 30, 2022 is as follows:

Balance - June 30, 2021	\$ 83,504
Contributions	<u>1,500</u>
Balance - June 30, 2022	<u>\$ 85,004</u>

COMMUNITY ACTION ORGANIZATION

Notes to Financial Statements - Continued

9. Retirement Plans and Deferred Compensation

CAO provides eligible employees with a qualified retirement plan as described under Section 403(b) of the Internal Revenue Code. 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 percent of the employee's per pay period compensation. The employer discretionary match is subject to a two year vesting period.

CAO also sponsors a 457 non-qualified deferred compensation plan for the executive director and agency program directors. The current contribution rate by CAO is 6 percent of per pay period salary. This contribution is fully vested. The investments and related accrued benefits under this plan are included in the statement of financial position since they are considered assets and liabilities of CAO until separation of service.

Contributions to the plans for the year ended June 30, 2022, approximated \$376,000.

10. Fair Value Measurements

Generally accepted accounting principles establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels. CAO uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, CAO measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value, and Level 3 inputs were only used when Level 1 or Level 2 inputs were not available. The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets CAO has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets in active markets.
- Quoted prices for identical or similar assets in inactive markets.
- Inputs, other than quoted prices, that are observable for the asset.
- Inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology that are unobservable and significant to the fair value measurement.

COMMUNITY ACTION ORGANIZATION

Notes to Financial Statements - Continued

10. Fair Value Measurements - Continued

CAO's assets that are measured at fair value on a recurring basis along with how fair value was determined are as follows at June 30, 2022:

	Level 1	Level 2	Total
Investment in deferred compensation plan assets:			
Equity mutual funds	\$ 366,513	\$ -	\$ 366,513
Annuity fund	<u>-</u>	<u>187</u>	<u>187</u>
Total investment in deferred compensation plan assets	<u>\$ 366,513</u>	<u>\$ 187</u>	<u>\$ 366,700</u>

CAO's liability that is measured at fair value on a recurring basis, along with how fair value was determined, was as follows at June 30, 2022:

	Level 1	Level 2	Total
Deferred compensation liability	<u>\$ -</u>	<u>\$ 366,700</u>	<u>\$ 366,700</u>

The fair value of the equity mutual funds and bond mutual funds are determined by reference to quoted market prices and is, therefore, classified as Level 1. The fair value of the annuity fund is based on pricing models, yield curves, and other relevant economic measures and is, therefore, classified as Level 2.

Fair value of the deferred compensation liability is tied directly to the valuation of the investments described above, and is classified as Level 2 as there is no active market.

COMMUNITY ACTION ORGANIZATION

Notes to Financial Statements - Continued

11. Liquidity and Availability of Resources

CAO's financial assets available for general expenditure within one year of the statement of financial position date consist of the following at June 30, 2022:

Cash and cash equivalents	\$ 2,788,161
Contracts and grants receivable	<u>4,301,713</u>
Total financial assets available for general expenditure within one year	7,089,874
Less:	
Amounts unavailable for general expenditure within one year due to donor restrictions	<u>(344,118)</u>
Total financial assets available to management for general expenditure within one year	<u><u>\$ 6,745,756</u></u>

CAO maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations become due.