



FINANCIAL STATEMENTS

Year Ended June 30, 2018

with

Independent Auditors' Report

COMMUNITY ACTION ORGANIZATION

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CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

The Board of Directors
Community Action Organization

Report on the Financial Statements

We have audited the accompanying financial statements of Community Action Organization, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Action Organization as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Community Action Organization's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 8, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2018, 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, Seibert & Schmitz, P.C.

Lake Oswego, Oregon
November 8, 2018

COMMUNITY ACTION ORGANIZATION

Statement of Financial Position

June 30, 2018 <i>(With Comparative Totals for 2017)</i>	2018	2017
ASSETS		
Cash and cash equivalents	\$ 2,254,893	\$ 2,189,500
Accounts receivable	2,436,418	2,888,164
Prepaid expenses	38,344	51,364
Deferred compensation plan assets <i>(Notes 9 and 10)</i>	210,312	176,484
Property and equipment - net <i>(Notes 3 and 4)</i>	1,735,909	1,852,288
Restricted cash <i>(Note 8)</i>	78,754	76,754
Total assets	<u>\$ 6,754,630</u>	<u>\$ 7,234,554</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 555,444	\$ 1,434,748
Accrued payroll and related expenses	321,358	293,083
Accrued vacation payable	163,991	163,322
Deferred revenue	26,187	44,812
Deferred compensation plan liability <i>(Notes 9 and 10)</i>	210,312	176,484
Note payable <i>(Note 4)</i>	1,924,741	1,989,574
Total liabilities	3,202,033	4,102,023
Commitments and contingencies <i>(Notes 5, 6, 9 and 10)</i>		
Net assets:		
Unrestricted	3,188,256	2,786,010
Temporarily restricted <i>(Note 7)</i>	285,587	269,767
Permanently restricted <i>(Note 8)</i>	78,754	76,754
Total net assets	<u>3,552,597</u>	<u>3,132,531</u>
Total liabilities and net assets	<u>\$ 6,754,630</u>	<u>\$ 7,234,554</u>

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

COMMUNITY ACTION ORGANIZATION

Statement of Activities

Year Ended June 30, 2018 *(With Comparative Totals for 2017)*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2018	2017
Revenues and support:					
Government contracts	\$ 24,429,982	\$ -	\$ -	\$ 24,429,982	\$ 24,501,763
Other contracts and grants	443,999	-	-	443,999	708,410
Contributions	281,502	143,358	2,000	426,860	354,029
In-kind <i>(Note 2)</i>	155,619	-	-	155,619	195,777
Gross proceeds from special events	259,847	5,900	-	265,747	255,710
Less direct costs	<u>(118,947)</u>	<u>-</u>	<u>-</u>	<u>(118,947)</u>	<u>(109,663)</u>
Net special events	140,900	5,900	-	146,800	146,047
Other revenue	981,059	-	-	981,059	597,897
Net assets released from restrictions <i>(Note 7)</i>	<u>133,438</u>	<u>(133,438)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue and support	26,566,499	15,820	2,000	26,584,319	26,503,923
Expenses:					
Program services	24,286,910	-	-	24,286,910	23,968,447
Administration and general	1,617,767	-	-	1,617,767	1,489,000
Fund development	<u>259,576</u>	<u>-</u>	<u>-</u>	<u>259,576</u>	<u>280,554</u>
Total expenses	26,164,253	-	-	26,164,253	25,738,001
Increase in net assets	402,246	15,820	2,000	420,066	765,922
Net assets, beginning of year	<u>2,786,010</u>	<u>269,767</u>	<u>76,754</u>	<u>3,132,531</u>	<u>2,366,609</u>
Net assets, end of year	<u>\$ 3,188,256</u>	<u>\$ 285,587</u>	<u>\$ 78,754</u>	<u>\$ 3,552,597</u>	<u>\$ 3,132,531</u>

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

COMMUNITY ACTION ORGANIZATION

Statement of Functional Expenses

Year Ended June 30, 2018 *(With Comparative Totals for 2017)*

	Early Childhood Development	Child Care Resource and Referral	Family Development	Housing and Homeless Services	Energy and Emergency Rent	Energy Conservation
Employee costs	\$ 7,978,710	\$ 513,095	\$ 1,155,635	\$ 874,079	\$ 752,228	\$ 763,965
Professional fees	-	2,850	-	-	-	14,585
Supplies	102,372	19,359	24,283	27,595	16,529	41,015
Occupancy	447,059	42,069	35,680	55,714	66,367	36,361
Repairs and maintenance	108,516	-	-	22,662	-	2,465
Telephone	42,384	5,862	21,189	7,204	23,031	7,858
Postage and printing	52,616	12,931	6,402	6,135	9,771	4,960
Travel	66,509	2,862	16,854	7,269	9,678	3,013
Conferences and meetings	303	1,460	1,380	318	780	641
Marketing	7,328	713	810	502	35	1,100
Training	165,079	110,013	31,833	56,574	5,467	131,031
Insurance	45,011	18,997	619	2,266	735	13,835
Miscellaneous	11,283	-	496	2,278	34	-
In-kind	110,015	5,800	6,660	18,119	-	-
Dues and licenses	48,736	2,556	7,686	15,252	2,975	908
Direct assistance to individuals	<u>762,968</u>	<u>39,402</u>	<u>81,662</u>	<u>1,627,306</u>	<u>4,687,991</u>	<u>2,207,128</u>
	9,948,889	777,969	1,391,189	2,723,273	5,575,621	3,228,865
Allocated shared costs	<u>238,526</u>	<u>19,799</u>	<u>28,820</u>	<u>62,694</u>	<u>137,775</u>	<u>81,104</u>
Total expenses	<u>\$ 10,187,415</u>	<u>\$ 797,768</u>	<u>\$ 1,420,009</u>	<u>\$ 2,785,967</u>	<u>\$ 5,713,396</u>	<u>\$ 3,309,969</u>

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

COMMUNITY ACTION ORGANIZATION

Statement of Functional Expenses - Continued

Year Ended June 30, 2018 *(With Comparative Totals for 2017)*

	Other Programs	Total Program Services	Administration and General	Fund Development	Technology and Facilities Costs	Total	
						2018	2017
Employee costs	\$ 60,025	\$ 12,097,737	\$ 1,141,020	\$ 180,939	\$ 349,543	\$ 13,769,239	\$ 12,716,460
Professional fees	8,000	25,435	55,245	-	-	80,680	196,018
Supplies	678	231,831	23,147	1,228	27,046	283,252	522,830
Occupancy	-	683,250	72,372	17,839	77,934	851,395	841,135
Repairs and maintenance	-	133,643	145	-	7,362	141,150	136,056
Telephone	260	107,788	5,139	2,894	106,897	222,718	214,327
Postage and printing	2,625	95,440	12,671	10,807	-	118,918	120,051
Travel	-	106,185	9,741	4,227	7,138	127,291	98,437
Conferences and meetings	-	4,882	3,591	430	-	8,903	8,331
Marketing	-	10,488	306	341	-	11,135	12,761
Training	-	499,997	31,571	4,524	-	536,092	370,431
Insurance	-	81,463	45,906	-	5,060	132,429	137,770
Miscellaneous	-	14,091	121,830	11,603	-	147,524	96,440
In-kind	-	140,594	11,425	3,600	-	155,619	195,777
Dues and licenses	798	78,911	36,979	10,459	33,793	160,142	146,394
Direct assistance to individuals	-	9,406,457	11,309	-	-	9,417,766	9,924,783
	72,386	23,718,192	1,582,397	248,891	614,773	26,164,253	25,738,001
Allocated shared costs	-	568,718	35,370	10,685	(614,773)	-	-
Total expenses	\$ 72,386	\$ 24,286,910	\$ 1,617,767	\$ 259,576	\$ -	\$ 26,164,253	\$ 25,738,001

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

COMMUNITY ACTION ORGANIZATION

Statement of Cash Flows

Year Ended June 30, 2018 (With Comparative Totals for 2017)	2018	2017
Cash flows from operating activities:		
Cash received from grantors, customers, and donors	\$ 26,859,819	\$ 25,279,720
Cash paid to suppliers	(12,897,481)	(12,031,549)
Cash paid for interest	(91,817)	(90,786)
Cash paid for payroll and related expenses	(13,740,295)	(12,690,187)
Net cash provided by operating activities	130,226	467,198
Cash flows from investing activities:		
Additions to property and equipment	-	(131,272)
Net cash used in investing activities	-	(131,272)
Cash flows from financing activities:		
Endowment contributions received	2,000	12,775
Principal payments on note payable	(64,833)	(65,999)
Net cash used in financing activities	(62,833)	(53,224)
Net increase in cash, cash equivalents, and restricted cash	67,393	282,702
Cash, cash equivalents, and restricted cash, beginning of year	2,266,254	1,983,552
Cash, cash equivalents, and restricted cash, end of year	\$ 2,333,647	\$ 2,266,254
Reconciliation to statement of financial position:		
Cash and cash equivalents	\$ 2,254,893	\$ 2,189,500
Restricted cash	78,754	76,754
	\$ 2,333,647	\$ 2,266,254
Reconciliation of cash flow activity:		
Increase in net assets	\$ 420,066	\$ 765,922
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	116,379	114,746
Endowment contributions received	(2,000)	(12,775)
(Increase) decrease in:		
Accounts receivable	451,746	(1,104,778)
Grant receivable	-	50,000
Prepaid expenses	13,020	(18,262)
Increase (decrease) in:		
Accounts payable	(879,304)	716,609
Accrued payroll and related expenses	28,275	21,804
Accrued vacation payable	669	4,468
Deferred revenue	(18,625)	(70,536)
Net cash provided by operating activities	\$ 130,226	\$ 467,198

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, 2018, 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 821 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: 719 in part-day pre-kindergarten; 80 in full school day-full school year; 18 in full-day full-year; and 4 at Coffee Creek Correctional Facility. By the end of the school year, 71 percent to 90 percent of the children had met or exceeded widely held expectations in the developmental domains.
- Early Head Start is funded for 112 children, ages 0 to 3, with 84 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. By the end of the school year, 65 percent to 85 percent of the children had met or exceeded widely held expectations in the developmental domains.
- 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 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 1,104 providers participated in 12,087 hours of training in early childhood development.

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.

- With access to appropriate pre-natal services, 141 low-income pregnant women were better equipped for a healthy birth.
- 598 new parents were provided with information about early child development and parenting resources.
- 49 at-risk families received parenting support to prevent child abuse and neglect.
- 274 families participated in home-visiting support services to set and achieve goals to help avoid or recover from homelessness and maintain a stable home.
- 8 new families began the process of saving funds to increase their education or start a business through Community Action's Individual Development Account program. 23 Families in total are currently saving towards their asset goal.
- 48 individuals learned skills to take control of their financial future through Community Action's financial education classes.
- 113 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.

- 122 homeless children and parents had the chance to get back on their feet by staying at Community Action's Hillsboro Family Shelter.
- 2,305 families experiencing homelessness or at imminent risk of homelessness were assessed for eligibility for the continuum of housing programs in Washington County.
- 444 families experiencing homelessness were re-housed with short-term rent assistance.
- 105 families graduated from the Rent Well program gaining the knowledge and experience to become successful tenants.

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.

- 6,641 families stayed warm and safe in their homes with heat and electricity bill paying assistance from Community Action.
- 381 families facing eviction remained in their homes because of rent assistance provided by Community Action.

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.

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

Other Programs - Other programs include Community Outreach.

- Community Outreach efforts support Community Action's mission, and actively works to increase the public's awareness and knowledge of our work in the county. The intent is to help the public understand the issues of poverty in Washington County, with the hope that community members will help support CAO's programs and services specifically, and more broadly support strategies that will reduce the impact of poverty in our community.

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:

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that will be met either by actions of CAO and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed restrictions that stipulate the resources be maintained permanently, but permit CAO to use the income.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary 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.

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, 2018, and on occasion throughout the year, CAO's cash and cash equivalents and restricted cash exceeded Federally insured limits

Accounts Receivable - Accounts receivable are unsecured and reported at the amount management expects to collect on balances outstanding at year end. Based on an assessment of the credit history with those having outstanding balances and current relationships with them, management has concluded that an allowance for doubtful accounts is not necessary. As of June 30, 2018, 84 percent of the outstanding balance is from four agencies.

At June 30, 2018, CAO had receivables totaling \$10,471 greater than 90 days past due.

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 of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years.

Deferred Revenue - Deferred revenue is recorded for contract advances received by CAO in excess of current contract earnings. Such amounts can only be maintained and used in accordance with the respective contracts.

Revenue Recognition - Revenues from government and other contracts and grants are recognized as the underlying terms of the contract or grant are satisfied.

Revenue Concentrations - A significant portion of CAO's revenues are earned under contracts with various Federal, state, and local government agencies. During the year ended June 30, 2018, approximately 34 percent of government contract revenue was provided under contracts with Oregon Housing and Community Services Department, 19 percent was provided under the U.S. Department of Health and Human Services' Head Start Program, and 16 percent was provided under the Oregon Pre-kindergarten Program.

Contribution Recognition - Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

COMMUNITY ACTION ORGANIATION

Notes to Financial Statements - Continued

2. Summary of Significant Accounting Policies - Continued

In-kind Donations - Donations of property, equipment, materials, and other assets are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

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, 2018, CAO received donated rent of \$123,345 and supplies of \$32,274. CAO estimates it received 3,440 volunteer service hours for the year ended June 30, 2018. The value of such services do not meet the requirements for recognition and have therefore not been included in the accompanying financial statements.

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

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 the 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.

Accounting principles generally accepted in the United States of America (GAAP) prescribe 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, 2018.

COMMUNITY ACTION ORGANIZATION

Notes to Financial Statements - Continued

2. Summary of Significant Accounting Policies - Continued

Use of Estimates - The preparation of the financial statements in conformity with 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), deferred revenue, the allowance for doubtful accounts, and the allocation of certain shared expenses

Subsequent Events - CAO has evaluated subsequent events through November 8, 2018, the date the financial statements were available to be issued.

3. Property and Equipment

Property and equipment consist of the following at June 30:

	2018	2017
Land, buildings, and leasehold improvements	\$ 3,163,232	\$ 3,163,232
Vehicles	616,946	616,946
Equipment	205,844	205,844
Software	<u>30,038</u>	<u>30,038</u>
	4,016,060	4,016,060
Less accumulated depreciation and amortization	<u>(2,280,151)</u>	<u>(2,163,772)</u>
Property and equipment, net	<u><u>\$ 1,735,909</u></u>	<u><u>\$ 1,852,288</u></u>

COMMUNITY ACTION ORGANIZATION

Notes to Financial Statements - Continued

4. Note Payable

The note payable represents a loan from Premier Community Bank, payable in monthly installments of \$13,048 with a fixed interest rate of 4.72 percent through November 2022. The note is secured by a trust deed of certain real property with a net book value of \$1,525,378 at June 30, 2018. The outstanding balance on the note is \$1,924,741 at June 30, 2018.

Interest expense incurred on the debt for the year ended June 30, 2018 totaled \$91,817.

Future principal payments are as follows at June 30, 2018:

Years Ending June 30,	Amount
2019	\$ 67,174
2020	70,414
2021	73,809
2022	77,371
2023	1,635,973
	<u>\$ 1,924,741</u>

5. Lease Commitments

CAO leases administrative and program offices, equipment, and vehicles under various operating leases that expire through August 2028.

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

Years Ending June 30,	Amount
2019	\$ 233,513
2020	242,772
2021	183,892
2022	173,838
2023	176,011
Thereafter	944,891
	<u>\$ 1,954,917</u>

Rent expense for facilities and office equipment approximated \$342,000 for the year ended June 30, 2018.

COMMUNITY ACTION ORGANIZATION

Notes to Financial Statements - Continued

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.

7. Temporarily Restricted Net Assets

Temporarily restricted net assets are purpose restricted as follows at June 30, 2018:

Family Development	\$ 7,790
Housing and Homeless Services	7,391
Energy Assistance and Emergency Rents	36,772
Weatherization	156,223
Administration	<u>77,411</u>
Total temporarily restricted net assets	<u><u>\$ 285,587</u></u>

During the year ended June 30, 2018, net assets of \$133,438 were released from restriction due to the satisfaction of restrictions imposed by donors.

COMMUNITY ACTION ORGANIZATION

Notes to Financial Statements - Continued

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 as permanently restricted net assets (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.

The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets 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, 2018, is as follows:

	Permanently Restricted
Ness Endowment Fund	<u>\$ 78,754</u>

COMMUNITY ACTION ORGANIZATION

Notes to Financial Statements - Continued

8. Endowment Funds - Continued

Change in endowment funds for the year ended June 30, is as follows:

Balance - June 30, 2017	\$ 76,754
Contributions	<u>2,000</u>
Balance - June 30, 2018	<u><u>\$ 78,754</u></u>

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 years ended June 30, 2018, approximated \$230,000.

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.

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Notes to Financial Statements - Continued

10. Fair Value Measurements - Continued

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.

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, 2018:

	Level 1	Level 2	Total
Investment in deferred compensation plan assets:			
Equity mutual funds	\$ 130,835	\$ -	\$ 130,835
Annuity fund	-	18,475	18,475
Bond mutual funds	61,002	-	61,002
	<u> </u>	<u> </u>	<u> </u>
Total investment in deferred compensation plan assets	<u>\$ 191,837</u>	<u>\$ 18,475</u>	<u>\$ 210,312</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, 2018:

	Level 1	Level 2	Total
Deferred compensation liability	<u>\$ -</u>	<u>\$ 210,312</u>	<u>\$ 210,312</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.