



FINANCIAL STATEMENTS

Year Ended June 30, 2021

with

Independent Auditors' Report

COMMUNITY ACTION ORGANIZATION

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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, 2021, 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, 2021, 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 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 15, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, 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 February 16, 2022, 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.

Hoffman, Stewart & Schmitt, P.C.

Lake Oswego, Oregon
February 16, 2022

COMMUNITY ACTION ORGANIZATION

Statement of Financial Position

June 30, 2021 <i>(With Comparative Totals for 2020)</i>	2021	2020
ASSETS		
Cash and cash equivalents	\$ 4,022,191	\$ 1,369,794
Contracts and grants receivable	8,925,236	3,998,327
Prepaid expenses	184,290	139,447
Deferred compensation plan assets <i>(Notes 9 and 10)</i>	395,170	307,501
Property and equipment - net <i>(Notes 3 and 4)</i>	1,717,058	1,836,441
Restricted cash <i>(Note 8)</i>	83,504	83,004
Total assets	<u>\$ 15,327,449</u>	<u>\$ 7,734,514</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 6,796,213	\$ 812,816
Accrued payroll and related expenses	623,445	448,350
Accrued vacation payable	326,703	281,779
Refundable advances	1,427,493	74,982
Deferred compensation plan liability <i>(Notes 9 and 10)</i>	395,170	307,501
Note payable <i>(Note 4)</i>	1,717,710	1,789,971
Deferred lease obligation <i>(Note 5)</i>	146,111	155,816
Total liabilities	11,432,845	3,871,215
Commitments and contingencies <i>(Notes 5, 6, and 9)</i>		
Net assets:		
Without donor restrictions	3,509,979	3,506,313
With donor restrictions <i>(Note 7)</i>	384,625	356,986
Total net assets	<u>3,894,604</u>	<u>3,863,299</u>
Total liabilities and net assets	<u>\$ 15,327,449</u>	<u>\$ 7,734,514</u>

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

COMMUNITY ACTION ORGANIZATION

Statement of Activities

June 30, 2021 *(With Comparative Totals for 2020)*

	Without Donor Restrictions	With Donor Restrictions	Total	
			2021	2020
Revenues and support:				
Government contracts and grants	\$ 54,889,956	\$ -	54,889,956	\$ 26,881,161
Other contracts and grants	966,683	152,921	1,119,604	1,362,506
Contributions	971,886	500	972,386	596,565
In-kind donations	169,584	-	169,584	152,096
Gross proceeds from special events	210,049	-	210,049	178,318
Less direct costs	(47,723)	-	(47,723)	(55,649)
Net special events	162,326	-	162,326	122,669
Other revenue	107,849	-	107,849	117,218
Net assets released from restrictions <i>(Note 7)</i>	125,782	(125,782)	-	-
Total revenue and support	57,394,066	27,639	57,421,705	29,232,215
Expenses:				
Program services	54,485,697	-	54,485,697	26,636,926
Administration and general	2,542,261	-	2,542,261	1,949,991
Resource development/Agency communications	362,442	-	362,442	355,468
Total expenses	57,390,400	-	57,390,400	28,942,385
Increase in net assets	3,666	27,639	31,305	289,830
Net assets, beginning of year	3,506,313	356,986	3,863,299	3,573,469
Net assets, end of year	\$ 3,509,979	\$ 384,625	\$ 3,894,604	\$ 3,863,299

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

COMMUNITY ACTION ORGANIZATION

Statement of Functional Expenses

Year Ended June 30, 2021 *(With Comparative Totals for 2020)*

	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	\$ 10,283,828	\$ 1,058,222	\$ 1,569,201	\$ 1,278,039	\$ 1,818,270	\$ 872,268	\$ 16,879,828
Professional fees	610	-	6,680	12,252	-	2,351	21,893
Supplies	334,393	27,416	53,892	27,844	106,225	33,711	583,481
Occupancy	570,442	104,332	74,326	111,121	121,168	96,307	1,077,696
Repairs and maintenance	130,310	-	-	22,899	-	2,373	155,582
Telephone	45,121	7,121	20,603	11,439	19,095	6,274	109,653
Postage and printing	19,807	4,389	752	1,025	35,530	5,311	66,814
Travel	20,623	1,015	3,913	1,141	177	1,796	28,665
Conferences, meetings, and training	119,416	40,259	15,334	1,055	1,089	16,081	193,234
Insurance	60,710	11,095	194	2,793	-	16,151	90,943
Miscellaneous	15,773	3,990	1,080	688	1,467	1,926	24,924
In-kind	128,634	-	12,075	21,800	-	-	162,509
Dues and licenses	89,513	5,446	20,602	15,436	4,981	2,397	138,375
Direct assistance to individuals	424,244	197,446	157,386	3,355,754	27,994,562	2,159,339	34,288,731
	12,243,424	1,460,731	1,936,038	4,863,286	30,102,564	3,216,285	53,822,328
Allocated shared costs	159,682	20,238	21,678	200,561	216,064	45,146	663,369
Total expenses	\$ 12,403,106	\$ 1,480,969	\$ 1,957,716	\$ 5,063,847	\$ 30,318,628	\$ 3,261,431	\$ 54,485,697

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

COMMUNITY ACTION ORGANIZATION

Statement of Functional Expenses - Continued

Year Ended June 30, 2021 *(With Comparative Totals for 2020)*

	Administration and General	Resource	Technology and Facilities Costs	Total Supporting Services	Total	
		Development/ Agency Communications			2021	2020
Employee costs	\$ 1,934,995	\$ 266,964	\$ 440,877	\$ 2,642,836	\$ 19,522,664	\$ 15,795,398
Professional fees	150,154	13,665	17,500	181,319	203,212	184,378
Supplies	63,405	406	2,369	66,180	649,661	268,451
Occupancy	140,584	18,925	61,827	221,336	1,299,032	1,013,701
Repairs and maintenance	648	-	8,195	8,843	164,425	136,152
Telephone	9,871	1,906	160,697	172,474	282,127	229,041
Postage and printing	14,340	18,884	-	33,224	100,038	131,872
Travel	2,191	221	3,376	5,788	34,453	110,989
Conferences, meetings, and training	46,413	2,785	20,180	69,378	262,612	255,949
Insurance	74,241	-	6,512	80,753	171,696	151,180
Miscellaneous	32,851	13,837	-	46,688	71,612	238,203
In-kind	1,202	7,075	-	8,277	170,786	152,096
Dues and licenses	16,980	12,106	1,890	30,976	169,351	96,809
Direct assistance to individuals	-	-	-	-	34,288,731	10,178,166
	<u>2,487,875</u>	<u>356,774</u>	<u>723,423</u>	<u>3,568,072</u>	<u>57,390,400</u>	<u>28,942,385</u>
Allocated shared costs	<u>54,386</u>	<u>5,668</u>	<u>(723,423)</u>	<u>(663,369)</u>	<u>-</u>	<u>-</u>
Total expenses	\$ <u>2,542,261</u>	\$ <u>362,442</u>	\$ <u>-</u>	\$ <u>2,904,703</u>	\$ <u>57,390,400</u>	\$ <u>28,942,385</u>

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

COMMUNITY ACTION ORGANIZATION

Statement of Cash Flows

June 30, 2021 <i>(With Comparative Totals for 2020)</i>	2021	2020
Cash flows from operating activities:		
Cash received from grantors, customers, and donors	\$ 53,682,347	\$ 28,576,517
Cash paid to employees and vendors	(19,134,874)	(18,189,384)
Cash paid for interest	(84,104)	(87,702)
Cash paid for specific assistance	<u>(31,715,280)</u>	<u>(10,178,166)</u>
Net cash provided by operating activities	2,748,089	121,265
Cash flows from investing activities:		
Additions to property and equipment	<u>(23,431)</u>	<u>(182,091)</u>
Net cash used in investing activities	(23,431)	(182,091)
Cash flows from financing activities:		
Endowment contributions received	500	2,250
Principal payments on note payable	<u>(72,261)</u>	<u>(68,879)</u>
Net cash used in financing activities	(71,761)	(66,629)
Net increase (decrease) in cash, cash equivalents, and restricted cash	2,652,897	(127,455)
Cash, cash equivalents, and restricted cash, beginning of year	<u>1,452,798</u>	<u>1,580,253</u>
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 4,105,695</u>	<u>\$ 1,452,798</u>
Reconciliation to statement of financial position:		
Cash and cash equivalents	\$ 4,022,191	\$ 1,369,794
Restricted cash	<u>83,504</u>	<u>83,004</u>
	<u>\$ 4,105,695</u>	<u>\$ 1,452,798</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, 2021, 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 1,363 providers participated in 19,082 hours of training in early childhood development.
- 8 new providers serving high poverty neighborhoods successfully submitted Spark portfolios and received their Spark rating. There are currently 72 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.

- 856 new parents were provided with information about early child development and parenting resources.
- 43 pregnant women enrolled in the Oregon Health Plan and 171 women were connected to prenatal care.
- 67 at-risk families received parenting support to prevent child abuse and neglect.
- 198 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. 22 families in total are currently saving towards their asset goal.
- 62 individuals learned skills to take control of their financial future through Community Action's financial education classes.
- 91 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.

- 118 homeless children and parents had the chance to get back on their feet by staying at Community Action's Hillsboro Family Shelter.
- 1,987 families experiencing homelessness or at imminent risk of homelessness were assessed for eligibility for the continuum of housing programs in Washington County.
- 118 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.

- 7,179 families stayed warm and safe in their homes with heat and electricity bill paying assistance from Community Action.
- 330 families' disconnected utility service was restored with utility payment assistance.
- 4,234 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.

- 164 families had lower heating costs and warmer, safer, healthier homes because Community Action provided comprehensive weatherization services.
- 197 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, 2021, 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, 2021, 73 percent of the outstanding balance is from one agency.

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, 2021.

At June 30, 2021, 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.

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 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, 2021, CAO received donated rent of \$101,170 and supplies of \$68,414. CAO estimates it received 513 volunteer service hours for the year ended June 30, 2021. 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, 2021, approximately 30 percent of government contract revenue was provided under contracts with the U.S. Department of Treasury Program, 25 percent was provided by the Oregon Housing and Community Services Department, 21 percent was provided by the U.S. Department of Health and Human Services' Head Start Program, and 13 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, 2021.

Summarized Financial Information for 2020 - 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, 2020, from which the summarized information was derived.

Subsequent Events - CAO has evaluated subsequent events through February 16, 2022, 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:

Land, buildings, and leasehold improvements	\$ 3,350,326
Vehicles	717,305
Equipment	283,386
Software	<u>30,038</u>
	4,381,055
Less accumulated depreciation and amortization	<u>(2,663,997)</u>
Property and equipment - net	<u><u>\$ 1,717,058</u></u>

Depreciation and amortization expense totaled \$142,814 for the year ended June 30, 2021.

4. Note Payable

The note payable represents a loan from Heritage 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 \$1,321,229 at June 30, 2021. The outstanding balance on the note is \$1,717,710 at June 30, 2021.

Interest expense incurred on the debt for the year ended June 30, 2021 totaled \$84,104.

Future principal payments are as follows at June 30, 2021:

Years Ending June 30,	Amount
2022	\$ 77,371
2023	<u>1,640,339</u>
	<u><u>\$ 1,717,710</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
2022	\$ 443,118
2023	402,255
2024	349,010
2025	271,197
2026	213,041
Thereafter	<u>560,692</u>
	<u><u>\$ 2,239,313</u></u>

Rent expense for facilities and office equipment totaled \$577,233 for the year ended June 30, 2021.

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, 2021, the deferred lease obligation liability was \$146,111.

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, 2021:

Subject to expenditure for specified purpose:	
Family Development	\$ 2,745
Housing and Homeless Services	114,355
Energy Assistance and Emergency Rents	57,165
Weatherization	2,434
Administration	<u>124,422</u>
	301,121
 Endowment funds held by CAO restricted to be invested in perpetuity	 <u>83,504</u>
 Total net assets with donor restrictions	 <u><u>\$ 384,625</u></u>

During the year ended June 30, 2021, net assets of \$125,782 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, 2021, is as follows:

Ness Endowment Fund	<u><u>\$ 83,504</u></u>
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Change in endowment funds for the year ended June 30, 2021 is as follows:

Balance - June 30, 2020	\$ 83,004
Contributions	<u>500</u>
Balance - June 30, 2021	<u><u>\$ 83,504</u></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, 2021, approximated \$325,000.

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, 2021:

	Level 1	Level 2	Total
Investment in deferred compensation plan assets:			
Equity mutual funds	\$ 373,092	\$ -	\$ 373,092
Annuity fund	<u>-</u>	<u>22,078</u>	<u>22,078</u>
Total investment in deferred compensation plan assets	<u>\$ 373,092</u>	<u>\$ 22,078</u>	<u>\$ 395,170</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, 2021:

	Level 1	Level 2	Total
Deferred compensation liability	<u>\$ -</u>	<u>\$ 395,170</u>	<u>\$ 395,170</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, 2021:

Cash and cash equivalents	\$ 4,022,191
Contracts and grants receivable	<u>8,925,236</u>
Total financial assets available for general expenditure within one year	12,947,427
Less:	
Amounts unavailable for general expenditure within one year due to donor restrictions	<u>(301,121)</u>
Total financial assets available to management for general expenditure within one year	<u><u>\$12,641,180</u></u>

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