# Catholic Community Services of the Mid-Willamette Valley and Central Coast, Inc. and Affiliates

## Consolidated Financial Statements and Single Audit Reports

Years Ended June 30, 2018 and 2017

Aldrich℠

**CATHOLIC COMMUNITY SERVICES OF THE MID-WILLAMETTE VALLEY AND CENTRAL COAST, INC. AND AFFILIATES**

**Consolidated Financial Statements and Single Audit Reports**

Years Ended June 30, 2018 and 2017

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Aldrich CPAs + Advisors LLP
680 Hawthorne Ave. SE #140
Salem, Oregon 97301

# INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Catholic Community Services of the Mid-Willamette Valley and Central Coast, Inc. and Affiliates
Salem, Oregon

We have audited the accompanying consolidated financial statements of Catholic Community Services of the Mid-Willamette Valley and Central Coast, Inc. (a nonprofit organization) and Affiliates (collectively the Organization), which are comprised of the consolidated statements of financial position as of June 30, 2018 and 2017, the related consolidated statements of activities, functional expenses, the cash flows for the years then ended, and the related notes to the consolidated financial statements.

**Management's Responsibility for the Consolidated Financial Statements**
Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 consolidated financial statements.

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

**Opinion**
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Catholic Community Services of the Mid-Willamette Valley and Central Coast, Inc. and Affiliates as of June 30, 2018 and 2017, and the changes in their consolidated net assets and their consolidated cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**
Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 US. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2018, on our consideration of Catholic Community Services of the Mid-Willamette Valley and Central Coast, Inc. and Affiliates internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Catholic Community Services of the Mid-Willamette Valley and Central Coast, Inc. and Affiliates' 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 Catholic Community Services of the Mid-Willamette Valley and Central Coast, Inc. and Affiliates' internal control over financial reporting and compliance.

Aldrich CPAs + Advisors LLP

Salem, Oregon
November 9, 2018

## CATHOLIC COMMUNITY SERVICES OF THE MID-WILLAMETTE VALLEY AND CENTRAL COAST, INC. AND AFFILIATES

**Consolidated Statements of Financial Position**

June 30, 2018 and 2017

| | | 2018 | | 2017 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash | $ | 3,811,814 | $ | 3,089,225 |
| Restricted cash | | 662,965 | | 1,435,866 |
| Accounts receivable, net | | 437,695 | | 852,392 |
| Unconditional promises to give, net | | 190,895 | | 251,866 |
| Grants receivable | | 107,452 | | 195,534 |
| Prepaid expenses and other assets | | 131,140 | | 143,110 |
| Notes receivable | | 215,964 | | 219,361 |
| Related party receivables | | 1,909,677 | | 1,764,106 |
| Property and equipment, net | | 29,506,808 | | 22,899,874 |
| Beneficial interest in assets held at Oregon Community Foundation | | 207,907 | | 190,581 |
| Total Assets | $ | 37,182,317 | $ | 31,041,915 |
| **LIABILITIES AND NET ASSETS** | | | | |
| Liabilities: | | | | |
| Accounts payable | $ | 1,218,634 | $ | 568,547 |
| Accrued expenses | | 1,187,522 | | 1,162,994 |
| Deferred revenue | | 170,595 | | 195,913 |
| Long-term debt and capital lease obligations, net | | 13,761,488 | | 11,216,178 |
| Total Liabilities | | 16,338,239 | | 13,143,632 |
| Net Assets: | | | | |
| Unrestricted: | | | | |
| Undesignated | | 16,451,137 | | 13,230,319 |
| Board designated | | 125,005 | | 110,145 |
| Noncontrolling interest | | 247,505 | | 239,004 |
| Total Unrestricted | | 16,823,647 | | 13,579,468 |
| Temporarily restricted | | 3,953,100 | | 4,251,484 |
| Permanently restricted | | 67,331 | | 67,331 |
| Total Net Assets | | 20,844,078 | | 17,898,283 |
| Total Liabilities and Net Assets | $ | 37,182,317 | $ | 31,041,915 |

See accompanying notes to consolidated financial statements.

## CATHOLIC COMMUNITY SERVICES OF THE MID-WILLAMETTE VALLEY AND CENTRAL COAST, INC. AND AFFILIATES

**Consolidated Statement of Activities**

Year Ended June 30, 2018

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Support, Revenue, and Reclassifications: | | | | |
| Government fees | $ 13,052,115 | $ - | $ - | $ 13,052,115 |
| Donation of assets from Benedictine Sisters | 2,725,000 | - | - | 2,725,000 |
| Rents | 1,861,824 | - | - | 1,861,824 |
| Contributions | 118,818 | 1,752,769 | - | 1,871,587 |
| Fees for services | 1,374,371 | - | - | 1,374,371 |
| Grants | 196,471 | 363,142 | - | 559,613 |
| Gain on disposal of property | 274,159 | - | - | 274,159 |
| Other | 284,342 | 41,966 | - | 326,308 |
| Net assets released from restrictions | 2,456,261 | (2,456,261) | - | - |
| Total Support, Revenue, and Reclassifications | 22,343,361 | (298,384) | - | 22,044,977 |
| Expenses: | | | | |
| Program: | | | | |
| Affordable Housing | 1,414,887 | - | - | 1,414,887 |
| Behavioral Health Services | 1,007,098 | - | - | 1,007,098 |
| Brokerage Services | 1,651,518 | - | - | 1,651,518 |
| Services to Adults with Disabilities | 8,118,489 | - | - | 8,118,489 |
| Services for Children and Families | 522,413 | - | - | 522,413 |
| Youth and Family Services | 1,386,598 | - | - | 1,386,598 |
| Property management | 1,550,396 | - | - | 1,550,396 |
| Administration | 2,899,867 | - | - | 2,899,867 |
| Fundraising | 547,916 | - | - | 547,916 |
| Total Expenses | 19,099,182 | - | - | 19,099,182 |
| Change in Net Assets | 3,244,179 | (298,384) | - | 2,945,795 |
| Net Assets, beginning of year | 13,579,468 | 4,251,484 | 67,331 | 17,898,283 |
| Net Assets, end of year | $ 16,823,647 | $ 3,953,100 | $ 67,331 | $ 20,844,078 |

## CATHOLIC COMMUNITY SERVICES OF THE MID-WILLAMETTE VALLEY AND CENTRAL COAST, INC. AND AFFILIATES

**Consolidated Statement of Activities**

Year Ended June 30, 2017

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Support, Revenue, and Reclassifications: | | | | |
| Government fees | $ 13,815,897 | $ - | $ - | $ 13,815,897 |
| In-kind contributions | 37,439 | - | - | 37,439 |
| Rents | 1,777,894 | - | - | 1,777,894 |
| Contributions | 117,040 | 1,055,315 | 2,873 | 1,175,228 |
| Fees for services | 1,830,589 | - | - | 1,830,589 |
| Grants | 245,908 | 797,654 | - | 1,043,562 |
| Gain on disposal of property | 33,241 | - | - | 33,241 |
| Other | 870,183 | 55,000 | - | 925,183 |
| Net assets released from restrictions | 1,585,015 | (1,585,015) | - | - |
| Total Support, Revenue, and Reclassifications | 20,313,206 | 322,954 | 2,873 | 20,639,033 |
| Expenses: | | | | |
| Program: | | | | |
| Affordable Housing | 2,296,334 | - | - | 2,296,334 |
| Behavioral Health Services | 1,233,970 | - | - | 1,233,970 |
| Brokerages Services | 1,681,850 | - | - | 1,681,850 |
| Services to Adults with Disabilities | 7,783,765 | - | - | 7,783,765 |
| Services for Children and Families | 767,770 | - | - | 767,770 |
| Youth and Family Services | 1,184,361 | - | - | 1,184,361 |
| Property management | 1,035,176 | - | - | 1,035,176 |
| Administration | 2,281,203 | - | - | 2,281,203 |
| Fundraising | 460,829 | - | - | 460,829 |
| Total Expenses | 18,725,258 | - | - | 18,725,258 |
| Change in Net Assets | 1,587,948 | 322,954 | 2,873 | 1,913,775 |
| Net Assets, beginning of year | 11,991,520 | 3,928,530 | 64,458 | 15,984,508 |
| Net Assets, end of year | $ 13,579,468 | $ 4,251,484 | $ 67,331 | $ 17,898,283 |

**CATHOLIC COMMUNITY SERVICES OF THE MID-WILLAMETTE VALLEY AND CENTRAL COAST, INC. AND AFFILIATES**

**Consolidated Statement of Functional Expenses**

Year Ended June 30, 2018

| | Program | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Affordable Housing | Behavioral Health Services | Brokerage Services | Services to Adults with Disabilities | Services for Children and Families | Youth and Family Services | Total Program | Property Management | Administration | Fundraising | Total |
| Salaries and wages | $ 144,951 | $ 587,921 | $ 944,699 | $ 5,621,466 | $ 343,348 | $ 773,215 | $ 8,415,600 | $ 257,779 | $ 1,592,116 | $ 347,228 | $ 10,612,723 |
| Payroll taxes and benefits | - | 124,829 | 252,567 | 1,432,565 | 65,957 | 142,110 | 2,018,028 | 96,357 | 353,933 | 48,556 | 2,516,874 |
| Professional fees | 49,530 | 137,723 | 57,729 | 24,664 | 67,113 | 33,746 | 370,505 | 69,442 | 443,090 | 49,782 | 932,819 |
| Depreciation | 321,265 | - | - | 88,842 | - | 3,936 | 414,043 | 381,982 | 1,150 | - | 797,175 |
| Repairs and maintenance | 265,773 | 8,097 | 23,761 | 106,355 | 1,504 | 35,072 | 440,562 | 187,877 | 10,167 | 34 | 638,640 |
| Utilities | 185,955 | 707 | 12,174 | 142,350 | 2,868 | 49,294 | 393,348 | 168,740 | 13,650 | | 575,738 |
| Interest and amortization | 294,850 | - | - | 22,487 | - | 1,068 | 318,405 | 190,980 | 2,047 | 10,239 | 521,671 |
| Program expenses & supplies | 18,372 | 38,942 | 19,490 | 198,469 | 14,788 | 52,629 | 342,690 | 33,602 | 73,097 | 7,256 | 456,645 |
| Insurance | 48,526 | 3,918 | 13,015 | 93,312 | 1,208 | 20,974 | 180,953 | 56,380 | 95,354 | - | 332,687 |
| Subscriptions and library | 8,105 | 27,651 | 15,823 | 18,651 | 542 | 26,345 | 97,117 | 3,993 | 165,019 | 9,935 | 276,064 |
| Rent | 150 | - | 81,579 | 167,013 | 1,800 | 3,453 | 253,995 | 10,087 | 4,936 | - | 269,018 |
| Travel | - | 200 | 53,237 | 104,474 | 10,159 | 20,581 | 188,651 | 8,633 | 12,998 | 68 | 210,350 |
| Foster care | - | - | - | - | - | 178,310 | 178,310 | - | 750 | - | 179,060 |
| Miscellaneous | 55,291 | 1,500 | 9,009 | 9,575 | 1,151 | 8,336 | 84,862 | 11,854 | 34,740 | 2,679 | 134,135 |
| Telecommunications | 8,444 | 3,453 | 28,028 | 25,598 | 3,834 | 14,660 | 84,017 | 19,620 | 29,962 | - | 133,599 |
| Bad debts | 4,690 | 59,804 | 8,814 | 12,129 | 100 | 8,275 | 93,812 | 26,100 | 7,331 | 797 | 128,040 |
| Brokerage | - | - | 95,322 | - | - | - | 95,322 | - | - | - | 95,322 |
| Print and publications | - | 8,760 | 14,106 | 12,854 | - | 8,621 | 44,341 | 8,351 | 23,256 | 14,397 | 90,345 |
| Events | - | - | - | - | - | - | - | - | - | 46,003 | 46,003 |
| Training and conference | (30) | 431 | 6,022 | 15,649 | 4,795 | 2,692 | 29,559 | 3,590 | 9,756 | - | 42,905 |
| Membership dues | - | 99 | 9,980 | 15,607 | 1,776 | 389 | 27,851 | 921 | 12,103 | 48 | 40,923 |
| License and permits | 6,355 | 167 | 200 | 4,471 | 154 | 1,232 | 12,579 | 13,012 | 4,911 | - | 30,502 |
| Postage and shipping | - | 1,245 | 5,695 | 60 | 948 | 1,459 | 9,407 | 91 | 7,146 | 7,471 | 24,115 |
| Advertising | 2,660 | 1,651 | 268 | 1,898 | 368 | 201 | 7,046 | 1,005 | 2,355 | 3,423 | 13,829 |
| | $ 1,414,887 | $ 1,007,098 | $ 1,651,518 | $ 8,118,489 | $ 522,413 | $ 1,386,598 | $ 12,686,116 | $ 1,550,396 | $ 2,899,867 | $ 547,916 | $ 19,099,182 |

**CATHOLIC COMMUNITY SERVICES OF THE MID-WILLAMETTE VALLEY AND CENTRAL COAST, INC. AND AFFILIATES**

**Consolidated Statement of Functional Expenses**

Year Ended June 30, 2017

| | Program | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Affordable Housing | Behavioral Health Services | Brokerage Services | Services to Adults with Disabilities | Services for Children and Families | Youth and Family Services | Total Program | Property Management | Administration | Fundraising | Total |
| Salaries and wages | $ 116,644 | $ 736,260 | $ 1,010,412 | $ 5,299,353 | $ 309,203 | $ 664,673 | $ 8,136,545 | $ 496,108 | $ 1,314,160 | $ 305,612 | $ 10,252,425 |
| Payroll taxes and benefits | 23,758 | 177,176 | 272,288 | 1,517,466 | 62,343 | 109,073 | 2,162,104 | 112,529 | 242,625 | 43,911 | 2,561,169 |
| Professional fees | 140,582 | 99,027 | 57,176 | 20,729 | 247,848 | 25,634 | 590,996 | 6,380 | 316,375 | (11,326) | 902,425 |
| Depreciation | 511,334 | - | - | 21,147 | - | - | 532,481 | 152,065 | - | - | 684,546 |
| Repairs and maintenance | 358,225 | 4,361 | 3,823 | 118,511 | 890 | 12,418 | 498,228 | 24,321 | 3,694 | 384 | 526,627 |
| Utilities | 365,472 | 320 | 12,309 | 145,104 | 2,595 | 2,801 | 528,601 | 2,799 | 4,408 | 26 | 535,834 |
| Interest and amortization | 455,295 | - | - | - | - | - | 455,295 | 39,393 | 4,296 | 6,190 | 505,174 |
| Program expenses & supplies | 47,162 | 23,909 | 10,430 | 226,244 | 14,492 | 38,353 | 360,590 | 17,769 | 56,572 | 7,948 | 442,879 |
| Insurance | 79,902 | 7,507 | 12,351 | 89,513 | 485 | 15,243 | 205,001 | 6,319 | 97,188 | - | 308,508 |
| Subscriptions and library | 8,230 | 31,075 | 13,733 | 19,989 | 586 | 25,905 | 99,518 | 2,869 | 119,344 | 15,165 | 236,896 |
| Rent | 5,299 | - | 83,643 | 161,496 | 1,800 | 12,143 | 264,381 | 4,002 | - | 2,223 | 270,606 |
| Travel | 1,758 | 11,689 | 44,993 | 95,140 | 10,471 | 13,794 | 177,845 | 2,723 | 8,595 | 801 | 189,964 |
| Foster care | - | 76,250 | - | - | - | 233,156 | 309,406 | - | - | - | 309,406 |
| Miscellaneous | 46,175 | - | 13,428 | 2,196 | - | 1,300 | 63,099 | 150,773 | 12,235 | 2,730 | 228,837 |
| Telecommunications | 9,305 | 13,012 | 25,633 | 26,880 | 4,141 | 10,829 | 89,800 | 4,962 | 19,220 | 676 | 114,658 |
| Bad debts | 115,104 | 35,367 | - | 200 | 108,659 | 4,099 | 263,429 | - | 5,815 | 28,313 | 297,557 |
| Brokerage | - | - | 86,960 | - | - | - | 86,960 | - | - | - | 86,960 |
| Print and publications | 3,193 | 10,763 | 14,369 | 10,193 | 560 | 6,370 | 45,448 | 7,300 | 30,091 | 13,189 | 96,028 |
| Events | - | - | - | - | - | - | - | - | - | 35,327 | 35,327 |
| Training and conference | 1,719 | 5,881 | 1,094 | 8,717 | 3,161 | 2,552 | 23,124 | 1,320 | 18,985 | 3,182 | 46,611 |
| Membership dues | - | 97 | 10,570 | 15,272 | 40 | 97 | 26,076 | 1,573 | 14,547 | 917 | 43,113 |
| License and permits | 4,200 | 132 | 806 | 5,039 | 227 | 660 | 11,064 | 1,909 | 850 | 342 | 14,165 |
| Postage and shipping | - | 837 | 7,732 | 103 | 269 | 1,244 | 10,185 | 47 | 7,461 | 2,043 | 19,736 |
| Advertising | 2,977 | 307 | 100 | 473 | - | 4,017 | 7,874 | 15 | 4,742 | 3,176 | 15,807 |
| | $ 2,296,334 | $ 1,233,970 | $ 1,681,850 | $ 7,783,765 | $ 767,770 | $ 1,184,361 | $ 14,948,050 | $ 1,035,176 | $ 2,281,203 | $ 460,829 | $ 18,725,258 |

See accompanying notes to consolidated financial statements.

**CATHOLIC COMMUNITY SERVICES OF THE MID-WILLAMETTE VALLEY AND CENTRAL COAST, INC. AND AFFILIATES**

**Consolidated Statements of Cash Flows**

Years Ended June 30, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| Cash Flows from Operating Activities: | | |
| Change in net assets | $ 2,945,795 | $ 1,913,775 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Change in value of beneficial interest | (17,326) | (20,921) |
| Amortization of discount on notes payable | 28,684 | 27,888 |
| Conversion of forgivable loan to debt | - | 150,000 |
| Noncash contributions of property and services | (2,713,147) | - |
| Interest accrued on related party receivables | (28,251) | (28,251) |
| Gain on disposal of property | (311,067) | 32,893 |
| Change in allowance on notes receivable | - | 102,350 |
| Contributions restricted to long-term purposes | - | (2,873) |
| Amortization of loan fees to interest expense | 20,707 | 20,138 |
| Depreciation | 797,175 | 684,548 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 414,697 | (288,140) |
| Unconditional promises to give | 60,971 | (49,297) |
| Grants receivable | 88,082 | (37,900) |
| Related party receivables | (117,320) | (123,005) |
| Prepaid expenses and other assets | 11,970 | 75,272 |
| Accounts payable | 650,087 | 101,329 |
| Accrued expenses | 24,528 | 27,513 |
| Due to Department of Human Services | - | (53,747) |
| Deferred revenue | (25,318) | (632,060) |
| Net Cash Provided by Operating Activities | 1,830,267 | 1,899,512 |
| Cash Flows from Investing Activities: | | |
| Purchases of investments | - | (2,873) |
| Purchases of property and equipment | (5,085,965) | (928,882) |
| Proceeds on sale of property and equipment | 1,110,149 | 46,300 |
| Issuance of notes receivable | - | (11,700) |
| Payments received on notes receivable | 3,397 | 9,174 |
| Net Cash Used by Investing Activities | (3,972,419) | (887,981) |
| Cash Flows from Financing Activities: | | |
| Proceeds from contributions restricted for endowment | - | 2,873 |
| Issuance of long-term debt | 2,734,073 | 150,000 |
| Payments on long-term debt | (449,397) | (320,981) |
| Payments on capital lease obligations | (192,836) | (86,209) |
| Net Cash Provided (Used) by Financing Activities | 2,091,840 | (254,317) |
| Net Change in Cash | (50,312) | 757,214 |
| Cash and restricted cash, beginning | 4,525,091 | 3,767,877 |
| Cash and restricted cash, ending | $ 4,474,779 | $ 4,525,091 |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:** | | |
| Cash paid during the year for interest | $ 500,964 | $ 506,487 |
| Capital lease obligations incurred for the use of equipment | $ 404,079 | $ 407,884 |

See accompanying notes to consolidated financial statements.

## Note 1 - Organization and Nature of Activities

Organization
Catholic Community Services of the Mid-Willamette Valley and Central Coast, Inc. (Catholic Community Services or CCS) is an Oregon 501(c)(3) nonprofit corporation that was founded in Salem Oregon in 1938. Catholic Community Services' vision is "Children, families and adults have the knowledge, ability and desire to take control of their own lives and live responsibly with others in a just society." CCS serves people with intellectual and/or developmental disabilities, and children, youth, and families facing adversity. CCS operates its programs with fidelity to the Catholic Charities USA Code of Ethics and the principles of Catholic Social Teaching through practicing love, justice, truth and freedom.

Catholic Community Services Foundation (CCSF), an Oregon 501(c)(3) nonprofit, was organized in 1987 and supports Catholic Community Services by managing property, managing communications, managing public affairs, fund raising and supporting their mission.

CCSF owns the following entities:

Telios, LLC, a tax-exempt limited liability company wholly owned by CCSF, was incorporated July 2009. Telios, LLC holds property and debt for single-family homes and a transitional affordable housing complex. Three of the single-family homes were sold in 2017-18 leaving only Center Court (transitional affordable housing) and Rainbow Lodge (leased to CCS).

Father Taaffe Homes, LLC (legal name change from Community Homes, LLC in November 2015), a tax-exempt limited liability company wholly owned by CCSF, was incorporated July 2009. Father Taaffe Homes, LLC holds property and debt for single-family homes that are used by CCS for various program activities or rented as affordable housing.

Capital Professional Offices, LLC, a tax-exempt limited liability company wholly owned by CCSF, was incorporated June 2009. Capital Professional Offices, LLC holds property and debt for the office and business properties that are used for the administration of CCS and CCSF as well as some office and warehouse space that is rented to third parties.

Salem Self - Help Housing, LLC, a tax-exempt limited liability company wholly owned by CCSF, was incorporated in June 2009. Salem Self – Help Housing, LLC holds property and debt for affordable housing properties and received rent subsidies from the Department of Housing and Urban Development.

Highland Station Partners, LLC, a tax-exempt limited liability company wholly owned by CCSF, was incorporated in October, 2014. Highland Station Partners, LLC owns 0.01% of Highland Station Limited Partnership and is the general partner of the limited partnership.

St. Joseph Shelter LLC, a tax-exempt limited liability company wholly owned by CCSF, was incorporated in May, 2017 and holds the property received from the Benedictine Sisters in Mt. Angel, Oregon. St. Joseph Shelter LLC includes activity from the ownership of Marmion Hall, Casa Adele, and various warehouses and outbuildings. In the 2018 fiscal year, CCSF leased space in Marmion Hall for the operation of the St. Joseph Shelter and Mission Benedict programs to CCS.

**Note 1 - Organization and Nature of Activities, continued**

Organization, continued

Lincoln Street Apartments, LLC, a tax-exempt limited liability company wholly owned by CCSF, was incorporated in May, 2017. This LLC holds the partnership interest of the Lincoln Street Apartments aka Villa Esperanza in Woodburn, Oregon. The Lincoln Street Apartments LLC includes Construction-in-Process activity in the 2018 fiscal year. The 17-unit apartment project is just over 50% complete at June 30, 2018.

Mill Creek Meadows Partners, LLC, a tax-exempt limited liability company wholly owned by CCSF, was incorporated in October, 2014. Mill Creek Meadows Partners, LLC owns 0.01% of Mill Creek Meadows Limited Partnership and is the general partner of the limited partnership.

The Child, Youth and Family Integrated Services Network, LLC (ISN) is a for-profit, limited liability company founded in 1997. ISN is 80% owned by CCS and 20% owned by Chehalem Youth and Family Services. Members pool resources into joint service contracts in order to improve the quality and cost effectiveness of service delivery. ISN operates as a Support Service Brokerage and holds a contract with the Oregon Department of Human Services to assist adults with developmental disabilities in eight counties.

All of the entities listed above are consolidated and will be referred to as the Organization.

The Organization operates the following programs:

**Affordable Housing**
The *Affordable Housing Program* is owned and managed by Catholic Community Services Foundation and consists of approximately 253 units of affordable and transitional housing. The *Affordable Housing Program* is operated under the rules and guidance provided by HUD HOME and includes property management, asset management and resident services. Revenue is generated from rental income and subsidies to manage and maintain the properties and provide resident services.

In July 2017, CCS assumed management responsibility for *St. Joseph Shelter, Casa Adele,* and *Mission Benedict*. *St. Joseph Shelter* is the only transitional housing program serving homeless families in the Mid-Willamette Valley outside Salem. Services also include *Casa Adele,* a ten unit farm-worker housing complex, and *Mission Benedict*, which provides a food and clothing bank for families. In 2018 the Benedictine Sisters donated property, land and cash reserves to CCSF. The assets transferred consisted of the following:

| | | |
|---|---|---|
| Cash reserves | $ | 209,177 |
| Noncash contribution: | | |
| Property and land | | 2,713,147 |
| Property acquired, not capitalized | | 11,853 |
| Total noncash contribution | | 2,725,000 |
| Total transfer of assets | $ | 2,934,177 |

**Behavioral Health Services**
*Behavioral Health Services* are provided by the Community Counseling Center (Center). The Center empowers individuals and families to build on individual and collective strengths to attain their goals through evidence-based, solution-oriented, relational and collaborative therapy.

**Note 1 - Organization and Nature of Activities, continued**

**Brokerage Services**
*Brokerage Services* are provided by ISN and works with each customer to develop a person-centered plan of support and then assists the customer to obtain the services provided in the plan.

**Services to Adults with Intellectual or Developmental Disabilities**
The *Residential Services Program* provides homes for adults who experience intellectual or developmental disabilities with fragile health, where each customer is a valued member of the community.

The *Supported Living Program* provides residential services and support for people with intellectual or developmental disabilities that prefer to live independently or with family rather than in congregate care.

*Employment Services* develops opportunities for meaningful employment that empower individuals with intellectual or developmental disabilities.

**Services for Children and Families (formerly Fostering Hope Initiative)**
The *Fostering Hope Initiative* partners work in high poverty or high needs neighborhoods to connect neighbors with each other, natural neighborhood supports and needed resources. CCS is the lead partner in this collective impact initiative committed to promoting optimum child development and reducing child maltreatment. The Fostering Hope Initiative is funded through grants, donations and matching efforts provided by partners. Safe Families for Children is a national movement of compassion that gives hope to families in crisis. Safe, loving homes are provided by volunteers from local faith communities where parents may voluntarily have their children cared for while seeking to restore stability in their lives.

*Strengthening, Preserving and Reunifying Families* provides transitional housing, treatment and recovery services for families who are struggling with the challenges of substance abuse and reduces the number of children placed in foster care.

*Father Taaffe Homes* are homes for single, pregnant and parenting young women, ages 12 to 20, a community-based structure and supports to build a future.

**Youth and Family Services**
*Forever Homes (formerly known as Community Homes)* provides stable neighborhood family homes for children in long-term foster care. Services were expanded in 2017 fiscal year to include Enhanced Support for Foster Parents providing a Central Home with experienced foster parents who will provide respite and mentorship to DHS foster families.

*Independent Living for Teens* helps youth in foster care develop essential skills for transition into responsible adulthood.

The *Mentoring Program* involves caring, supportive adults in helping youth and families become resilient through relationship building, social skills development and community connections.

The *Rainbow Lodge / Respite Program* serves as a place of respite for youth in foster care. It offers them the temporary placement to recover from recent trauma in a peaceful setting. For full-time foster parents, it also offers much needed time away from the daily routines and challenges of foster parenting.

## Note 1 - Organization and Nature of Activities, continued

Principles of Consolidation
The consolidated financial statements include the accounts of Catholic Community Services of the Mid-Willamette Valley and Central Coast, Inc., Catholic Community Services Foundation, and Child, Youth, and Family Integrated Services Network (the Organization). Intercompany balances and transactions have been eliminated in consolidation.

## Note 2 - Summary of Significant Accounting Policies

Financial Statement Presentation
The consolidated financial statements present information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

*Unrestricted* – Net assets not subject to donor imposed stipulations.

*Board Designated* – Board designated funds are funds that are unrestricted by donors, but have been designated by the board of the Organization for specific projects and initiatives.

*Temporarily Restricted* – Net assets subject to donor imposed stipulations that will be met by actions of the Organization and/or the passage of time. When a donor stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

*Permanently Restricted* – Net assets subject to donor imposed stipulations requiring that they be maintained permanently by the Organization. The income from these assets is available for either general operations or specific programs as specified by the donor.

Estimates
The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties
The Organization invests in various types of investment securities which are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the consolidated statement of financial position.

Accounts Receivable
Account receivables are stated at the amount management expects to collect from outstanding balances. Management provides for possible uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Allowance for doubtful accounts is $93,677 at June 30, 2018 ($134,851 at June 30, 2017).

**Note 2 - Summary of Significant Accounting Policies, continued**

Unconditional Promises to Give
When a donor has unconditionally promised to contribute funds to the Organization in future periods, the Organization recognizes an unconditional promise to give. Unconditional promises to give that are expected to be collected within one year are recorded as support and a receivable at net realizable value. Promises to give expected to be collected in future years are recorded as support and a receivable at the present value of expected future cash flows. Discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue.

An allowance for uncollectible promises to give, if any, is provided based upon management's judgment, including such factors as prior collection history, type of contribution and nature of fundraising activity.

Fair Value of Financial Instruments
Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value, and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.

Level 3 inputs are unobservable inputs for the investment.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

As a practical expedient, certain financial instruments may be valued using net asset value (NAV) per share. NAV is the amount of net assets attributable to each share of outstanding capital stock at the end of the period.

The Organization's financial instruments, none of which are held for trading purposes, include cash, receivables, accounts payable, notes payable, and capital lease obligations. The Organization estimates that the fair value of all of these nonderivative financial instruments at June 30, 2018 and 2017 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying consolidated statement of financial position.

Property and Equipment
The Organization capitalizes all expenditures in excess of $5,000 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support.

**Note 2 - Summary of Significant Accounting Policies, continued**

Property and Equipment, continued
Absent donor stipulations regarding how long these donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Buildings and equipment are depreciated using the straight-line method over the estimated useful asset lives as follows:

| | |
|---|---|
| Building and improvements | 20 - 40 years |
| Furniture and equipment | 5 - 10 years |
| Vehicles | 5 years |

Maintenance and repairs are charged to operations as incurred. Upon sale or disposition of property or equipment, the asset account is reduced by the cost and the accumulated depreciation account is reduced by the depreciation taken prior to the sale. Any resultant gain or loss is then recorded as income or expense.

Beneficial Interest in Assets of Oregon Community Foundation
The Organization has transferred assets to the Oregon Community Foundation (OCF) which is holding them as an endowed component fund (Fund) for the benefit of the Organization. The Organization has granted OCF variance power which gives OCF's Board of Directors the power to use the Fund for other purposes in certain circumstances. The Fund is subject to OCF's investment and spending policies which currently result in a distribution to the Organization twice yearly, in June and December. The Organization reports the fair value of the beneficial interest in assets held at OCF in the consolidated statement of financial position and reports distributions as a reduction in the beneficial interest. Changes in the value of the Fund are reported as gains or losses in the consolidated statement of activities.

Compensated Absences
Accumulated flex leave is accrued as it is earned and payable upon termination to employees who have completed at least 24 months of employment with the Organization. The amount earned varies by length of employment. At no time can the total accumulation exceed 320 hours for an employee.

Revenue Recognition
*Grants and Contracts* - Grant and contract revenue are recognized in the period in which the related work is performed in accordance with the terms of the grant or contract. Grants receivable are recorded when revenue earned under a grant or contract exceeds the cash received. Deferred revenue is recorded when cash received under a grant or contract exceeds the revenue earned.

*Contributions* - Contributions are recognized when the donor makes a promise to give to the Organization that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

*Donated Services* – The Organization utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the consolidated financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Functional Allocation of Expenses
Expenses by function have been allocated by program and supporting services classifications on the basis of internal records and estimates made by the Organization's management.

## Note 2 - Summary of Significant Accounting Policies, continued

Income Taxes
Catholic Community Services and Catholic Community Services Foundation are public charities and are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Telios, LLC, Community Homes, LLC, Capital Professional Offices, LLC, Salem Self- Help Housing, LLC, Catholic Services Housing and Development, LLC, MADP, LLC, Mill Creek Partners, LLC, Highland Station Partners, LLC, St., Joseph Shelter LLC, and Work to End Poverty, LLC, are considered disregarded entities for income tax purposes and are included in the income tax returns filed by Catholic Community Services Foundation. Catholic Community Services and Catholic Community Services Foundation believe they have appropriate support for any tax positions taken, and as such, do not have any uncertain tax positions that are material to the consolidated financial statements.

ISN is incorporated as a limited liability company. Under provisions of the Internal Revenue Code, limited liability companies treated as partnerships are not subjected to income taxes, and any income or loss realized is taxed to the members. Accordingly, no provisions for income taxes appear in the consolidated financial statements.

Management has evaluated tax positions taken by ISN and has determined that any uncertainty in those positions would not have a material effect on the consolidated financial statements.

Reclassification
Certain amounts were reclassified in the June 30, 2017 presentation to be comparative to the June 30, 2018 presentation. Restricted cash amounts were reclassified from cash to restricted cash and amortization of loan fees was separated on the statement of cash flows. There was no impact to ending net assets or the change in net assets for the year ended June 30, 2017.

Subsequent Events
The Organization has evaluated subsequent events through November 9, 2018, which is the date the consolidated financial statements were available to be issued.

## Note 3 - Cash

The Organization maintains bank accounts that may exceed depository insurance limits and therefore expose the Organization to credit risk. The Organization restricts its cash deposits to financial institutions that are members of the FDIC. At June 30, 2018, the Organization had $3,347,560 in uninsured cash ($3,420,994 as of June 30, 2017). The Organization has not experienced any losses in such accounts.

The Organization holds separate bank accounts with cash restricted for certain purposes. Cash amounts and their restrictive purposes were as follows for June 30:

| | 2018 | 2017 |
|---|---|---|
| Cash | $ 3,811,814 | $ 3,089,225 |
| Restricted Cash: | | |
| Repairs and Maintenance Reserve | 283,000 | 205,301 |
| Rental Security Deposits | 91,151 | 64,000 |
| Property Tax and Insurance Reserve | 47,550 | 61,818 |
| St. Monica Construction | - | 833,100 |
| Casa Adele Operating Reserves | 76,800 | - |
| Other | 164,464 | 271,647 |
| Total Restricted Cash | 662,965 | 1,435,866 |
| Total cash as reported in the Statement of Cash Flows | $ 4,474,779 | $ 4,525,091 |

### Note 4 - Unconditional Promises to Give

Unconditional promises to give consist of the following at June 30:

| | 2018 | 2017 |
|---|---|---|
| Due within one year | $ 102,129 | $ 208,364 |
| Due in one to five years | 175,632 | 144,015 |
| | 277,761 | 352,379 |
| Less: | | |
| Allowance for uncollectible promises to give | (71,278) | (85,722) |
| Discount to present value rates ranging from 1.49% to 5.03% | (15,588) | (14,791) |
| | $ 190,895 | $ 251,866 |

### Note 5 - Notes Receivable

Notes receivable consist of the following at June 30:

| | 2018 | 2017 |
|---|---|---|
| Note receivable from a third party non-profit organization. Term of note was from 2007 through 2012, with 4% interest charged on the note during this time. This agreement ended in 2012 and CCS is pursuing a lien for the balance. Amount is fully allowed against at June 30, 2018 and 2017. | $ 132,368 | $ 132,368 |
| Note receivable due to the sale of property, due October 2025 with payments of $1,208 per month, including interest at 5.0%. | 215,964 | 219,360 |
| Other notes receivable | 4,810 | 11,632 |
| | 349,360 | 363,360 |
| Other allowance for doubtful accounts | 137,178 | 143,999 |
| | $ 215,964 | $ 219,361 |

## Note 6 - Related Party Receivables

Related party receivables consist of the following at June 30:

| | 2018 | 2017 |
|---|---|---|
| Full recourse promissory note receivable from Mill Creek Meadows Partners, Limited Partnership due in the initial amount of $105,000 to Mill Creek Partners, LLC, which bears interest at 6% per annum. Annual payments equal to the lesser of 6% or the net cash flow from the project, pursuant to the partnership agreement of the borrower, are to be paid annually, on or before the 75th day after the end of each calendar year (March 15), commencing with calendar year 2008. The payments shall be applied first to accrued interest and then to the principal of the note. All interest which remains unpaid from cash flow shall be added to principal and bear interest at the rate of the note. The note matures December 31, 2047. The note is secured by land and building. | $ 179,110 | $ 163,730 |
| Non-recourse promissory note receivable from Mill Creek Meadows Partners, Limited Partnership due in the initial amount of $490,000 to Mill Creek Partners, LLC, which bears interest at 6%. Commencing October 1, 2007 a portion of the interest shall be paid in monthly payments of $600. The remaining interest under the note shall accrue and, together with the principal, shall be paid in full on or before the maturity date. Accrued and unpaid interest shall compound annually and shall be added to principal. The note matures December 1, 2046. | 815,441 | 800,670 |
| Non-recourse promissory note receivable from Highland Station Partners LLC, Limited Partnership due to Highland Station Partners, LLC which bears interest at 6.5%. Payments equal to the net cash flow, pursuant to the partnership agreement of the borrower, are to be paid annually, on or before June 30 of each year. The note matures the earliest of (a) October 1, 2045; (b) the date that is 15 years after the close of the compliance period under IRC 42(i)(1) for the property which is the subject of the trust deed which secures the note; (c) the date the property is no longer a qualified low-income property; or (d) the date the property is sold or the date the note is refinanced. The note is secured by land and building. Balance includes accrued interest of $247,877 as of June 30, 2018. | 561,675 | 526,654 |
| Management and developer fee receivables from Highland Station Partners Limited Partnership and Mill Creek Meadows Partners Limited Partnership. | 216,891 | 216,086 |
| Receivable from Chehalem Youth and Family Services | 136,560 | 56,966 |
| | $ 1,909,677 | $ 1,764,106 |

**Note 7 - Property and Equipment**

Property and equipment consists of the following at June 30:

| | 2018 | 2017 |
|---|---|---|
| Land | $ 5,408,286 | $ 4,481,488 |
| Buildings and improvements | 21,028,694 | 19,493,714 |
| Office furniture and equipment | 755,514 | 754,881 |
| Vehicles | 1,380,631 | 1,281,381 |
| Leasehold improvements | 1,065,867 | 1,057,758 |
| | 29,638,992 | 27,069,222 |
| Less accumulated depreciation | (5,148,329) | (4,779,578) |
| | 24,490,663 | 22,289,644 |
| Construction in progress | 5,016,145 | 610,230 |
| | $ 29,506,808 | $ 22,899,874 |

Depreciation expense was $797,175 for the year ended June 30, 2018 ($684,546 in 2017).

Included in property and equipment are assets under capital lease obligations totaling $878,680 and $576,939 with accumulated depreciation of $239,476 and $93,210 as of June 30, 2018 and 2017, respectively. Depreciation expense of $146,266 and $71,197 was recorded on these assets for the years ended June 30, 2018 and 2017, respectively.

**Note 8 - Investments and Fair Value Measurements**

All investments amounts are held in the beneficial interest with the Oregon Community Foundation (OCF). Fair value for the beneficial interest is measured using the fair value of the assets held in the fund as reported by OCF as of June 30, 2018. The Organization considers the measurement of its beneficial interest in OCF to be a Level 3 measurement within the fair value hierarchy because even though that measurement is based on the unadjusted fair values of the fund assets reported by OCF, the Organization will never receive those assets or have the ability to direct OCF to redeem them.

The following table represents the fair value measurement hierarchy of investments and beneficial interests at June 30, 2018:

| | Assets at Fair Value as of June 30, 2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Beneficial interest in assets held at Oregon Community Foundation | $ - | $ - | $ 207,907 | $ 207,907 |

### Note 8 - Investments and Fair Value Measurements, continued

The following table represents the fair value measurement hierarchy of investments and beneficial interests at June 30, 2017:

| | Assets at Fair Value as of June 30, 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Beneficial interest in assets held at Oregon Community Foundation | $ - | $ - | $ 190,581 | $ 190,581 |

The following is a summary of changes in the fair value of the level 3 investment and beneficial interest for the year ended June 30:

| | 2018 | 2017 |
|---|---|---|
| Beginning balance | $ 190,581 | $ 166,787 |
| Net gain | 19,119 | 22,438 |
| Distributions | (1,793) | (1,517) |
| Contributions | - | 2,873 |
| | $ 207,907 | $ 190,581 |

### Note 9 - Long-Term Debt and Capital Lease Obligations

Balances of long-term debt as of June 30, are as follows:

| | 2018 | 2017 |
|---|---|---|
| US Bank notes payable in monthly payments of $28,553, including interest ranging from 3.25% to 5.18%, with maturities ranging from May 2019 to February 2036, secured by real property. | $ 4,172,171 | $ 4,322,837 |
| Below market interest rate loans, one with a monthly installment of $600 and one payable annually in the amount of $2,000, the remaining loans are all deferred with no payments, with interest of 0%. These notes are payable to City of Salem, due on dates ranging from 2024 to indefinite time based on the cash flow of the property or sale, secured by real property. | 2,633,598 | 2,642,797 |
| State of Oregon, Oregon Housing and Community Services Department construction loan, secured by real property, with a maximum borrowing of $3,462,478 that must be converted to long-term note by December 2018. Terms upon conversion to long term note are 0% interest and no payments until maturity in December 2048. | 2,153,359 | 26,321 |
| Pioneer Trust Bank notes payable in monthly installments of $10,898, including interest ranging from 4.75% to 5.5%, with maturities ranging from November 2018 to June 2022, secured by real property. | 1,468,423 | 1,522,661 |
| Columbia Bank notes payable in monthly installments of $5,234, including interest ranging from 3.70% to 6.91%, with maturities ranging from January 2032 to April 2039, secured by real property. | 708,340 | 893,565 |

**Note 9 - Long-Term Debt and Capital Lease Obligations, continued**

| | 2018 | 2017 |
|---|---|---|
| Santiam Escrow note payable in monthly installments of $4,271, including interest at 5.75%, due December 2020, secured by real property. | $ 661,117 | $ 673,360 |
| Mountain West note payable in monthly installments of interest only payments at 5%, due December 2019. | 610,000 | - |
| Capital lease obligations due in monthly payments of $9,319, including interest ranging from of 5.49 to 5.93%, due at various dates through 2022, secured by vehicles. | 575,162 | 466,258 |
| Donor Legacy note payable in monthly installments of $2,083 of interest only payments at 5%, due October 2019, secured by real property. | 500,000 | 500,000 |
| First Federal note payable in monthly installments of $3,203, including interest of 4.875%, due May 2023, secured by real property. | 437,996 | 454,644 |
| City of Salem note for Salem Self-Help Housing, LLC repayment deferred, due upon sale of related property or 2033, secured by real property. | 157,176 | 157,176 |
| Citizen's Bank construction note with a maximum borrowing of $750,000. Full amount has not been borrowed against. Loan is due December 2037. | 145,519 | - |
| Donor loan, payable in monthly installments of $1,163, including interest at 7%, due in 20 years or convertible to a contribution upon the donor's death. | 144,332 | 148,049 |
| City of Salem note payable in monthly installments of $386 including interest at 3%, due in July 2035, secured by real property. | 118,752 | 118,752 |
| City of Salem, Urban Renewal Agency notes payable in monthly installments of $1,808, including interest at 3%, with maturities ranging from March 2022 to September 2033, secured by real property. | 117,205 | 135,101 |
| Union Bank note payable in monthly installments of $707, including interest at 7%, due in September 2019, secured by real property. | 82,040 | 88,111 |
| City of Salem note payable in monthly installments of $555, including interest at 3%, with final maturities in February 2032, secured by real property. | 74,335 | 78,682 |
| Chrysler Capital note payable in monthly installments of $427 at 0% interest due in 2018, secured by vehicle. | - | 12,526 |
| | 14,759,525 | 12,240,840 |
| Less adjustment to below market interest rate loans for imputed interest ranging from 3% to 4.25%. | (920,460) | (949,144) |
| Less loan fees | (77,577) | (75,518) |
| | $ 13,761,488 | $ 11,216,178 |

### Note 9 - Long-Term Debt and Capital Lease Obligations, continued

Amortization of imputed interest is included with interest expense on the consolidated statement of activities.

Future maturities of long-term debt as of June 30, 2018 are as follows:

| | | Capital Lease Obligations | | | |
|---|---|---|---|---|---|
| Year Ending June 30, | Long-Term Debt | Gross Lease Payments | Less Amount Representing Interest | Principal Portion | Total |
| 2019 | $ 1,247,135 | $ 169,057 | $ 25,597 | $ 143,460 | $ 1,390,595 |
| 2020 | 2,144,932 | 154,811 | 25,354 | 129,457 | 2,274,389 |
| 2021 | 4,210,472 | 149,081 | 24,215 | 124,866 | 4,335,338 |
| 2022 | 466,166 | 153,701 | 13,743 | 139,958 | 606,124 |
| 2023 | 72,971 | 43,119 | 5,698 | 37,420 | 110,391 |
| Thereafter | 6,042,687 | - | - | - | 6,042,687 |
| | $ 14,184,363 | $ 669,768 | $ 94,607 | $ 575,161 | $ 14,759,524 |

The U.S. Bank notes payable contains certain covenants and at June 30, 2018, the Organization was not in compliance with those covenants. The Organization obtained additional long-term debt from another lending agency and added a lien on already collateralized debt. As of June 30, 2018, the Organization had obtained a waiver from U.S. Bank for all associated notes regarding the violation.

### Note 10 - Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30:

| | 2018 | 2017 |
|---|---|---|
| Forgivable Loans | $ 2,723,340 | $ 2,694,944 |
| Building Rehab and Renovation Campaign | 271,063 | 622,845 |
| Fostering Hope | 223,994 | 315,657 |
| Time Restricted | 167,453 | 251,866 |
| Casa Adele | 131,115 | - |
| SVDP Building | 90,000 | - |
| Safe Families | 74,000 | 87,000 |
| Father Taaffe | 57,985 | 9,255 |
| St. Joseph's Shelter | 57,337 | 39,865 |
| Community Homes | 48,000 | 60,000 |
| IT Infrastructure | 44,240 | 44,240 |
| Event Sponsorships | 26,497 | 33,000 |
| Other | 38,076 | 7,562 |
| Enhanced Support for Foster Care | - | 60,250 |
| Vehicles | - | 25,000 |
| | $ 3,953,100 | $ 4,251,484 |

**Note 10 - Net Assets, continued**

Permanently restricted net assets are available for the following purposes as of June 30:

| | 2018 | 2017 |
|---|---|---|
| Strong Families | $ 64,848 | $ 64,848 |
| Father Taaffe | 2,483 | 2,483 |
| | $ 67,331 | $ 67,331 |

**Note 11 - Endowment**

The Organization has a beneficial interest in endowment funds that are held at Oregon Community Foundation (OCF). OCF manages the funds in accordance with UPMIFA. The Foundation's objective is to maintain the purchasing power (real value) of the endowment funds. However, from time to time, the fair value of the assets in the endowment fund may fall below the level that the donors require the Organization to retain as a fund of perpetual duration. The Organization classifies permanently restricted net assets held by the Foundation as:

1. The original value of gifts donated to the fund
2. The original value of the Organization's funds transferred to the fund
3. The original value of subsequent gifts donated to the fund

The Organization has adopted investment and spending policies for endowment funds that:

1. Protect the invested assets
2. Preserve spending capacity of the fund income
3. Maintain a diversified portfolio of assets that meet investment return objectives while keeping risk at a level commensurate with that of the median fund in comparable foundations
4. Comply with applicable laws

The Board of Directors has established guidelines for the utilization of the Endowment Funds. The policy sets forth that the Organization shall accept current and deferred gifts to the Endowment Funds. The Organization's policy is to maintain the purchasing power of the funds in perpetuity. The annual spending rate is determined by the board in accordance with the provision contained within the state of Oregon's Uniform Prudent Management of Institutional Funds Act (UPMIFA) guidelines.

It is also the Organization's policy that permanently restricted assets are reported at their original value at the time of the gift. Management keeps the original gift and realized and unrealized gains and losses on those assets linked for determining the fair value of the fund for administrative purposes. Investment income and realized and unrealized gains and losses on those assets are recorded as temporarily restricted assets until appropriated, and do not impact the amount of the permanently restricted assets.

The endowment is invested in a portfolio of equity and debt securities which are structured for long-term total return. The Organization is allowed distributions of earnings on an annual basis as determined by OCF, but they are only withdrawn from the funds upon approval of management.

**Note 11 - Endowment, continued**

Endowment composition by type of fund as of June 30, 2018:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Board designated endowments | $ 125,007 | $ - | $ - | $ 125,007 |
| Donor restricted endowments | - | 15,569 | 67,331 | 82,900 |
| | $ 125,007 | $ 15,569 | $ 67,331 | $ 207,907 |

Endowment composition by type of fund as of June 30, 2017:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Board designated endowments | $ 110,147 | $ - | $ - | $ 110,147 |
| Donor restricted endowments | - | 13,103 | 67,331 | 80,434 |
| | $ 110,147 | $ 13,103 | $ 67,331 | $ 190,581 |

The following summarizes endowment related activity for the year ended June 30, 2018:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, June 30, 2017 | $ 110,147 | $ 13,103 | $ 67,331 | $ 190,581 |
| Net realized and unrealized gain | 14,848 | 2,665 | - | 17,513 |
| Interest and dividends | 1,055 | 552 | - | 1,607 |
| Appropriation of assets for expenditure | (1,043) | (751) | - | (1,794) |
| Endowment net assets, June 30, 2018 | $ 125,007 | $ 15,569 | $ 67,331 | $ 207,907 |

The following summarizes endowment related activity for the year ended June 30, 2017:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, June 30, 2016 | $ 99,525 | $ 2,804 | $ 64,458 | $ 166,787 |
| Net realized and unrealized gain | 10,540 | 10,363 | - | 20,903 |
| Interest and dividends | 964 | 571 | - | 1,535 |
| Appropriation of assets for expenditure | (882) | (635) | - | (1,517) |
| Contributions | - | - | 2,873 | 2,873 |
| Endowment net assets, June 30, 2017 | $ 110,147 | $ 13,103 | $ 67,331 | $ 190,581 |

### Note 12 - Contingencies

CCSF acquired property through grants sponsored by the City of Salem. The terms of the loans include provisions that, if fulfilled, will result in the loans being forgiven. It is CCSF's intent to fulfill these requirements. Therefore, the loans have been recognized as grant revenue in the year of acquisition. However, if the provisions are not met CCSF will be required to repay the loans as follows:

| | 2018 | 2017 |
|---|---|---|
| City of Salem notes to be forgiven from 2021 to 2034. Conditions require that the properties be used as affordable housing for the term of the note. | $ 2,603,340 | $ 2,489,060 |
| City of Salem note to be forgiven in 10 years from the completion of the project. Conditions require that the property must be used as a Forever Home for the 10 year period beginning in 2011. | 120,000 | 120,000 |
| City of Salem note to be forgiven December 2017, conditions require that the funds be used to provide multi-family housing for the term of the note. | - | 85,884 |
| | $ 2,723,340 | $ 2,694,944 |

### Note 13 - Operating Leases

The Organization leases residential buildings for use as group homes, office buildings, and vehicles. Rental expense was $269,018 for the year ended June 30, 2018 ($270,607 in 2017).

Minimum future rental payments under non-cancellable operating leases having terms in excess of one year as of June 30, 2018:

| Year Ending June 30: | |
|---|---|
| 2019 | $ 240,243 |
| 2020 | 125,037 |
| 2021 | 95,263 |
| 2022 | 44,967 |
| 2023 | 13,640 |
| | $ 519,150 |

### Note 14 - Concentrations

For the year ended June 30, 2018, 79% of the accounts receivable balance was due from two agencies (36% from two agencies for the year ended June 30, 2017).

For the year ended June 30, 2018, 97% of the government fees balance was provided by one agency (87% for the year ended June 30, 2017).

For the year ended June 30, 2018, 51% of the contributions balance was provided by three donors (50% from two donors for the year ended June 30, 2017).

For the year ended June 30, 2018, 51% of the grant revenue was provided by four entities (47% from three entities for the year ended June 30, 2017).

## Note 15 - Retirement Plans

CCS and CCSF sponsor a 401(k) plan where employees can elect to defer compensation up to limits established by the Internal Revenue Code. Employees are eligible to participate in the plan based upon reaching age 21 and completing one year of service. Participants can elect to defer compensation up to limits established by the Internal Revenue Code. There were no employer contributions to the plan during the years ended June 30, 2018 and 2017.

ISN sponsors a 401(k) plan. Employees are eligible to participate in the plan based upon reaching age 21 and completing one year of service. Participants can elect to defer compensation up to limits established by the Internal Revenue Code. ISN makes matching contributions up to 5% and 7% of compensation depending on employees' years of service. ISN's matching contributions during the years ended June 30, 2018 and 2017 were $50,067 and $47,488, respectively.

# REPORTS AND SCHEDULES REQUIRED BY UNIFORM GUIDANCE, AUDITS OF STATES, LOCAL GOVERNMENTS, AND NONPROFIT ORGANIZATIONS

Aldrich CPAs + Advisors LLP
680 Hawthorne Ave. SE #140
Salem, Oregon 97301

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

To the Board of Directors
Catholic Community Services of the Mid-Willamette Valley and Central Coast, Inc. and Affiliates
Salem, Oregon

We have audited, in accordance with the 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, the consolidated financial statements of Catholic Community Services of the Mid-Willamette Valley and Central Coast, Inc. (a nonprofit organization) and Affiliates (the Organization), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 9, 2018.

**Internal Control over Financial Reporting**
In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness, 2018-001.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency, 2018-002.

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

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

**The Organization's Responses to Findings**
The Organization's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization's responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on them.

**Purpose of this Report**
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Aldrich CPAs + Advisors LLP

Salem, Oregon
November 9, 2018

Aldrich CPAs + Advisors LLP
680 Hawthorne Ave. SE #140
Salem, Oregon 97301

# INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Catholic Community Services Foundation
Salem, Oregon

**Report on Compliance for Each Major Federal Program**

We have audited Catholic Community Services Foundation's (CCSF) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of CCSF's major federal programs for the year ended June 30, 2018. CCSF's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of CCSF's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CCSF's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of CCSF's compliance.

**Basis for Qualified Opinion on HOME Investment Partnerships Program**

As described in the accompanying schedule of findings and questioned costs, CCSF did not comply with requirements regarding CFDA 14.239 HOME Investment Partnerships Program as described in finding numbers 2018-003 through 2018-007. Compliance with such requirements is necessary, in our opinion, for CCSF to comply with the requirements applicable to that program.

**Qualified Opinion on HOME Investment Partnerships Program**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, CCSF complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 14.239 HOME Investment Partnerships Program for the year ended June 30, 2018.

**Other Matters**

CCSF's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. CCSF's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control over Compliance**

Management of CCSF is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered CCSF's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CCSF's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2018-003 to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2018-004 through 2018-007 to be significant deficiencies.

CCSF's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. CCSF's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Aldrich CPAs + Advisors LLP

Salem, Oregon
November 9, 2018

**CATHOLIC COMMUNITY SERVICES FOUNDATION**

**Schedule of Expenditures of Federal Awards**

Year Ended June 30, 2018

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | | Federal Expenditures |
|---|---|---|---|
| **Department of Housing and Urban Development (HUD)** | | | |
| Passed through the City of Salem, Oregon: | | | |
| Entitlement Grants Cluster: | | | |
| Community Development Block Grants/Entitlement Grants | 14.218 | $ | 672,089 |
| Passed through the City of Salem, Oregon: | | | |
| HOME Investment Partnerships Program | 14.239 | | 3,945,270 |
| Passed through the Oregon Housing and Community Services: | | | |
| HOME Investment Partnerships Program | 14.239 | | 169,160 |
| | | | 4,114,430 |
| Passed through the City of Salem, Oregon: | | | |
| Neighborhood Stabilization Program (ARRA) | 14.253 | | 220,000 |
| Section 8 Housing Assistance Payment Program: | | | |
| Passed through the City of Salem, Oregon | 14.195 | | 284,744 |
| Passed through Marion County, Oregon | 14.195 | | 33,062 |
| Subtotal Section 8 Housing Assistance Payment Program | | | 317,806 |
| Total Expenditures of Federal Awards | | $ | 5,324,325 |

See independent auditors' report and notes to Schedule of Expenditures of Federal Awards.

### Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Catholic Community Services Foundation (the Organization) under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

### Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and/or OMB Circular A-122, *Cost Principles for Non-Profit Organizations,* wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Loan guarantees are reported in the Schedule at the beginning balance of each outstanding loan.

### Note 3 - Indirect Cost Rate

The Organization does not use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance, they use a negotiated rate, approved by the granting agency, for each grant.

### Note 4 - Loan Guarantees

The ending balances of the outstanding loans reported in the Schedule are as follows at June 30, 2018:

| | CFDA # | | Balance |
|---|---|---|---|
| Entitlement Grants Cluster: | | | |
| Community Development Block Grants/Entitlement Grants | 14.218 | $ | 214,960 |
| Neighborhood Stabilization Program (ARRA) | 14.253 | | 220,000 |
| HOME Investment Partnerships Program | 14.239 | | 1,773,074 |
| | | $ | 2,208,034 |

***Section I - Summary of Auditors' Results***

*Financial Statements*

| | | |
|---|---|---|
| Type of auditors' report issued: | Unmodified | |
| Internal control over financial reporting: | | |
| Significant deficiency(ies) identified? | X yes | ___ none identified |
| Material weakness(es) identified? | X yes | ___ no |
| Noncompliance material to the financial statements noted? | ___ yes | X no |

*Federal Awards*

| | | |
|---|---|---|
| Internal control over major programs: | | |
| Significant deficiency(ies) identified? | X yes | ___ none identified |
| Material weakness(es) identified? | X yes | ___ no |
| Type of auditors' report issued on compliance for major programs: | Modified | |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a) | X yes | ___ no |

Identification of major programs:

| CFDA Number | |
|---|---|
| 14.239 | HOME Investment Partnerships Program |

| | | |
|---|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $ 750,000 | |
| Auditee qualified as low-risk auditee under 2 CFR 200.520? | ___ yes | X no |

***Section II - Financial Statement Findings***

**2018-001**

Repeat Finding 2017-001

Criteria: Management must have appropriate controls and procedures in place to correctly prepare the Schedule of Federal Expenditures each year. This includes understanding the continuing compliance requirements and what amounts are required to be included in the Schedule.

Condition: During our testing of the federal awards we identified amounts that were added into the current year that should have been included on the schedule in prior years as the amounts expended related to a property in the HOME partnership. These expenses were incurred prior to the current fiscal year.

Questioned Costs: None

Context: There were no controls over contracts that provide for a central person or office to review all contracts and agreements to properly identify terms and compliance requirements. The changes identified in the current year were missed because of the lack of controls over documentation in the prior year.

Effect: This is considered to be a material weakness over financial reporting.

Recommendation: We recommend that management review all contracts currently in place and create a tracking system of all awards, CFDA numbers, period of affordability and compliance requirements. For any new awards received, a central person should be provided the award to review for all of the previous attributes mentioned and be responsible for updating the tracking system.

Response: The corrections to the SEFA were caused as we discovered more information and documentation related to properties that were archived by previous employees. While we are hopeful we now have all documentation related to the properties in the HOME partnership, the Property Department and the Business and Finance Department continue to sort through uncategorized paperwork left by previous department managers. We believe we are on the right track and have made good progress in compliance in this area.

**2018-002**

Repeat Finding 2017-002

Criteria: Forgivable loans often have compliance requirements associated with them that must be followed in order for the loan to remain forgivable.

Condition: During our testing in FY 2017 we identified one forgivable loan from the City of Salem that had the requirement that the property be used as a foster care home for children. This home is not being used for this purpose as of June 30, 2018, and therefore, according to the loan documents, must be repaid. This loan was moved from forgivable to due and payable as of June 30, 2017 but has not been resolved with the City of Salem as of June 30, 2018.

Questioned Costs: $150,000

Context: The Organization has changed their program and reduced the number of foster care homes that are being provided. This home is now being rented as part of the affordable housing program and the Organization has plans to sell this property and use the funds to repay the loan.

Effect: This is considered to be a significant deficiency over financial reporting.

Recommendation: We recommend that the Organization implement controls to ensure that all compliance requirements for each loan agreement are documented and tracked. Ensuring compliance with all terms and conditions is essential to good standing with the funding agencies.

Response: This property has been leased as an affordable unit and is no longer used for foster children. CCSF has been in communication with the City of Salem regarding the current use of the property. The agreement with the City required the property continue to be used as a home for foster children. CCSF and the City have agreed to sale the property and pay the amount due on the loan. The City of Salem does not want to revise the agreement at this point because CCSF has listed the house for sale and anticipates repaying the City within a few months.

**Section III - Federal Award Findings and Questioned Costs**

**2018-003** CFDA 14.239 HOME Investment Partnerships Program (HUD)
Repeat finding 2017-003

Criteria: Non-Federal entities must follow the procurement standards set out at 2 CFR sections 200.318 through 200.326. They must use their own documented procurement procedures, which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal statutes and the procurement requirements identified in 2 CFR part 200.

Condition: Based on our procedures, CCSF did not have an approved procurement policy in place as of July 1, 2017 which was the required date. They have a draft policy in place but it was not finalized and approved prior to the end of the fiscal year.

Questioned Costs: $33,712

Context: The procurement policy provides guidance and requirements that must be followed for all procurements but specifically any procurements related to federal awards.

Effect: This is considered to be a material weakness in controls over compliance.

Recommendation: We recommend that the Organization adopt and implement the procurement policy immediately so that they will be in compliance with the Uniform Grant Guidance.

Response: CCS presented the final version of the procurement policy to the Board of Directors at their regular meeting on September 11, 2018. The policy was approved unanimously and is in place in the organization.

**2018-004** CFDA 14.239 HOME Investment Partnerships Program (HUD)
Repeat finding 2017-009

Criteria: Unless the Federal awarding agency or pass-through entity authorizes an extension, a non-Federal entity must liquidate all obligations incurred under the Federal award not later than 90 calendar days after the end date of the period of performance as specified in the terms and conditions of the Federal award.

Condition: For the Rehab loan, the project was not completed by the date specified in the grant, June 30, 2016, and funds were drawn on the loan for all of fiscal year 2017 and 2018 without obtaining an extension to the terms. An extension still has not been granted as of June 30, 2018. As the City of Salem paid the draw requests, the Organization is under the impression they have agreed to the extended terms but have not received anything in writing.

Questioned Costs: All draws made in fiscal year 2018, which total $33,712.

Context: The rehabilitation project was not completed within the period stated in the grant due to delays in contracting and securing funding.

Effect: This is considered to be a significant deficiency in controls over compliance and a compliance finding.

Recommendation: We recommend that any contract or grant award that is close to the end of the period of performance should have a formal request for extension submitted and approved prior to drawing the additional funds after the period has been exceeded.

Response: The rehabilitation project is close to completion and the City is in the process of creating new agreements for each of the properties. The current agreement will not be amended. The City communicated with the Property Chief Operating Office their intention is to have the new agreements completed by the years end. At that point the project should be completed as well.

**2018-005** CFDA 14.239 HOME Investment Partnerships Program (HUD)
Repeat finding 2017-11

Criteria: During the period of affordability (i.e., the period for which the non-Federal entity must maintain subsidized housing) for HOME assisted rental housing, the participating jurisdiction must perform on-site inspections to determine compliance with property standards and verify the information submitted by the owners no less than: (a) every 3 years for projects containing 1 to 4 units, (b) every 2 years for projects containing 5 to 25 units, and (c) every year for projects containing 26 or more units. The participating jurisdiction must perform on-site inspections of rental housing occupied by tenants receiving HOME-assisted tenant-based rental assistance to determine compliance with housing quality standards (24 CFR sections 92.209(i), 92.251(f), and 92.504(d)).

Condition: For all 11 properties tested, 2 of them had inspections performed in 2016 that were due for a bi-annual review as of June 28, 2018. For the remaining 9 properties, there was no evidence of inspection or the last inspection is not in compliance with the frequency of inspections.

Questioned Costs: Unknown

Context: The City of Salem is responsible for performing the inspections. Several of the buildings are being renovated and the City has informed the Organization that they are waiting until the renovations are complete to perform the inspections.

Effect: This is considered to be a significant deficiency in controls over compliance and a compliance finding.

Recommendation: We recommend that the Organization contact the City of Salem and request inspections be performed in accordance with the compliance requirements.

Response: Management has been in discussions with the City regarding the City's lack of monitoring the HOME properties. The City has created a monitoring schedule in order to be incompliance with this requirement and majority of the inspections are set to occur on or before December 31, 2018.

**2018-006** CFDA 14.239 HOME Investment Partnerships Program (HUD)
Repeat finding 2017-006

Criteria: CCSF is responsible for filling open rental units as soon as possible with qualified tenants.

Condition: For 2 of the 10 properties tested there were 3 vacant units at June 30, 2018 that were still vacant at August 31, 2018.

Questioned Costs: None

Context: The vacant units are small 1 bedroom studio units. Most of the tenants for the Organization are families and these units are not the appropriate size for a family.

Effect: This is considered a significant deficiency in controls over compliance and compliance.

Recommendation: We recommend that the Organization solicit tenants for all their units to ensure the best use of the resources.

Response: Property management has been transferred to a third-party property management group in order to assist in the day to day management activities and overall compliance. CCSF will conduct audits on files and vacancies on a regular basis to ensure compliance with Federal and State regulations.

**2018-007** CFDA 14.239 HOME Investment Partnerships Program (HUD)

Criteria: CCSF is required to maintain loan documentation relating to all properties for compliance.

Condition: For one of the properties tested, there were missing exhibits related to the loan that described the terms of the units to be maintained.

Questioned Costs: None

Context: There was turnover in staff and location moves since the original documentation was obtained and the document was not filed appropriately.

Effect: This is considered a significant deficiency in controls over compliance and compliance.

Recommendation: We recommend that the Organization contact the City in order to obtain the missing documentation.

Response: Management has reached out to the City to obtain copies of the agreement. The City has had staff turnover and is having a difficult time locating some of the legal documents, however once they obtain a copy, they will forward to us.

***Section IV - Prior Audit Findings***

**2017-001**

Condition: During our testing of the federal awards we identified several changes that needed to be made. The ending loan balance was used to prepare the SEFA and for loan guarantees it should be the beginning of the period balance plus new fundings. There were also three loans included in the SEFA that should not have been as they had met the compliance requirements and one loan should have been included under a different CFDA # since 2007.

Current Status: This finding was repeated as 2018-001

**2017-002**

Condition: During our testing we noted that there was one forgivable loan from the City of Salem that had the requirement that the property be used as a foster care home for children. This home is not being used for this purpose as of June 30, 2017 and therefore, according to the loan documents, must be repaid.

Current Status: This finding was repeated as 2018-002 as the situation has not been resolved.

**2017-003**

Condition: Based on our procedures, CCSF does not have a written procurement policy. There was some documentation available that they attempted to get bids from three vendors for some of the projects but not all. Based on the evidence retained, for some they only received one bid and there was no documentation as to why a bid was selected.

Current Status: A procurement policy has been developed, but has not been finalized as of June 30, 2018, therefore this condition has not been corrected and is included in finding 2018-003.

**2017-004**

Condition: During fiscal year 2016 and 2017 there were no controls over compliance associated with real property management. No properties were sold in the current year but there is no system or method to track the properties purchased with federal awards other than the knowledge of key employees.

Current Status: Management has hired a new employee in order to specifically oversee compliance with the properties to help review and mitigate any risk for error before any action is performed with any of the federal properties. The Organization created a database to track the property that is associated with federal awards therefore this finding has been resolved.

**2017-005**

Condition: For one property the loan documents specify that there should be 11 HOME units and according to the tenant system report there were 11 HOME units, but when we performed our testing three of the tenants selected were not HOME tenants even though they were listed as that in the system.

Current Status: The Business and Finance Office and Property Department have been working to complete a grant tracking system to identify grants, CFDA numbers, loan/grant maturity, compliance period for affordability, compliance requirements and other covenants. They have also updated Boston Post with the accurate information on the required number of each type of units. During the testing in the current year, we had no findings related to this condition.

**2017-006**

Condition: For 5 of the 10 properties tested there were vacant units at June 30, 2017 that were still vacant at September 30, 2017.

Current Status: Our testing in the current year identified findings related to timely filling of units with qualified tenants. See finding 2018-006.

**2017-007**

Condition: We tested 30 tenant files and found deficiencies in the following areas:

a. 2 tenants were being charged the incorrect rent amounts for their unit.
b. For 1 tenant the lease was not in the file therefore we were unable to verify the amount that was being charged or that the tenant signed a lease.
c. 4 tenant files that were missing supporting documentation of the rental rates or payment terms, this included tenants paying for additional items but not being included in their lease agreements.

Current Status: Management has hired a new employee in order to specifically oversee compliance with the properties and tenant files. During our testing in the current year, there were no issues noted relating to inappropriate rents being charged or missing documentation.

**2017-008**

Condition: We were unable to test income from July 1, 2016 through September 30, 2016 as the information in tenant system was not reconciled to deposits in the accounting system during this time period. The Organization is not certain that the information recorded by tenant is correct for this time period.

Current Status: In July 2017, CCSF began a process of reviewing all tenant accounts in Boston Post. The turnover in staff and inconsistent data entry by past employees largely contributed to the poor integrity of the Boston Post data. Since the hiring of the new employee to assist in compliance matters and the transition of a staff in the Business and Finance Office into the controller position, the data is reviewed on a consistent basis and the Boston Post system and general ledger are reconciled at least annually. For the year ended June 30, 2018 revenue in Boston Post reconciled to the revenue recorded in the general ledger.

**2017-009**

Condition: For the Rehab loan, the project was not completed by the date specified in the grant, June 30, 2016, and funds were drawn on the loan for all of fiscal year 2017 without obtaining an extension to the terms. As the City of Salem paid the draw requests the Organization is under the impression they have agreed to the extended terms but don’t have anything in writing

Current Status: Finding was not resolved and was repeated as 2018-004.

**2017-010**

Condition: In our testing of 27 tenants, 6 did not have any recent recertification in their files. For some tenants, it had been a few years since anything was documented or verified. We had one tenant file in which we could not find evidence that income was verified upon move in.

Current Status: Management has hired a new employee in order to specifically oversee compliance with the properties and tenant files. During our testing in the current year, all recertifications were performed timely and were documented in the tenant files.

**2017-011**

Condition: For 7 of the 11 properties there was no evidence of on-site inspections being performed within the required time period. For three properties, they are currently undergoing renovation and inspections are to be performed upon completion of the project.

Current Status: There have been no changes to this condition, see finding 2018 -005.

**CORRECTIVE ACTION PLAN**

October 31, 2018

United States Department of Housing and Urban Development

Catholic Community Services Foundation respectfully submits the following corrective action plan for the year ended June 30, 2018. The organization's records were audit by the public audit firm of:

Aldrich Advisors
680 Hawthorne Ave. SE #140
Salem, OR 97301

Audit period: July 1, 2017 through June 30, 2018.

The findings from the June 30, 2018 Schedule of Findings and Questioned Costs are discussed below. The findings are numbered consistently with the numbers in the schedule.

FINDINGS-FINANCIAL STATEMENT AUDIT

**2018-001** (Repeat Finding 2017-001) - SEFA/Contract Tracking

<u>Questioned Costs:</u> None

<u>Effect:</u> Material Weakness over financial reporting

<u>Summary of the Condition:</u> New items appeared on the 2017-18 Schedule of Federal Financial Assistance (SEFA) that should have been reported in previous years. The main reason items continue to show up on the SEFA is because CCS Business and Finance (BFO) Staff and CCSF Property Staff are 'unpacking' boxes of disorganized paper documents from previous Property Department (PD) directors. Prior to the current directors of BFO and PD, the Property Department directors and staff held closely to the documents between CCSF and the City of Salem and State of Oregon. These were not shared with BFO creating a "we didn't know what we didn't know" situation. Each year for the past four (4) years we attempted to verify our current debt and grant revenue with the City of Salem and Oregon Housing and Community Development for both total cost and affordability. It is customary that the lists we send are approved as being "correct." As we unpack the boxes and find agreements that may still be relevant, we check with the granting agency to ensure the agreement is valid and contain federal funding/affordability periods that would require the grant to be disclosed on the SEFA. Many of the agreements we are uncovering are five or more years old.

<u>Audit Recommendation:</u> We recommend that management review all contracts currently in place and create a tracking system of all awards, CFDA numbers, period of affordability and compliance requirements. For any new awards received, a central person should be

provided the award to review for all of the previous attributes mentioned and be responsible for updating the tracking system.

Corrective Action:

(a) In 2017-18 CCS created a contracts tracking database that continues to be populated with old, new and newly discovered older agreements. The database allows us to run reports on loans and grants associated with a property. Populating the database is taking a bit longer than we anticipated as both BFO and PD lost staff and vacancies continued for several months. We anticipate the database to be fully populated by January 31, 2019.

(b) All signed loan and/or grant agreements are now centralized in BFO (paper) and scanned to the "Owned Properties" folder on the Dropbox and shared with all staff who have a 'need to know'. This centralization and electronic organization of our files and data will help us maintain internal control over these agreements

(c) Prior to the end of this fiscal year, a full-court press effort will be made by both PD and BFO to unpack all old Property Department records that are currently boxed up. Making 2018-19 the last year that old agreements should be uncovered.

Responsible Person: Rena Peck, COO Property Department; Marsha Clark, CFO

**2018-002** (Repeat Finding 2017-002) – Change in Agreed Upon Use of a Property identified in a Forgivable Loan

Effect: Significant deficiency over financial report

Questioned Costs: $150,000

Summary of the Condition: A single family dwelling identified in one forgivable loan of $150,000 from the City of Salem required that the dwelling be used as a "foster care home for children." CCS was unable to engage licensed and appropriate foster parents to live in the home and care for youth. The home was vacant for quite some time when a business decision was made to rent it as affordable housing. CCS did not ask the City for 'permission' to change the use and amend the agreement. Since the time this condition was identified (more than a year ago), CCSF has been trying to get an opinion from the City of Salem whether or not this is or could be an appropriate use for this property given the statewide condition of a lack of suitable foster parents and an increase in the need for affordable housing. The City, primarily due to staff turnover and vacancies, was unable to address our request until FY 2018-19. In the meantime, CCSF made a decision to sell single family properties as they are not an effective strategy for affordable housing…it takes as much time and effort to manage the single family property as it does an apartment complex.

Audit Recommendation: We recommend that the Organization implement controls to ensure that all compliance requirements for each loan agreement are documented and tracked. Ensuring compliance with all terms and conditions is essential to good standing with the funding agencies.

Corrective Action:

a) In 2017-18 CCS created a contracts tracking database that continues to be populated with old, new and newly discovered older agreements. The database allows us to run reports on loans and grants associated with a property. Populating the database is taking a bit longer than we anticipated as both BFO and PD lost staff and vacancies continued for several months. We anticipate the database to be fully populated by January 31, 2019.

b) CCS, being unsuccessful in soliciting appropriate foster parents for the area, approached the City and asked for a change of use on the property and expressed our desire to sell this single family dwelling. The City stated they do not want to change or amend the agreement as this time because of the impending sale. CCSF has listed this property for sale and is entertaining offers. CCSF will repay $150,000 to the City of Salem with the net proceeds from the sale. We anticipate the sale to be complete by January 31, 2019.

Responsible Person: Rena Peck, COO Property Department

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**2018-003** (Repeat finding 2017-003) – CFDA 14.239 HOME Investment Partnerships Program (HUD) - Procurement Standards

Effect: Material Weakness in controls over compliance

Questioned Costs: $33,712

Summary of the Condition: CCS was required to have a procurement policy that met federal guidelines and standards in place as of July 1, 2017. A policy was written as of July 1, 2018, but had not been approved by the Board of Directors. While CCS and affiliates were following the guidelines of the federal procurement policy, the written policy was not in place and had not been approved by the Board of Directors.

Audit Recommendation: We recommend that the Organization adopt and implement the procurement policy immediately so that they will be in compliance with the Uniform Guidance.

Corrective Action: The CCS and affiliates Purchasing Policy was approved unanimously by the Board at their regular meeting on September 11, 2018. The policy has been well distributed throughout the organization with particular attention given to those who would be purchasing goods or services covered under the policy. The Business and Finance Office and Quality Department will develop a process for tracking procurements and will develop supporting documents for purchasers. We anticipate completion of these tasks no later than March 31, 2019.

Responsible Person: Marsha Clark, CFO; Kristy Defrance, Director Quality Department (process and tracking)

**2018-004** (Repeat finding 2017-009) – CFDA 14.239 HOME Investment Partnerships Program (HUD) Work Continued on Expired Loan

Effect: Significant deficiency in controls over compliance and a compliance finding

Questioned Costs: $33,712

Summary of the Condition: A major rehabilitation loan CCSF was received from the City of Salem at the time of acquiring the Salem Keizer Community Development Corporation's properties required that the project be complete by June 30, 2016. This loan covered multiple properties. The project was not complete, work continued and funds were drawn on the loan (The City reimbursed CCSF) in both 2017 and 2018 without obtaining an extension to the terms. CCSF believe that the payment for work completed created an ‘assumed’ contract extension. Rehabilitation work stopped in2017. CCSF approached the City many times requesting an extension to the loan. An extension has still not occurred and the City of Salem determined that they will not provide an extension to the old agreement.

Recommendation: We recommend that any contract or grant award that is close to the end of the period of performance should have a formal request for extension submitted and approved prior to drawing the additional funds after the period has been exceeded.

Corrective Action Plan:

a) The City of Salem has stated that they are in the process of creating new documents for each individual property that was included in the original loan agreement. We understand from the City that their intention is to have the new agreements completed and in place by December 31, 2018. Until the new documents are in place, CCSF will not do rehabilitation work on these properties that is intended to be applied to the new loans. CCSF will continue to follow-up with the City of Salem until the new documents are received.
b) The Business and Finance Office and Property Department will use the database tracking system to ensure extensions are requested as needed and timely. Timeline: Ongoing

Responsible Person: Rena Peck, COO Property Department; Marsha Clark, CFO

**2018-005** (Repeat finding 2017-11) – CFDA 14.239 HOME Investment Partnerships Program (HUD) Awarding Entity Onsite Inspections

Effect: Significant deficiency in controls over compliance and a compliance finding

Questioned Costs: Unknown

Summary of Conditions: The City of Salem is the awarding entity. The City of Salem is required to and is responsible to perform on-site inspections to determine compliance with property standards and verify the information submitted by CCSF no less than every three years for properties with 5 or fewer units; two years for properties containing 5 to 25 units and every year for properties containing 26 or more units. The audit team inspected 11 properties and found 9 of them to be out of compliance – no biannual reviews/inspections were completed as required by June 28, 2018.

Recommendation: We recommend the organization contact the City of Salem and request inspections be performed in accordance with the compliance requirements.

Corrective Action Plan: Management and the City of Salem have discussed that monitoring needs to occur. The City of Salem created the following monitoring schedule with the majority of visits occurring in December 2018.

- Chemawa’s units were inspected during the renovation. COS staff will be reinspecting the units at closeout or no later than 12/31/2018.
- Marilyn’s three units will be inspected by COS staff by 12/31/2018.
- COS participated in the property inspection of Mill Creek last month. We will be reinspecting it by 12/31/2018.
- Woodmansee is scheduled to be inspected in 10/2019.
- Winter Street will be inspected by COS staff by 12/31/2018.

- Statesman Village was inspected in 2017 and will be reinspected by the COS staff no later than 12/31/2018
- Royal Pines / Renaissance will be inspected by COS staff by 12/31/2018.
- White Oak will be inspected by COS staff by 12/31/2018.
  Center Court will be inspected by COS staff by 12/31/2018

Management will continue to follow-up with the City to make sure these monitoring visits occur.
Responsible Person: City of Salem personnel; Rena Peck, COO Property Department

**2018-006** (Repeat finding 2017-006) – CFDA 14.239 HOME Investment Partnerships Program (HUD) Long Term Vacancies

Effect: Significant deficiency in controls over compliance and a compliance finding

Questioned Costs: None

Summary of Condition: Ten properties were tested. Two of the 10 properties had 3 vacant units at June 20, 2018 that were still vacant at August 31, 2018. The vacant units are small one-bedroom studios and are not appropriate for families. Those seeking affordable housing through CCSF are primarily families rendering these studio units hard to rent.

Corrective Action Plan:

a) All units are leased up as of this writing.
b) Property management has been contracted to a third-party, Shelter Management, Inc. (SMI). SMI has been instructed to seek out and offer these studio units as they become vacant to appropriate tenants. Timeline: Ongoing
c) CCSF will conduct regular reviews of tenant files, vacancies and the wait list at SMI on a regular basis to ensure compliance with Federal and state regulations. Timeline: Ongoing

Responsible Person: Rena Peck, COO Property Department

**2018-007** – CFDA 14.239 HOME Investment Partnerships Program (HUD) – Loan Documentation

Effect: Significant deficiency in controls over compliance and a compliance finding

Questioned Costs: None

Summary of Condition: For one of the properties tested, there were missing exhibits related to the loan that described the terms of the units to be maintained. Condition caused by frequent turnover in management staff, office moves and lack of central organization of loan and grant documents.

Recommendation: We recommend that the Organization contact the City in order to obtain the missing documentation.

Corrective Action:

a) Management is in contact with the City to retrieve a copy of the missing documents. To date, the City has been unable to retrieve the document due to staff turnover. They have indicated that the document will be sent to us when staff time permits. Timeline: Unknown but management will continue to request the documents from the City of Salem.
b) Future loans/grants will be reviewed to ensure the complete set of documents is included in our property and loan files. Timeline: Ongoing

Responsible Party: Rena Peck, COO Property Department

If the United States Department of Housing (HUD) has questions regarding this plan, please call Marsha Clark, CFO, at 503-856-7094.

Sincerely,

Marsha Clark

Marsha Clark
Chief Financial Officer

cc: Jim Seymour, Executive Director
CCSMWV/CCSF Joint Finance Committee
Josh Graves, Deputy Executive Director
Rena Peck, COO Property Department