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

Consolidated Financial Statements

Year Ended June 30, 2019

Aldrich

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

Consolidated Financial Statements

Year Ended June 30, 2019

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Aldrich

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 statement of financial position as of June 30, 2019, 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.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the 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 the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 consolidated 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 consolidated 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, 2019, and the changes in their consolidated net assets and their consolidated cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding a Change in Accounting Principle
As discussed in Note 2 to the financial statements, Catholic Community Services of the Mid-Willamette Valley and Central Coast, Inc. adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958); Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Aldrich CPAs + Advisors LLP

Salem, Oregon
February 4, 2020

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

Consolidated Statement of Financial Position

June 30, 2019

ASSETS		
Cash	$	2,840,355
Restricted cash		563,242
Accounts receivable, net		510,449
Unconditional promises to give, net		224,742
Prepaid expenses and other assets		92,961
Notes receivable		643,029
Related party receivables		2,001,687
Property and equipment, net		31,206,144
Beneficial interest in assets held at Oregon Community Foundation		220,948
Total Assets	$	38,303,557
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$	619,739
Accrued expenses		1,208,972
Deferred revenue		84,801
Long-term debt and capital lease obligations, net		15,044,500
Total Liabilities		16,958,012
Net Assets:		
Without donor restrictions:		
Undesignated		15,939,759
Board designated		773,733
Noncontrolling interest		267,043
Total Without Donor Restrictions		16,980,535
With donor restrictions		4,365,010
Total Net Assets		21,345,545
Total Liabilities and Net Assets	$	38,303,557

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

Consolidated Statement of Activities

Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:			
Government fees	$ 12,653,933	$ -	$ 12,653,933
Contributions	192,992	2,250,242	2,443,234
Rents	2,017,762	-	2,017,762
Fees for services	1,377,040	-	1,377,040
Grants	201,961	582,582	784,543
Gain on disposal of property	274,125	-	274,125
In-kind contributions	39,301	-	39,301
Other	386,004	3,195	389,199
Net assets released from purpose restrictions	2,427,491	(2,427,491)	-
Net assets released from time restrictions	63,949	(63,949)	-
Total Support and Revenue	19,634,558	344,579	19,979,137
Expenses:			
Program:			
Affordable Housing	1,958,715	-	1,958,715
Behavioral Health Services	902,849	-	902,849
Brokerage Services	1,761,597	-	1,761,597
Services to Adults with Disabilities	7,770,753	-	7,770,753
Fostering Hope Initiative	556,339	-	556,339
Youth and Family Services	1,611,088	-	1,611,088
Supporting Services:			
Property management	1,543,660	-	1,543,660
Administration	2,948,015	-	2,948,015
Fundraising	424,654	-	424,654
Total Expenses	19,477,670	-	19,477,670
Change in Net Assets	156,888	344,579	501,467
Net Assets, beginning of year	16,823,647	4,020,431	20,844,078
Net Assets, end of year	$ 16,980,535	$ 4,365,010	$ 21,345,545

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

Consolidated Statement of Functional Expenses

Year Ended June 30, 2019

	Program							Supporting Services			
	Affordable Housing	Behavioral Health Services	Brokerage Services	Services to Adults with Disabilities	Fostering Hope Initiative	Youth and Family Services	Total Program	Property Management	Administration	Fundraising	Total
Salaries and wages	$ 56,807	$ 544,360	$ 1,028,390	$ 5,354,154	$ 354,899	$ 705,258	$ 8,043,868	$ 275,655	$ 1,586,034	$ 255,192	$ 10,160,749
Payroll taxes and benefits	-	129,434	250,083	1,304,553	49,392	212,156	1,945,618	53,714	358,458	50,199	2,407,989
Professional fees	137,032	131,822	90,638	20,465	64,117	106,523	550,597	102,832	406,249	-	1,059,678
Interest and amortization	697,191	228	-	27,940	50	2,041	727,450	200,320	3,705	6,419	937,894
Depreciation	337,357	-	-	144,359	-	9,618	491,334	364,413	12,280	-	868,027
Repairs and maintenance	393,922	227	6,171	114,501	86	74,931	589,838	184,802	9,483	-	784,123
Utilities	171,359	-	15,693	113,029	3,830	51,753	355,664	169,235	2,669	54	527,622
Program expenses and supplies	20,054	8,479	29,397	201,163	20,062	51,095	330,250	14,022	74,250	5,253	423,775
Insurance	54,277	5,456	12,458	109,314	1,915	24,782	208,202	61,800	119,775	-	389,777
Subscriptions and library	8,429	32,944	22,801	29,569	731	30,462	124,936	2,047	234,731	14,150	375,864
Rent	950	20,139	87,608	163,761	678	-	273,136	15,566	-	-	288,702
Foster care	-	-	-	-	8,310	231,769	240,079	-	-	-	240,079
Travel	8	2,880	59,263	85,190	13,579	20,066	180,986	5,730	17,291	85	204,092
Miscellaneous	54,822	-	6,872	435	4,704	23,064	89,897	42,429	30,465	8,966	171,757
Telecommunications	8,204	3,935	28,338	55,084	5,945	14,415	115,921	19,394	24,260	140	159,715
Print and publications	-	11,911	10,635	19,714	5,899	14,331	62,490	4,614	32,345	8,939	108,388
Brokerage	-	-	89,900	-	-	-	89,900	-	-	-	89,900
Events	-	-	-	-	-	-	-	367	1,182	68,989	70,538
Bad debts	2,715	8,340	-	4,369	-	27,914	43,338	20,473	1,000	-	64,811
Training and conference	-	383	3,968	5,180	19,633	1,910	31,074	635	9,503	601	41,813
Membership dues	-	1,164	11,134	12,691	1,526	6,135	32,650	517	7,767	-	40,934
Postage and shipping	2	687	7,618	252	220	1,054	9,833	117	6,669	3,953	20,572
Advertising	2,226	-	430	225	751	222	3,854	2,489	9,714	1,714	17,771
License and permits	2,288	460	200	4,805	12	1,589	9,354	2,489	185	-	12,028
Resident services	11,072	-	-	-	-	-	11,072	-	-	-	11,072
	$ 1,958,715	$ 902,849	$ 1,761,597	$ 7,770,753	$ 556,339	$ 1,611,088	$ 14,561,341	$ 1,543,660	$ 2,948,015	$ 424,654	$ 19,477,670

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Cash Flows

Year Ended June 30, 2019

Cash Flows from Operating Activities:		
Change in net assets	$	501,467
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in value of beneficial interest		(13,041)
Amortization of discount on notes payable		443,911
Conversion of debt to forgivable loan		(402,255)
Interest accrued on related party receivables		(28,251)
Gain on disposal of property		(274,125)
Amortization of loan fees to interest expense		21,276
Depreciation		868,027
Contributions restricted to long-term purposes		(1,343,700)
Changes in operating assets and liabilities:		
Accounts receivable		(72,754)
Unconditional promises to give		(33,847)
Grants receivable		107,452
Related party receivables		(63,759)
Prepaid expenses and other assets		38,179
Accounts payable		(598,895)
Accrued expenses		21,450
Deferred revenue		(85,794)
Net Cash Provided by Operating Activities		(914,659)
Cash Flows from Investing Activities:		
Purchases of property and equipment		(3,822,389)
Proceeds on sale of property and equipment		1,465,182
Issuance of notes receivable		(117,686)
Payments received on notes receivable		45,621
Net Cash Used by Investing Activities		(2,429,272)
Cash Flows from Financing Activities:		
Issuance of long-term debt		2,652,906
Payments on long-term debt		(1,493,383)
Payments on capital lease obligations		(230,474)
Contributions received for long-term purposes		1,343,700
Net Cash Provided by Financing Activities		2,272,749
Net Change in Cash		(1,071,182)
Cash and Restricted Cash, beginning		4,474,779
Cash and Restricted Cash, ending	$	3,403,597
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	$	453,374
Capital lease obligations incurred for the use of equipment	$	324,981
Sale of property for note receivable	$	355,000
Proceeds on sales used to pay capital lease obligations	$	33,950
Loan fees withheld from proceeds from debt issuance	$	28,461

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' mission is "We champion the positive development of children and adults, strengthen families, and build community." 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 its core values of 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. There are two housing units under this LLC, Center Court (transitional affordable housing) and Rainbow Lodge (leased to CCS).

Father Taaffe Homes, LLC, 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.

MADP, LLC, a tax-exempt limited liability company wholly owned by CCSF, was incorporated November, 2011. MADP, LLC holds property and debt for single-family homes in Mt. Angle that are used by CCS for various program activities.

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.

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. 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

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 17-unit apartment complex is used by CCS for affordable housing.

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 in Oregon.

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 270 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.

Behavioral Health Services
Behavioral Health Services are provided by the Community Counseling Center (Center). The Center was the first outpatient community mental health clinic in the Mid-Willamette Valley. It serves our community's vulnerable children, youth, adults and families suffering from mental health issues.

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.

Fostering Hope Initiative
The vision of the *Fostering Hope Initiative* (FHI) is for every child and adult in every neighborhood lives in a safe, stable, nurturing home, is healthy, succeeds in school or work, and enjoys financial self-sufficiency. CCS serves as the lead partner for this neighborhood-based collective impact initiative designed to strengthen families, mobilize neighborhoods and promote optimum child and youth development. It is a partnership of government, public and private organizations joining together with a common goal. FHI operates in high poverty, high need neighborhoods. Each neighborhood is staffed with a Community Health Worker who works with families and community partners to help support strong families and safe, healthy neighborhoods.

Note 1 - Organization and Nature of Activities, continued

Youth and Family Services

Father Taaffe Homes and Pregnancy Support Services are homes and community-based supports that provide structure for single, pregnant and parenting young women to build a future.

Independent Living Program helps youth who are transitioning to adulthood from foster care by developing essential skills that will help them prepare them to live independent, successful lives.

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.

Safe Families for Children is a network of volunteer host families that extends the community safety net by providing parents with a loving respite home where they can safely place their children in times of crisis, such as illness, incarceration, homelessness, substance abuse or domestic violence.

St. Joseph Family Shelter campus 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. In addition to the Transitional Living Community, the campus also includes Mission Benedict, a food bank and clothing resource for those in need, as well as the Exchange Club Parent Aide Volunteer Program.

<u>Principles of Consolidation</u>
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

<u>New Accounting Pronouncement</u>
The Organization adopted ASU No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three. The guidance also enhances disclosures for board designation amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification. The Organization has adjusted the presentation of these statements accordingly.

<u>Financial Statement Presentation</u>
The consolidated financial statements present information regarding the financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions – Net assets not subject to donor imposed stipulations and may be expended for any purpose in performing the primary objectives of the Organization. These assets may be used at the discretion of the Organization's management and the board of directors.

Board Designated Funds – These funds have been restricted by the board as operational reserves.

Noncontrolling Interest – These funds represent the 20% ownership in ISN.

Note 2 - Summary of Significant Accounting Policies, continued

Net Assets with Donor Restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or the passage of time.

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 through its investment in the beneficial interest in assets held by the Oregon Community Foundation 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 and Notes 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 receivable is $34,203 at June 30, 2019. The allowance for doubtful notes receivable is $137,178.

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.

Note 2 - Summary of Significant Accounting Policies, continued

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). NAV is the amount of net assets attributable to the proportional interest in the fund balance.

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, 2019 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.

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 after 90 days of employment 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.

Note 2 - Summary of Significant Accounting Policies, continued

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 - The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

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

The cost of providing program and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Wherever possible, expenses are allocated directly to the program that incurred the expense. In some cases, the financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, and facilities and related costs, which are allocated on a square-footage basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort.

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, Father Taaffe Homes, LLC, Capital Professional Offices, LLC, Salem Self - Help Housing, LLC, MADP, LLC, Mill Creek Partners, LLC, Highland Station Partners, LLC, and St. Joseph Shelter 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.

Subsequent Events

The Organization has evaluated subsequent events through February 4, 2020, which is the date the consolidated financial statements were available to be issued.

Note 3 - Availability and Liquidity of Assets

The Organization receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions, typically for capital improvement projects or for program specific operations. In addition, the Organization receives support without donor restrictions. And, to a certain degree, the Organization receives a small amount of permanently restricted donations to be held in perpetuity.

The Organization reinvests any investment income from its permanent fund back into the permanent fund for future earning potential. Investment earnings from contributions without donor restrictions as well as earnings from donor-restricted and board-designated contributions without donor restrictions may be used for general expenditures. General expenditures include administrative and general expenses, fundraising expenses and grant commitments expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the Organization’s fiscal year.

The Organization actively and carefully manages its cash available to meet general expenditures and may use available reserves for one-time, nonrecurring expenses that will build long-term capacity, such as staff development, research and development or investment in infrastructure. However, excess reserves are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap. Any use of excess reserves will be replenished within a reasonable period of time.

The Organization’s Board Designated Operating Reserve Policy defines excess reserves as those funds in a “restricted reserve” accessible only with the explicit approval of the Executive Director. The restricted reserve serves a dynamic role and will be reviewed and adjusted in response to internal and external changes. If the restricted reserve balance amount to less than one year, the Organization shall make a minimum contribution on a monthly basis. The Board shall determine the minimum monthly contribution. The target minimum balance to the reserve is equal to one month’s average operating costs.

The table below presents financial assets available for general expenditures within one year at June 30, 2019:

Financial assets at year end:		
Cash	$	2,840,355
Unconditional promises to give to be received in one year		133,706
Accounts receivable		510,449
Notes receivable due in one year		56,977
Total financial assets		3,541,487
Less amounts not available to be used within one year:		
Board designated reserve		(638,882)
Purpose restricted funds held for building rennovations		(404,252)
Financial assets available to meet cash needs for general expenditures within one year:	$	2,498,353

Note 4 - Cash

The Organization maintains cash accounts at various financial institutions. The balances at times may exceed Federal Deposit Insurance Corporation (FDIC) limits. Accounts at each financial institution are insured by the FDIC up to $250,000.

The Organization holds separate bank accounts with cash restricted for certain purposes. Cash amounts and their restrictive purposes were as follows for June 30, 2019:

Cash	$	2,840,355
Restricted Cash:		
Repairs and maintenance reserve		276,685
Rental security deposits		104,062
Property tax and insurance reserve		91,167
Operating reserves		91,328
Total Restricted Cash		563,242
Total Cash as Reported in the Statement of Cash Flows	$	3,403,597

Note 5 - Unconditional Promises to Give

Unconditional promises to give consist of the following at June 30, 2019:

Due within one year	$	133,706
Due in one to five years		170,942
		304,648
Less:		
Allowance for uncollectible promises to give		(64,318)
Discount to present value rates ranging from 1.49% to 5.03%		(15,588)
	$	224,742

Note 6 - Notes Receivable

Notes receivable consist of the following at June 30, 2019:

Note receivable from a third party individual for the purchase of a home from CCSF. The note is receivable in monthly installments of $1,906 per month, including interest at 5%. The note matures in July 2048.	$	351,166
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, 2019.		132,368
Note receivable from a third party individual from the sale of property, due October 2025 with payments of $1,208 per month, including interest at 5.0%.		211,613
Other notes receivable		85,060
		780,207
Less allowance for doubtful accounts		(137,178)
	$	643,029

Note 7 - Related Party Receivables

Related party receivables consist of the following at June 30, 2019

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.	$	183,967
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.		884,802
Non-recourse promissory note receivable 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 $267,258 as of June 30, 2019.		565,425
Management and developer fee receivables from Highland Station Partners Limited Partnership and Mill Creek Meadows Partners Limited Partnership.		232,527
Receivable from Chehalem Youth and Family Services with monthly payments of $500. There have been no payments on this note since the inception.		134,966
	$	2,001,687

Note 8 - Property and Equipment

Property and equipment consists of the following at June 30, 2019:

Land	$ 6,039,909
Buildings and improvements	25,046,500
Office furniture and equipment	740,393
Vehicles	1,606,872
Leasehold improvements	1,065,867
	34,499,541
Less accumulated depreciation	(5,551,173)
	28,948,368
Construction in progress	2,257,776
	$ 31,206,144

Depreciation expense was $868,027 for the year ended June 30, 2019.

Included in property and equipment are assets under capital lease obligations totaling $1,089,835 with accumulated depreciation of $371,444 as of June 30, 2019. Depreciation expense of $198,064 was recorded on these assets for the year ended June 30, 2019.

Note 9 - Investments and Fair Value Measurements

All investment 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, 2019, net asset value.

The following is a description of the valuation methodologies used for assets measure at fair value. The beneficial interest was recorded as a level 3 investment as of June 30, 2018, but is now valued using net asset value.

The following table represents the fair value measurement hierarchy of investments and beneficial interests at June 30, 2019:

	Assets at Fair Value as of June 30, 2019				
	Level 1	Level 2	Level 3	NAV	Total
Beneficial interest in assets held at Oregon Community Foundation	$ -	$ -	$ -	$ 220,948	$ 220,948

Commitments and redemption schedules for those investments valued based on net asset values are as follows:

Description	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Beneficial interest	$ 220,948	-	n/a	n/a

Note 10 - Long-Term Debt and Capital Lease Obligations

Balances of long-term debt as of June 30, 2019 are as follows:

US Bank notes payable in monthly payments of $28,671, including interest ranging from 3.25% to 5.18%, with maturities ranging from May 2020 to February 2036, secured by real property.	$	4,014,489
State of Oregon, Oregon Housing and Community Services Department, secured by real property. Balance is due in full in December 2038.		3,462,478
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 December 2024 to indefinite time based on the cash flow of the property or sale, secured by real property.		1,647,694
Pioneer Trust Bank notes payable in monthly installments of $11,050, including interest ranging from 5.0% to 5.5%, with maturities ranging from February 2020 to December 2023, secured by real property.		1,412,165
Willamette Community Bank note payable in monthly payments beginning July 1, 2019 of $14,137, including interest at 5.75%, with a final balloon payment due June 2030 of the unpaid balance, secured by real property. Maximum borrowing up to $2,000,000.		714,996
Citizen's Bank note payable in monhtly installments of $4,416, including interest of 5% due December 2037, secured by real property.		708,535
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.		682,325
Santiam Escrow note payable in monthly installments of $4,271, including interest at 5.75%, due December 2020, secured by real property.		648,969
Capital lease obligations due in monthly payments of $19,680, including interest ranging from of 5.49 to 5.93%, due at various dates through 2022, secured by vehicles.		635,719
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
First Federal note payable in monthly installments of $3,203, including interest of 4.875%, due May 2023, secured by real property.		420,518
Donor loans, payable in monthly installments of $1,163, including interest at 6 and 7%, due in 20 years or convertible to a contribution upon the donor's death.		192,278
City of Salem note for Salem Self-Help Housing, LLC repayment deferred, due upon sale of related property or 2033, secured by real property.		157,175
City of Salem note payable in monthly installments of $386 including interest at 3%, due in July 2035, secured by real property.		118,752

Note 10 - Long-Term Debt and Capital Lease Obligations, continued

Mountain West note payable in monthly installments of interest only payments at 5%, due December 2019.	$	100,000
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.		96,898
City of Salem note payable in monthly installments of $555, including interest at 3%, with final maturities in February 2032, secured by real property.		68,275
Oregon Housing note payable, deferred indefinitely.		24,544
		15,605,810
Less adjustment to below market interest rate loans for imputed interest ranging from 3% to 4.25%.		(476,549)
Less loan fees		(84,761)
	$	15,044,500

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, 2019 are as follows:

Year Ending June 30,	Long-Term Debt	Capital Lease Obligations: Gross Lease Payments	Capital Lease Obligations: Less Amount Representing Interest	Capital Lease Obligations: Principal Portion	Total
2020	$ 2,203,186	$ 209,359	$ 38,922	$ 170,437	$ 2,373,623
2021	4,361,381	230,678	37,782	192,896	4,554,277
2022	643,964	175,234	27,310	147,924	791,888
2023	617,953	108,347	16,045	92,302	710,255
2024	514,864	34,798	2,637	32,160	547,024
Thereafter	6,628,743	-	-	-	6,628,743
	$ 14,970,091	$ 758,416	$ 122,696	$ 635,719	$ 15,605,810

The U.S. Bank notes payable contains certain covenants and at June 30, 2019, the Organization was not in compliance with those covenants. The Organization did not meet one of their financial statement ratio covenants. As of June 30, 2019, the Organization had obtained a waiver from U.S. Bank for all associated notes regarding the violation.

Note 11 - Net Assets

Board designated net assets consist of the following as of June 30, 2019:

Operating Reserve	$	638,882
Strong Families		50,087
Mary Dell		36,265
Father Taaffe		48,499
	$	773,733

Assets with donor restrictions were comprised of the following as of June 30, 2019:

Purpose Restrictions:		
Forgivable Loans	$	3,054,476
Building Rehab and Renovation Campaign		404,252
Fostering Hope		174,922
Father Taaffe		114,412
Casa Adele		101,115
St. Joseph's Shelter		70,575
Enhanced Support for Foster Care		62,613
Other		36,989
Resilient Neighborhoods		25,000
Event Sponsorships		24,158
Strong Families		18,080
Safe Families		10,000
Total Purpose Restrictions		4,096,592
Time Restricted, net of allowance and discount of $79,906		201,087
Endowments:		
Strong Families		64,848
Father Taaffe		2,483
Total Endowments		67,331
Total Assets with Donor Restrictions	$	4,365,010

Note 11 - Net Assets, continued

Net assets released from purpose restrictions were released for the following program activities:

Strong Families	$	1,122,500
Fostering Hope		315,015
St. Joseph's Shelter		171,885
Father Taaffe		169,471
Building Rehab and Renovation Campaign		166,811
Other		163,661
Safe Families		89,278
Forgivable Loans		77,445
Event Sponsorships		70,538
Community Homes		50,200
Casa Adele		30,000
Enhanced Support for Foster Care		687
		2,427,491
Satisfaction of Time Restrictions		63,949
	$	2,491,440

Note 12 - 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. OCF'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 perpetual in nature net assets held by OCF as:

1. The original value of gifts donated to the fund
2. 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 OCF.

It is also the Organization's policy that perpetual in nature 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 assets with donor restrictions until appropriated, and do not impact the amount of the perpetual in nature net assets.

Note 12 - Endowment, continued

		Without Donor Restrictions		With Donor Restrictions		Total
Board designated endowments	$	134,850	$	-	$	134,850
Donor restricted endowments		-		86,097		86,097
	$	134,850	$	86,097	$	220,947

Endowment composition by type of fund as of June 30, 2019:

The following summarizes endowment related activity for the year ended June 30, 2019:

		Without Donor Restrictions		With Donor Restrictions		Total
Endowment net assets, June 30, 2018	$	126,892	$	81,015	$	207,907
Net investment income		7,958		5,082		13,040
Endowment net assets, June 30, 2019	$	134,850	$	86,097	$	220,947

Note 13 - Contingencies

CCSF acquired property through grants sponsored by the City of Salem and Oregon Housing and Community Services. 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:

City of Salem and Oregon Housing and Community Services notes to be forgiven from 2021 to 2034. Conditions require that the properties be used as affordable housing for the term of the note.	$	3,103,576
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
	$	3,223,576

Note 14 - Operating Leases

The Organization leases residential buildings for use as group homes, office buildings, and vehicles. Rental expense was $288,702 for the year ended June 30, 2019.

Minimum future rental payments under non-cancellable operating leases having terms in excess of one year as of June 30, 2019:

Year Ending June 30:		
2020	$	274,362
2021		215,630
2022		131,756
2023		61,676
2024		38,503
	$	721,927

Note 15 - Concentrations

For the year ended June 30, 2019, 66% of the accounts receivable balance was due from two agencies.

For the year ended June 30, 2019, 97% of the government fees balance was provided by one agency.

For the year ended June 30, 2019, 68% of the contributions balance was provided by three donors.

For the year ended June 30, 2019, 64% of the grant revenue was provided by two entities.

Note 16 - 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 year ended June 30, 2019.

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 year ended June 30, 2019 were $37,015.

Note 17 - Subsequent Events

In August, 2019, the Organization created the Catholic Community Services Pooled Income Fund as a separate, newly formed entity. It has also been referred to as the CCS Life Fund. The newly formed entity purchased the old St. Vincent de Paul Thrift Store warehouse from CCSF for $3 million which resulted in a gain to CCSF of approximately $2.5 million. That building was in the process of being renovated at June 30, 2019 and the renovation costs are being funded by CCSF to be redeveloped as the Family Resource and Child Development Center. As of June 30, 3019 construction was still underway with completion estimated around February 2020.

Current and future tenants include St. Vincent de Paul Food Bank, Willamette Education School District, Salem-Keizer School District, a dental office, our own Community Counseling Center and several other community partners in a co-location, as well as collaborative office space. Shares of the CCS Life Fund are being sold and owners can expect three main benefits that include: an initial tax deduction for their purchase, depreciation expense as the owner of real estate, and a lifetime income stream.

Note 17 - Subsequent Events, continued

In December 2019, ISN redeemed Chehalem Youth and Family Service's 20% interest in the entity for $291,000. As part of the redemption, Chehalem Youth and Family Services repaid their outstanding note due to ISN of $135,000. After this redemption, CCS is the sole owner of the LLC.