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

Consolidated Financial Statements and Supplemental Information

Years Ended June 30, 2016 and 2015

AKT
CPAs AND BUSINESS CONSULTANTS

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

Consolidated Financial Statements and Supplemental Information

Years Ended June 30, 2016 and 2015

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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 comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities, functional expenses, and 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 controls 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 controls 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 controls. 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, 2016 and 2015, 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.

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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 December 20, 2016, 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 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.

AKT LLP

Salem, Oregon
December 20, 2016

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

Consolidated Statements of Financial Position

June 30, 2016 and 2015

		2016		2015
ASSETS				
Cash	$	3,767,877	$	3,547,038
Accounts receivable, net of allowance for doubtful accounts		751,620		714,416
Unconditional promises to give, net		202,569		181,147
Grants receivable		157,634		490,253
Prepaid expenses and other assets		199,172		255,260
Investments		26,570		26,601
Property held for sale		-		434,650
Notes receivable		1,737,307		1,239,729
Loan fees, net of accumulated amortization		95,656		115,794
Property and equipment, net of accumulated depreciation		22,326,847		22,223,198
Beneficial interest in assets held at Oregon Community Foundation		166,787		150,986
Total Assets	$	29,432,039	$	29,379,072
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable	$	467,218	$	700,537
Accrued expenses		1,135,481		1,099,088
Due to Department of Human Services		53,747		451,753
Deferred revenue		827,973		750,641
Long-term debt		10,963,112		11,169,932
Total Liabilities		13,447,531		14,171,951
Net Assets:				
Unrestricted:				
Undesignated		11,766,816		10,948,232
Board designated		99,523		110,105
Noncontrolling interest		125,181		128,269
Total Unrestricted		11,991,520		11,186,606
Temporarily restricted		3,928,530		3,965,786
Permanently restricted		64,458		54,729
Total Net Assets		15,984,508		15,207,121
Total Liabilities and Net Assets	$	29,432,039	$	29,379,072

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

Consolidated Statement of Activities

Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, Revenue, and Reclassifications:				
Government fees	$ 12,889,185	$ -	$ -	$ 12,889,185
Grants	278,485	495,796	-	774,281
Rents	1,817,228	-	-	1,817,228
Contributions	173,803	1,172,876	9,729	1,356,408
Fees for services	1,648,215	-	-	1,648,215
Other	330,973	41,000	-	371,973
In-kind contributions	37,844	-	-	37,844
Gain on disposal of property	121,009	-	-	121,009
Net assets released from restrictions	1,746,928	(1,746,928)	-	-
Total Support, Revenue, and Reclassifications	19,043,670	(37,256)	9,729	19,016,143
Expenses:				
Program:				
Program activities	13,783,703	-	-	13,783,703
Property management	2,910,375	-	-	2,910,375
Administration	911,113	-	-	911,113
Fundraising	633,565	-	-	633,565
Total expenses	18,238,756	-	-	18,238,756
Change in Net Assets	804,914	(37,256)	9,729	777,387
Net Assets, beginning of year	11,186,606	3,965,786	54,729	15,207,121
Net Assets, end of year	$ 11,991,520	$ 3,928,530	$ 64,458	$ 15,984,508

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

Consolidated Statement of Activities

Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, Revenue, and Reclassifications:				
Government fees	$ 14,107,607	$ 998,040	$ -	$ 15,105,647
Grants	162,015	852,170	-	1,014,185
Rents	1,455,972	-	-	1,455,972
Sales	122,371	-	-	122,371
Contributions	322,496	668,805	54,729	1,046,030
Fees for services	1,259,630	-	-	1,259,630
Other	58,873	-	-	58,873
In-kind contributions	2,871,826	473,926	-	3,345,752
Gain on disposal of property	187,664	-	-	187,664
Net assets released from restrictions	2,009,934	(2,009,934)	-	-
Total Support, Revenue, and Reclassifications	22,558,388	983,007	54,729	23,596,124
Expenses:				
Program:				
Program activities	15,702,952	-	-	15,702,952
Property management	2,225,406	-	-	2,225,406
Administration	850,787	-	-	850,787
Fundraising	619,896	-	-	619,896
Total expenses	19,399,041	-	-	19,399,041
Change in Net Assets	3,159,347	983,007	54,729	4,197,083
Net Assets, beginning of year	8,027,259	2,982,779	-	11,010,038
Net Assets, end of year	$ 11,186,606	$ 3,965,786	$ 54,729	$ 15,207,121

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

Consolidated Statement of Functional Expenses

Year Ended June 30, 2016

	Program	Property Management	Administration	Fundraising	Total
Salaries and wages	$ 9,012,306	$ 503,802	$ 557,233	$ 352,809	$ 10,426,150
Payroll taxes and benefits	2,276,919	123,324	126,520	48,114	2,574,877
Professional fees	404,348	165,557	91,320	136,100	797,325
Depreciation and amortization	4,572	645,401	-	-	649,973
Repairs and maintenance	145,309	341,676	863	2,593	490,441
Interest	-	495,542	5,375	-	500,917
Utilities	164,969	328,897	1,867	-	495,733
Foster care	385,089	-	427	-	385,516
Program expenses and supplies	286,299	51,420	18,007	10,095	365,821
Rent	302,376	4,306	-	2,068	308,750
Insurance	134,042	122,315	12,876	4,131	273,364
Travel	195,496	8,069	2,944	2,971	209,480
Subscriptions and library	124,076	5,837	42,341	22,369	194,623
Telecommunications	95,478	27,800	11,549	792	135,619
Print and publications	65,648	5,359	14,933	6,795	92,735
Bad debts	29,715	32,139	6,306	-	68,160
Training and conference	32,436	3,804	6,917	2,231	45,388
License and permits	4,611	33,510	444	533	39,098
Membership dues	34,000	2,022	2,722	-	38,744
Brokerage	34,117	-	-	-	34,117
Events	97	1,074	96	32,698	33,965
Miscellaneous	21,875	5,004	1,221	4,154	32,254
Advertising	15,319	3,241	4,044	3,445	26,049
Postage and shipping	14,606	276	3,108	1,667	19,657
	$ 13,783,703	$ 2,910,375	$ 911,113	$ 633,565	$ 18,238,756

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

Consolidated Statement of Functional Expenses

Year Ended June 30, 2015

	Program	Property Management	Administration	Fundraising	Total
Salaries and wages	$ 9,069,301	$ 312,330	$ 363,807	$ 325,560	$ 10,070,998
Payroll taxes and benefits	2,439,873	83,138	80,463	53,205	2,656,679
Professional fees	641,407	208,796	177,679	131,977	1,159,859
Supplies	695,458	23,476	32,467	25,881	777,282
Brokerage	734,450	-	-	-	734,450
Foster care	579,095	-	-	-	579,095
Depreciation and amortization	1,143	576,956	-	-	578,099
Repairs and maintenance	276,898	208,713	2,152	6,094	493,857
Utilities	178,300	278,417	1,331	-	458,048
Interest	3,197	323,422	1,768	-	328,387
Rent	207,716	3,501	104,384	279	315,880
Travel	296,361	3,804	6,173	1,685	308,023
Bad debts	122,386	97,153	-	-	219,539
Insurance	134,523	60,926	18,323	-	213,772
Telecommunications	101,061	17,465	10,145	1,486	130,157
Print and publications	61,385	4,051	15,931	7,994	89,361
Events	1,836	1,581	-	46,126	49,543
Miscellaneous	20,471	16,293	883	9,288	46,935
Training and conference	36,373	779	7,797	1,074	46,023
Subscriptions and library	25,252	230	15,611	2,566	43,659
Membership dues	35,356	120	2,782	847	39,105
Advertising	15,219	1,901	5,203	4,529	26,852
Postage and shipping	20,537	161	3,548	672	24,918
License and permits	5,354	2,193	340	633	8,520
	$ 15,702,952	$ 2,225,406	$ 850,787	$ 619,896	$ 19,399,041

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, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities:		
Change in net assets	$ 777,387	$ 4,197,083
Adjustments to reconcile change in net assets to		
net cash provided by operating activities:		
Net realized and unrealized gains losses on investments	31	-
Change in value of beneficial interest	3,513	36
In-kind contribution recorded due to discount on notes payable	-	(289,135)
Amortization of discount on notes payable	5,348	(71,809)
In-kind contribution due to acquisitions	-	(3,056,617)
Interest accrued on notes receivable	(279,694)	-
Gain on disposal of property	(121,009)	(187,664)
Depreciation and amortization	649,973	578,099
Changes in operating assets and liabilities:		
Accounts receivable	(37,204)	248,849
Unconditional promises to give	(21,422)	364,815
Grants receivable	332,619	272,212
Prepaid expenses and other assets	56,088	229,950
Accounts payable	(233,319)	(419,035)
Accrued expenses	36,393	(159,350)
Due to Department of Human Services	(398,006)	451,753
Deferred revenue	77,332	(1,508,480)
Net Cash Provided by Operating Activities	848,030	650,707
Cash Flows from Investing Activities:		
Purchases of investments	(20,564)	(54,729)
Proceeds on sale of investments	1,250	-
Purchases of property and equipment	(1,139,710)	(2,494,891)
Proceeds on sale of property and equipment	736,885	394,113
Payments received on notes receivable	7,116	40,405
Net Cash Used by Investing Activities	(415,023)	(2,115,102)
Cash Flows from Financing Activities:		
Acquisition of long-term debt	110,476	1,483,269
Payments on long-term debt	(322,644)	(258,102)
Net Cash Provided (Used) by Financing Activities	(212,168)	1,225,167
Net Change in Cash	220,839	(239,228)
Cash, beginning	3,547,038	3,786,266
Cash, ending	$ 3,767,877	$ 3,547,038
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	$ 452,348	$ 318,885
Property held for sale converted to a note receivable	$ 225,000	$ -

See accompanying notes to consolidated financial statements.

Note 1 - Organization and Nature of Activities

Catholic Community Services of the Mid-Willamette Valley and Central Coast, Inc. (Catholic Community Services or CCS) is an Oregon 501(c)(3) nonprofit organization that was founded in Salem Oregon in 1938. Today CCS offers 17 programs across 9 Oregon counties and serves more than 2,000 people each year. The mission of CCS is to champion the positive development of children and adults, strengthen families, and build community.

CCS operates the following programs:

Behavioral Health Services

These services are provided by the *Community Counseling Center (Center)*. The Center provides low-cost professional counseling services to the community. The Center offers the following wide range of services: individual counseling for adults and children, marital and family therapy, group counseling and play therapy for children, and co-dependency therapy and treatment for adult children of dysfunctional families. Treatment services are available for victims of physical/sexual abuse, as well juvenile sex offenders. Counseling, group, and therapy services to youth in CCS behavioral rehabilitation and community homes are also provided.

Services to Adults with Intellectual or Developmental Disabilities

These services are provided by the following two programs, the Adult Residential Living Program and Employment Services.

The *Adult Residential Living Program* provides community-based services for persons who are developmentally disabled. Special emphasis is placed on the successful transition from the institution to a residential five-bedroom home. Individuals served in the residential program are adults.

Employment Services is a program that provides community based employment for persons with developmental disabilities.

Youth and Family Services

These services consist of a number of foster care and youth oriented programs. The following are the largest of these programs:

Oregon Youth Authority Behavioral Rehabilitation Services, a foster care program paid for by a contract from the Oregon Youth Authority. The youth were placed with foster parents who were trained and supported by the Youth and Family Services staff. These foster care services were provided for the first six months of the fiscal year. Contracts with the Oregon Youth Authority were not renewed due to lack of appropriate referrals and foster care.

Cavazos Center, a residential program, worked to ensure that the young men in the program were able to make a successful transition back into the community. Cavazos Center had capacity for 10 youth at a time. This program was provided for first six months of the fiscal year. Contracts with the Oregon Youth Authority were not renewed due to lack of referrals and foster care.

Department of Human Services Behavioral Rehabilitation Services is a foster care program operated under a contract from the Department of Human Services.

Center Court Commons is a program that provides a safe, healthy and supportive apartment community where former foster youth gain experience living independently in a positive environment.

Therapeutic Foster Care is a foster care program for youth requiring intensive services that include behavioral rehabilitation, individual and group therapy, and support and intervention provided by the New Solutions program.

Note 1 - Organization and Nature of Activities, continued

Youth and Family Services, continued

New Solutions is a program for intensive treatment of youth who require intensive services in a therapeutic foster care home. New Solutions is funded through Oregon Health Plan contracts with county managed care organizations.

Community Homes for Children are foster homes which serve children from Marion, Yamhill, and Lincoln counties. The homes are operated by CCS and can house up to five children each. Unlike traditional foster homes, the children are able to remain in the same home as long as they need foster care. The homes also benefit from natural community support. In the future, the goal is to have thirty homes in the Mid-Willamette Valley. The homes will be located in neighborhoods that demonstrate the greatest need so children will be able to receive support from and remain part of their community.

Father Taaffe Program is comprised of nurturing homes and at-home services for pregnant and parenting teens. The homes are funded with generous donations received primarily from Catholic parishioners, Knights of Columbus and other Catholic organizations.

Fostering Hope Initiative

This is a collective effort committed to promoting optimum child development and reducing child maltreatment. CCS is the lead partner in this collective effort. Fostering Hope partners work in high poverty or high needs neighborhoods to connect neighbors with each other, natural neighborhood supports and needed resources. The Fostering Hope Initiative is funded through grants, donations and matching efforts provided by partners, and is comprised of two programs as follows:

Safe Families for Children is a national model of recruitment, training and support to members of local church congregations who volunteer to provide respite care to children of families in crisis allowing the parents a break and time to remove the crisis. The program has a coordinator that is funded through Catholic Charities and the Exchange Club. All other services are provided by volunteers.

Catholic Community Services Foundation (CCSF), an Oregon 501(c)(3) nonprofit, organized in 1987 is designed to support Catholic Community Services and its programs. The mission of CCSF is to support and assure financial sustainability of CCS and its programs, develop and offer affordable housing and develop and maintain facilities to house CCS programs.

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 group homes that are used by CCS for various program activities.

Community Homes, LLC, a tax-exempt limited liability company wholly owned by CCSF, was incorporated July 2009. Community Homes, LLC holds property and debt for group homes that are used by CCS for various program activities.

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 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.

Note 1 - Organization and Nature of Activities, continued

Catholic Services Housing and Development, LLC, a tax-exempt limited liability company wholly owned by CCSF, was incorporated in July 2009. Catholic Services Housing and Development, LLC is responsible for the property management of all CCS and CCSF facilities and property.

MADP, LLC, a tax-exempt limited liability company wholly owned by CCSF, was incorporated in November 2011. MADP, LLC holds property and debt for developmentally disabled adult homes that are operated as part of the programs through CCS.

Mill Creek Partners, LLC, a tax-exempt limited liability company wholly owned by CCSF, was incorporated in November 2014. Mill Creek Partners, LLC owns 0.01% of Mill Creek Meadows Partners, 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.

Work to End Poverty, LLC, a tax-exempt limited liability company wholly owned by CCSF, was incorporated September 2014. The Work to End Poverty program is operated through this LLC using the staff and administrative assistance of CCSF.

During the year ended June 30, 2015 CCSF assumed assets and liabilities from another not-for-profit entity. The properties assumed consisted of low-income housing projects and the associated assets and liabilities. CCSF also assumed ownership of two limited partnerships, Highland Station, Limited Partnership and Mill Creek Meadows Partners, Limited Partnership as part of this transaction. The excess of assets over liabilities was recorded as an in-kind contribution for the year ended June 30, 2015. The assets and liabilities assumed consisted of the following:

Cash	$ 23,623
Account receivable	8,217
Other assets	1,781
Tenant security deposits	39,741
Prepaid	120
Reserve for replacements	63,370
Tax and insurance reserves	12,683
Notes receivable	1,147,766
Other receivables	165,846
Investments	23,429
Land, buildings, equipment	5,095,345
Accounts payable and accrued expenses	(51,363)
Prepaid rent	(8,175)
Security deposits	(39,206)
Long-term debt	(3,737,566)
In-kind contribution	$ 2,745,611

In September of 2014, CCSF assumed ownership of land and a building as well as an unemployment claims liability from a separate not-for-profit entity. The value of the land and building at the time of the assumption was $250,000 and the unemployment claims reserve was $60,000. CCSF is liable to pay unemployment claims submitted by the former employees of the not-for-profit for up to two years after the closing date of the agreement.

Note 1 - Organization and Nature of Activities, continued

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. The noncontrolling interest in the change in net assets for the years ended June 30, 2016 and 2015 was ($3,088) and $56,465, respectively.

The ISN operates as a Support Service Brokerage. The ISN holds a contract with the Oregon Department of Human Services to assist adults with developmental disabilities in eight counties. The Brokerage 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.

Note 2 - Summary of Significant Accounting Policies

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, Child, Youth, and Family Integrated Services Network, and all entities owned by the Foundation (the Organization). Intercompany balances and transactions have been eliminated in consolidation.

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.

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

Note 2 - Summary of Significant Accounting Policies, continued

Accounts Receivable

Accounts receivable 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. Changes in the valuation allowance have not been material to the consolidated financial statements. Allowance for doubtful accounts is $32,364 at June 30, 2016 ($61,588 at June 30, 2015).

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.

The Organization's financial instruments, none of which are held for trading purposes, include cash, receivables, accounts payable, notes payable, and deposits. The Organization estimates that the fair value of all of these nonderivative financial instruments at June 30, 2016 and 2015 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying consolidated statement of financial position.

Note 2 - Summary of Significant Accounting Policies, continued

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.

Loan Fees

Capitalized loan fees are amortized using the straight-line method over 10 years. Amortization expense for intangible assets for the years ended June 30, 2016 and 2015 was $20,138 and estimated future amortization expense is $20,138 per year through March 2021.

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 received as investment income. 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.

Note 2 - Summary of Significant Accounting Policies, continued

Revenue Recognition, continued

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.

Income Taxes

Catholic Community Services and Catholic Community Service 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, 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 Service 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 December 20, 2016, 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, 2016, the Organization had $2,878,528 in uninsured cash ($2,419,988 as of June 30, 2015). The Organization has not experienced any losses in such accounts.

Note 4 - Unconditional Promises to Give

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

	2016	2015
Due within one year	$ 118,184	$ 152,147
Due in one to five years	185,263	135,346
	303,447	287,493
Less:		
Allowance for uncollectible promises to give	(84,208)	(96,560)
Discount to present value rates ranging from 2.35% to 3.25%	(16,670)	(9,786)
	$ 202,569	$ 181,147

Note 5 - Investments and Fair Value Measurements

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016 and 2015.

Investment in limited partnership – Valued based on audited financial statements of the partnership and recorded on the equity method to reflect the ownership interest held by the Organization.

Beneficial interest – The interest in assets held by OCF has been valued, as a practical expedient, at the fair value of CCSF's share of OCF's investment pool as of the measurement date. OCF values securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of OCF, which include private placements and other securities for which prices are not readily available, are determined by the management of OCF and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized.

The following table represents the fair value measurement hierarchy of investments and beneficial interests at June 30, 2016:

	Level 1	Level 2	Level 3	Total
Investment in Highland Station Limited Partnership	$ -	$ -	$ 23,498	$ 23,498
Investment in Mill Creek Meadows Limited Partnership	-	-	(100)	(100)
Annuity contracts	-	-	3,172	3,172
Total investments	-	-	26,570	26,570
Beneficial interest in assets held at Oregon Community Foundation	-	-	166,787	166,787
	$ -	$ -	$ 193,357	$ 193,357

Note 5 - Investments and Fair Value Measurements, continued

The following table represents the fair value measurement hierarchy of investments and beneficial interests at June 30, 2015:

	Level 1	Level 2	Level 3	Total
Investment in Highland Station Limited Partnership	$ -	$ -	$ 23,509	$ 23,509
Investment in Mill Creek Meadows Limited Partnership	-	-	(80)	(80)
Annuity contracts	-	-	3,172	3,172
Total investments	-	-	26,601	26,601
Beneficial interest in assets held at Oregon Community Foundation	-	-	150,986	150,986
	$ -	$ -	$ 177,587	$ 177,587

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, 2016:

	Annuity Contracts	Investment in LP's	Beneficial Interest	Total
Beginning balance	$ 3,172	$ 23,429	$ 150,986	$ 177,587
Net loss	-	(31)	(3,513)	(3,544)
Distributions	-	-	(1,250)	(1,250)
Contributions	-	-	20,564	20,564
	$ 3,172	$ 23,398	$ 166,787	$ 193,357

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, 2015:

	Annuity Contracts	Investment in LP's	Beneficial Interest	Total
Beginning balance	$ 6,175	$ -	$ 96,293	$ 102,468
Acquisition	-	23,429	-	23,429
Net loss	(3,003)	-	(36)	(3,039)
Contributions	-	-	54,729	54,729
	$ 3,172	$ 23,429	$ 150,986	$ 177,587

Note 6 - Notes receivable

Notes receivable consist of the following at June 30:

	2016	2015
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 includes an allowance of $41,650.	$ 90,718	$ 95,563
Note receivable due to the sale of property, due October 2025 with payments of $1,208 per month, including interest at 5.0%.	222,729	-
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.	154,462	141,475
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.	762,115	704,524
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 $209,116 as of June 30, 2016.	507,283	298,167
	$ 1,737,307	$ 1,239,729

Note 7 - Property and Equipment

Property and equipment consists of the following at June 30:

	2016	2015
Land	$ 4,456,644	$ 4,370,570
Buildings and improvements	18,850,197	18,755,782
Office furniture and equipment	704,801	903,549
Vehicles	1,025,767	849,244
Leasehold improvements	1,057,757	1,022,085
	26,095,166	25,901,230
Less accumulated depreciation	(4,252,110)	(4,016,283)
	21,843,056	21,884,947
Construction in progress	483,791	338,251
	$ 22,326,847	$ 22,223,198

Depreciation expense was $629,835 for the year ended June 30, 2016 ($557,961 in 2015).

Note 8 - Long-Term Debt

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

	2016	2015
US Bank notes payable in monthly payments of $28,979, including interest ranging from 4.28% to 5.65%, with maturities ranging from 2016 to 2021, secured by real property.	$ 4,480,751	$ 4,612,988
Pioneer Trust Bank notes payable in monthly installments of $10,898, including interest ranging from 4.75% to 6%, with maturities ranging from 2017 to 2020, secured by real property.	1,574,983	1,623,530
Columbia Bank notes payable in monthly installments of $6,211, including interest ranging from 2.13% to 6.91%, with maturities ranging from 2022 to 2039, secured by real property.	928,039	958,462
Santiam Escrow note payable in monthly installments of $3,890, including interest at 5.75%, due 2041, secured by real property.	685,114	703,770
Donor Legacy note payable in monthly installments of $2,083 of interest only payments at 5%, due 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 2023, secured by real property.	470,502	485,606
City of Salem notes for Salem Self-Help Housing, LLC payable in monthly installments of $766, including interest ranging from 0% to 3%, with final maturities ranging from 2021 to 2039, secured by real property.	407,802	415,032

Note 8 - Long-Term Debt, continued

	2016	2015
City of Salem, Urban Renewal Agency notes payable in monthly installments of $1,808, including interest at 3%, with maturities ranging from 2022 to 2033, secured by real property.	$ 152,404	$ 169,515
City of Salem note for Salem Self-Help Housing, LLC repayment deferred with interest 3%, due upon sale of related property or 2033, secured by real property.	157,176	157,176
Union Bank notes payable in monthly installments of $1,099, including interest ranging from 4.5% to 7%, with maturities ranging from 2018 to 2019, secured by real property.	94,878	99,853
City of Salem note payable in monthly installments of $555, including interest at 3%, with final maturities in 2032, secured by real property.	82,913	87,514
US Bank note payable in monthly payments of $1,119, including interest of 5.5%, due 2020, secured by equipment.	144,583	57,042
State of Oregon, Oregon Housing and Community Services Department note payable in monthly payments of $1,803, including interest of 4.32%, due 2039, secured by real property.	26,321	26,961
Below market interest rate loans, payable with interest between 0% and 1%. Payable to City of Salem, due on dates ranging from 2019 through 2109, secured by real property.	2,234,678	2,254,865
Less adjustment to below market interest rate loans for imputed interest ranging from 3% to 4.25%.	(977,032)	(982,382)
	$ 10,963,112	$ 11,169,932

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

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

Year Ending June 30,	
2017	$ 686,830
2018	1,242,033
2019	299,412
2020	997,637
2021	923,727
Thereafter	6,813,473
	$ 10,963,112

The U.S. Bank notes payable contains certain covenants and at June 30, 2016, the Organization was in compliance with those covenants.

Note 9 - Net Assets

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

	2016	2015
Forgivable Loans	$ 2,507,165	$ 2,161,865
Strengthening, Preserving, and Reuniting Families	226,862	564,017
St. Monica Apartments	510,068	-
Fostering Hope	149,866	274,000
Vehicles	71,891	242,760
Time Restricted	120,438	192,154
Father Taaffe	186,815	145,058
Community Homes	71,537	81,875
Supported Employment	15,000	70,000
Work to End Poverty	-	62,980
Other	-	58,837
Rainbow Lodge	4,648	45,000
IT Infrastructure	44,240	44,240
Event Sponsorships	20,000	21,000
Safe Families	-	2,000
	$ 3,928,530	$ 3,965,786

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

	2016	2015
Strong Families	$ 61,975	$ 52,246
Father Taaffe	2,483	2,483
	$ 64,458	$ 54,729

Note 10 - 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 UPAC to retain as a fund of perpetual duration. UPAC 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
4. Investment income and realized and unrealized gains and losses on investments
5. Distributions from the fund in accordance with the spending policy

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

Note 10 - Endowment, continued

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 receives distributions of earnings on an annual basis.

Endowment composition by type of fund as of June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board restricted endowments	$ 99,524	$ -	$ -	$ 99,524
Donor restricted endowments	-	2,804	64,459	67,263
	$ 99,524	$ 2,804	$ 64,459	$ 166,787

Endowment composition by type of fund as of June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board restricted endowments	$ 94,431	$ -	$ -	$ 94,431
Donor restricted endowments	-	1,826	54,729	56,555
	$ 94,431	$ 1,826	$ 54,729	$ 150,986

Note 10 - Endowment, continued

The following summarizes endowment related activity for the year ended June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2015	$ 94,431	$ 1,826	$ 54,729	$ 150,986
Net realized and unrealized gain (loss)	(6,545)	1,017	-	(5,528)
Interest and dividends	1,539	475	-	2,014
Appropriation of assets for expenditure	(735)	(514)	-	(1,249)
Contributions	10,834	-	9,730	20,564
Endowment net assets, June 30, 2016	$ 99,524	$ 2,804	$ 64,459	$ 166,787

The following summarizes endowment related activity for the year ended June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2014	$ 96,293	$ -	$ -	$ 96,293
Net realized and unrealized gain (loss)	(1,995)	1,894	-	(101)
Interest and dividends	693	358	-	1,051
Appropriation of assets for expenditure	(560)	(426)	-	(986)
Contributions	-	-	54,729	54,729
Endowment net assets, June 30, 2015	$ 94,431	$ 1,826	$ 54,729	$ 150,986

Note 11 - 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:

	2016	2015
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.	$ 2,301,281	$ 1,955,981
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	85,884
	$ 2,507,165	$ 2,161,865

Note 12 - Operating Leases

The Organization leases residential buildings for use as group homes, office buildings, and vehicles. Rental expense was $308,750 for the year ended June 30, 2016 ($315,880 in 2015).

Minimum future rental payments under non-cancellable operating leases having terms in excess of one year as of June 30, 2016:

Year Ending June 30:		
2017	$	264,486
2018		162,628
2019		105,173
2020		40,161
2021		30,838
	$	603,286

Note 13 - Concentrations

100% of the revenue and 99% accounts receivable for ISN is from one Organization as of and for the year ended June 30, 2016 (99% of revenue and accounts receivable was from one Organization in 2015). Amounts payable to this same Organization as of June 30, 2016 was $53,747 ($451,753 in 2015).

Note 14 - Related Party Transactions

At June 30, 2016 the Organization has a note receivable from the limited partnerships they have an investment in of $1,423,860 ($1,144,166 in 2015). There are also accounts receivable due from these limited partnerships of $181,631 as of June 30, 2016 ($165,846 in 2015).

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. There were no employer contributions to the plan during the years ended June 30, 2016 and 2015.

ISN sponsors a 401(k) plan. Employees are eligible to participate in the plan based upon reaching age 18 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, 2016 and 2015 were $46,963 and $37,779, respectively.

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

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, 2016 and the related consolidated statements of activities and changes in net assets, 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 December 20, 2016.

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 were not 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 following deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness; 2016-001.

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 following deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency; 2016-002.

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*.

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AKT LLP

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.

AKT LLP

Salem, Oregon
December 20, 2016

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, 2016. 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 the requirements of laws, regulations, contracts, and grants 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 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 2016-004, 2016-006, 2016-007, and 2016-008. 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, 2016.

Other Matters
The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2016-003, 2016-005, and 2016-009. Our opinion on each major federal program is not modified with respect to these 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 first paragraph of this section 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 were not identified. However, as described below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness and significant deficiency.

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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2016-003.

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 2016-009 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.

AKT LLP

Salem, Oregon
December 20, 2016

CATHOLIC COMMUNITY SERVICES FOUNDATION

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

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	$	608,129
Neighborhood Stabilization Program (ARRA)	14.253		424,449
Subtotal Entitlement Grants Cluster			1,032,578
HOME Investment Partnerships Program	14.239		3,778,201
Section 8 Housing Assistance Payment Program:			
Passed through the City of Salem, Oregon	14.195		270,608
Passed through Marion County, Oregon	14.195		10,055
Subtotal Section 8 Housing Assistance Payment Program			280,663
Total Expenditures of Federal Awards		$	5,091,442

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, 2016. 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 for each grant.

Note 4 - Loan Guarantees

The ending balances of the outstanding loans reported in the Schedule are as follows at June 30, 2016:

Entitlement Grants Cluster:			
Community Development Block Grants/Entitlement Grants	14.218	$	604,888
Neighborhood Stabilization Program (ARRA)	14.253		424,449
Subtotal Entitlement Grants Cluster			1,032,578
HOME Investment Partnerships Program	14.239		3,776,401
		$	4,808,979

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

2016-001 Repeat finding 2015-002

Criteria: Transaction recording should be consistent and individual transactions should be recorded in the proper entity.

Condition: During our testing we noted that contributions and expenses are not consistently recorded. Contributions received for Catholic Community Services are sometimes recorded in Catholic Community Services and sometimes in Catholic Community Services Foundation. Credit cards are used interchangeably for the multiple entities and intercompany amounts are required to be recorded to correctly transfer the expenses to the proper entity. We noted several errors in our testing and gifts to Catholic Community Services that are unrestricted to Catholic Community Services being used to support programs in Catholic Community Services Foundation.

Questioned Costs: None

Context: On a consolidated basis the amounts are correct but not by individual entity.

Effect: When considered in the aggregate, the conditions noted above are considered a material weakness.

Recommendation: Management should evaluate the Organizational structure and the accounting policies and procedures to ensure that a process is developed that can be consistently applied and will result in accurate reporting of transactions.

Response: Management will discuss the Organizational structure and accounting policies with the Joint Finance Committee to help guide decision making around Organizational structure and accounting policies specifically related to contributions and shared credit accounts.

2016-002 Repeat finding 2015-003

Criteria: Adequate segregations of duties ensures that no one person has access to all aspects of a transaction.

Condition: During our testing we noted that there is a lack of segregation of duties in the cash disbursements cycle. The CFO currently has access to enter transactions into the accounting system, access to the signatures stamps, or is a signer on the account. The CFO is also the system administrator for the accounting system and is responsible for financial reporting.

Questioned Costs: None

Context: This finding relates to all disbursement accounts for all entities.

Effect: When considered in the aggregate, the conditions noted above are considered a significant deficiency.

Recommendation: Controls should be reviewed to determine if there are system controls that can be implemented to improve the segregation of duties. We also recommend that IT personnel be the employees with administrative rights to the accounting system. If system controls cannot be implemented, we recommend removing the signing permissions from the CFO.

Response: The code to unlock the safe that holds the signature stamp has been changed and the CFO does not have the code restricting her ability and permissions to sign checks. By the end of February 2017, CCS will outsource database administration to a third party IT professional organization and restrict the CFO to 'view only rights' to the accounting database thereby closing the gap for concerns of segregation of duties of the CFO.

Section III – Federal Award Findings and Questioned Costs

2016-003 CFDA 14.239 HOME Investment Partnerships Program (HUD)
Repeat finding 2015-004

Criteria: CCSF is responsible for monitoring and ensuring compliance with all compliance requirements of federal awards.

Condition:	Management of affordable housing projects has been outsourced to a third party property management company. During our audit it was noted that CCSF is not receiving adequate information from this company to properly monitor the compliance activities.
Questioned Costs:	None
Context:	There are multiple departments involved in managing the operations and activities associated with these awards. During a portion of the year a third party was servicing the projects but CCSF was not monitoring their compliance with requirements. As of May 1, 2016 property management was brought internal but adequate preparations were not done to ensure that they were prepared for the responsibility of monitoring all compliance requirements.
Effect:	When compliance requirements are not monitored by a knowledgeable individual or team, the risk for non-compliance is significant. We noted 3 other compliance findings that are partially caused because of the lack of supervision and monitoring of these requirements. When considered in the aggregate, the conditions noted above are considered a material weakness.
Recommendation:	We recommend that management designate one employee within the Foundation that is responsible for compliance with federal awards and the loans that have continuing compliance requirements. This person would be responsible for working with any service providers or any state or federal agencies and would report to the finance department.
Response:	CCSF assumed responsibility for a portfolio of troubled properties from Salem Keizer Community Development Corporation (SKCDC) on December 10, 2014. SKCDC contracted with Cascade Property Management when they owned the property and CCSF continued to contract with them to maintain continuity. CCSF worked diligently with Cascade to establish a compliance monitoring system and to improve other property management systems. On March 1, 2016 Cascade Property Management notified CCSF that they intended to terminate the property management contract leaving CCSF with 60 days to decide whether to find another property management company or to self-manage. CCSF decided to self-manage and worked with Oregon Housing and Community Services as well as the National Equity Fund to obtain all the approvals. After obtaining the approvals CCSF staffed up and has been making substantial and sustainable progress toward meeting all compliance requirements. CCSF has contracted with Easbey Consulting, LLC to monitor compliance of tenant files and will designate one employee to be in charge of monitoring all compliance issues.
2016-004	CFDA 14.239 HOME Investment Partnerships Program (HUD)
Criteria:	Loan agreements for HOME funds specify the number of units that must be rented to HOME eligible tenants.
Condition:	In one of the properties tested there were 11 HOME units required and per the HOME monitoring report as of December 31, 2015 there were only 10 HOME units in the property.
Questioned Costs:	None
Context:	During our testing we identified one property that was required to have 11 HOME units and only had 10 listed on the HOME monitoring report. For two additional properties there was no HOME monitoring report to identify how many HOME units were in each property.

Effect:	This is considered a compliance finding since the correct number of units were not designated as HOME units.
Recommendation:	We recommend that management hire employees with experience in compliance and management of low income housing projects and dedicate focused time to ensure that the records are properly updated and agree to the loan documents or compliance information from funding agency.
Response:	CCSF has appointed a staff member responsible for compliance. The number of HOME units in each HOME funded property will be identified by January 30th 2017. Policy and procedures will be developed that assure ongoing compliance thereafter by that same date.
2016-005	CFDA 14.239 HOME Investment Partnerships Program (HUD)
Criteria:	CCSF is responsible for filling open rental units as soon as possible with qualified tenants.
Condition:	During testing of the properties, 6 of the 10 indicated there were vacancies in the properties as of June 30, 2016, and still had not been occupied by October 31, 2016.
Questioned Costs:	None
Context:	Management has been in the process of obtaining all the property documentation from the third party management company to transition all oversight duties within the Foundation.
Effect:	This is considered a compliance finding as available units do not appear to be actively marketed and filled as timely as possible.
Recommendation:	We recommend that management hire employees with experience in compliance and management of low income housing projects and dedicate focused time to ensure that the records are properly updated and agree to the loan documents or compliance information from funding agency.
Response:	As of November 30, 2016 CCSF has filled 97% of all units in all affordable housing complexes except our Center Court Commons complex. Center Court was originally intended to provide affordable housing for youth aging out of foster care but has transitioned to provide affordable housing for eligible families. This transition is nearly complete and we anticipate Center Court will be fully occupied by March 31, 2017.
2016-006	CFDA 14.239 HOME Investment Partnerships Program (HUD) Repeat finding 2015-005
Criteria:	HOME tenants must meet certain income limits based on the award provided by the funding agency.
Condition:	Two of nineteen tenants tested for eligibility exceeded the income limits based on the documentation retained in their files.
Questioned Costs:	None
Context:	Management has been in the process of obtaining all the property documentation from the third party management company to transition all oversight duties within the Foundation.

Effect: This is considered to be a compliance finding.

Recommendation: We recommend that management hire employees with experience in compliance and management of low income housing projects and dedicate focused time to ensure that the records are properly updated and agree to the loan documents or compliance information from the funding agency.

Response: All HOME tenant files are being reviewed and updated. A CCSF staff member has been designated to monitor compliance. Easbey Consulting, LLC reviews and verifies compliance of all new files, including re-certifications.

2016-007 CFDA 14.239 HOME Investment Partnerships Program (HUD)
Repeat finding 2015-005

Criteria: Tenant files should be maintained to document the compliance determinations and agreements between the tenants and the Organization.

Condition: Eight of nineteen tenant files were missing required documentation to determine eligibility or signatures on agreements.

Questioned Costs: None

Context: Management has been in the process of obtaining all the property documentation from the third party management company to transition all oversight duties within the Foundation.

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

Recommendation: We recommend that management hire employees with experience in compliance and management of low income housing projects and dedicate focused time to ensure that the records are properly updated and agree to the loan documents or compliance information from the funding agency.

Response: All tenant files are in the process of being reviewed with HOME funded units receiving priority. All files will be reviewed and updated by June 2017. A CCSF staff member has been designated to monitor compliance. Easbey Consulting, LLC reviews and verifies compliance of all new files, including re-certifications.

2016-008 CFDA 14.239 HOME Investment Partnerships Program (HUD)

Criteria: HOME rents must be set within the approved HOME rates.

Condition: Two of nineteen tenant files tested were missing documentation as to the size of the unit, therefore the appropriate rental rate for the unit was unable to be determined and verified. The rental rate being charged for one of the nineteen units was in excess of the HUD approved rate for the size of the unit.

Questioned Costs: None

Context: Management has been in the process of obtaining all the property documentation from the third party management company to transition all oversight duties within the Foundation.

Effect: This is considered to be a compliance finding.

Recommendation:	We recommend that management hire employees with experience in compliance and management of low income housing projects and dedicate focused time to ensure that the records are properly updated and agree to the loan documents or compliance information from the funding agency.
Response:	All HOME rents are now set within approved HOME rates. A CCSF staff member has been designated to monitor compliance.
2016-009	CFDA 14.239 HOME Investment Partnerships Program (HUD)
Criteria:	All property purchased with HOME funds should be tracked to ensure that any sale of the properties are properly handled.
Condition:	During the year there were no controls over compliance associated with real property management and identifying properties that were purchased with federal awards. 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.
Questioned Costs:	None
Context:	Some of the management team know the history of property purchases but there is no system control or process to identify property that was purchased with federal awards to ensure that a disposal is properly handled. There was no property disposed of during the current year that was subject to federal awards.
Effect:	Considered to be a significant deficiency in internal controls over compliance.
Recommendation:	We recommend that management hire employees with experience in compliance and management of low income housing projects and dedicate focused time to ensure that the records are properly updated and agree to the loan documents or compliance information from the funding agency.
Response:	The Business and Finance Office is currently building schedules that will identify compliance requirements related to grants and loans including federal loans. A CCSF staff member has been designated to monitor compliance.

Section IV - Prior Audit Findings

2015-001

Condition: The auditor has prepared the financial statements (a nonattest service) on behalf of management. Therefore, management has not designed or implemented controls over the preparation of the financial statements. Management has identified the Finance Director as having suitable skills, knowledge or experience to accept responsibility for the financial statements.

Current Status: There are two certified public accountants on the board of the Organization and they review the financial statements and disclosures. The auditor prepares the statements as a service for the Organization but the Organization has competent individuals who could prepare the statements if necessary.

2015-002

Condition: During testing of revenues, it was noted that receipts are not tracked in individual accounts for separate entities, that donations were not tracked within the accounting software for restrictions, and documentation for various donations was not maintained to support donor restrictions. When considered in aggregate, these conditions are considered a material weakness.

Current Status: Condition has not been corrected and was included as 2016-001.

2015-003

Condition: Controls over cash disbursements lack proper authorization, and are mingled between the entities. Examples include only having the CEO authorized to sign checks, but having a check stamp available. When checks are signed, supporting documentation is not reviewed. And finally, credit cards are used interchangeably between entities. These conditions present the risk that expenditures could be made without proper approval and could be placed in the incorrect entity without being detected or corrected timely.

Current Status: Condition has not been corrected and was included as 2016-002.

2015-004

Condition: Management of affordable housing projects has been outsourced to a third party property management company. During our audit it was noted that CCSF is not receiving adequate information from this company to properly monitor the compliance activities. For the new loan that was received in fiscal year 2015, CCSF relied on the City of Salem to perform some of the compliance testing and monitoring and did not have the controls over compliance in place to ensure that they were in compliance prior to submitting information to the City of Salem for review. We also noted that the schedule of expenditures of federal awards was not complete as prepared by CCSF.

Current Status: This condition remains in 2016, and is included in finding 2016-003.

2015-005

Criteria: Required eligibility screening should be performed for any potential tenant that is placed in a low income housing or affordable housing unit.

Current Status: This condition remains in 2016, and is included in finding 2016-006 and 2016-007.

2015-006

Criteria: Non-profit organizations will use procurement procedures that conform to applicable Federal law and regulations and standards identified in OMB Circular A-110 (2 CFR part 215). Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other criteria as specified in 2 CFR section 180.220.

Current Status: There were no procurements tested during fiscal year 2016. Management represents that they have established controls to ensure compliance with the procurement requirements.

2015-007

Condition: There was a construction project, funded by a federal award loan, which was started and completed in fiscal year 2015. During our audit, information was requested to test expenses to verify that they are allowable per the grant award. Supporting documentation has not been retained in a manner that allows for this testing and we were unable to verify that the funds reimbursed were used on the specified project. Amounts expended were within the approved budget, but there was just no evidence available to support the use of the funds.

Current Status: There were no construction projects tested in fiscal year 2016. Management has represented that controls have been implemented to ensure compliance.