MOUNTAINSTAR FAMILY RELIEF NURSERY

FINANCIAL STATEMENTS

Year Ended June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
MountainStar Family Relief Nursery
Bend, Oregon

We have audited the accompanying financial statements of **MountainStar Family Relief Nursery** (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Spectrum CPA Group, LLP

November 30, 2018

MOUNTAINSTAR FAMILY RELIEF NURSERY
STATEMENT OF FINANCIAL POSITION
June 30, 2018

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	483,659
Pledges receivable, current portion, less allowance for doubtful accounts and unamortized discount		12,624
Grants receivable, current portion		232,987
Prepaid expenses		8,192
TOTAL CURRENT ASSETS		737,462
PROPERTY AND EQUIPMENT		
Property and equipment		109,152
Less accumulated depreciation		(61,222)
		47,930
OTHER ASSETS		
Pledges receivable, noncurrent, less allowance for doubtful accounts and unamortized discount		7,265
Grants receivable, noncurrent portion		46,804
Beneficial interest in assets held by Oregon Community Foundation		113,760
		167,829
	$	953,221
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued payroll and payroll taxes	$	69,967
Accrued liabilities		53
Accrued vacation		22,910
TOTAL CURRENT LIABILITIES		92,930
NET ASSETS		
Unrestricted		
Unrestricted and undesignated		307,023
Board designated operating reserve		163,264
Invested in property and equipment		47,930
		518,217
Temporarily restricted		237,211
Permanently restricted		104,863
		860,291
	$	953,221

See accompanying notes.

MOUNTAINSTAR FAMILY RELIEF NURSERY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS, AND OTHER SUPPORT				
Government and other grants	$ -	$ 885,339	$ -	$ 885,339
Donations	300,751	-	47,863	348,614
Fundraising, special events, net of direct expenses of $107,023	265,253	-	-	265,253
Foundation grants	12,000	188,530	-	200,530
In-kind donations	153,145	-	-	153,145
Unrealized gain in Oregon Community Foundation assets	-	5,224	-	5,224
Realized gain on investments	-	2,152	-	2,152
Dividends and interest	-	1,747	-	1,747
Miscellaneous income	-	484	-	484
TOTAL REVENUE, GAINS, AND OTHER SUPPORT	731,149	1,083,476	47,863	1,862,488
NET ASSETS RELEASED FROM RESTRICTIONS				
Satisfaction of usage restrictions	1,315,946	(1,315,946)	-	-
EXPENSES				
Program services	1,627,065	-	-	1,627,065
General and administrative	156,910	-	-	156,910
Fundraising	180,701	-	-	180,701
TOTAL EXPENSES	1,964,676	-	-	1,964,676
INCREASE (DECREASE) IN NET ASSETS	82,419	(232,470)	47,863	(102,188)
BEGINNING NET ASSETS	435,798	469,681	57,000	962,479
ENDING NET ASSETS	$ 518,217	$ 237,211	$ 104,863	$ 860,291

See accompanying notes.

MOUNTAINSTAR FAMILY RELIEF NURSERY
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2018

	Program	General and Administrative	Fundraising	Total
Payroll	$ 877,425	$ 88,639	$ 110,519	$ 1,076,583
Employee benefits	144,119	20,675	18,533	183,327
In-kind expense	123,861	13,615	15,669	153,145
Occupancy	116,215	3,243	3,732	123,190
Program expense	111,047	-	-	111,047
Payroll taxes	84,611	12,138	10,881	107,630
Office expenses	60,188	6,653	7,617	74,458
Professional fees	21,337	2,345	2,699	26,381
Advertising	16,046	1,764	2,030	19,840
Licenses, fees and dues	15,758	1,732	1,994	19,484
Staff development	15,011	1,650	1,899	18,560
Travel	14,666	1,612	1,855	18,133
Depreciation	13,307	1,463	1,684	16,454
Insurance	12,562	1,381	1,589	15,532
Investment fees	912	-	-	912
	$ 1,627,065	$ 156,910	$ 180,701	$ 1,964,676

See accompanying notes.

MOUNTAINSTAR FAMILY RELIEF NURSERY
STATEMENT OF CASH FLOWS
Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ (102,188)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	16,454
Change in allowance for doubtful accounts and unamortized discount	2,458
Donation of investments	(2,523)
Realized gain on investments	(2,152)
Unrealized gain in Oregon Community Foundation assets	(5,224)
Contributions to Oregon Community Foundation assets	(47,853)
(Increase) decrease in operating assets	
Pledges receivable	(5,596)
Grants receivable	192,854
Prepaid expenses	(3,422)
Increase (decrease) in operating liabilities	
Accrued payroll and payroll taxes	(600)
Accrued liabilities	53
Accrued vacation	(3,839)
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	38,422
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales of investments	2,831
Reinvested dividends and interest, net of fees in Oregon Community Foundation assets	91
Purchases of property and equipment	(4,780)
NET CASH FLOWS USED BY INVESTING ACTIVITIES	(1,858)
NET INCREASE IN CASH	36,564
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	447,095
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 483,659

See accompanying notes.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of MountainStar Family Relief Nursery (the Organization) is presented to assist in understanding of the Organization's financial statements. The financial statements and notes are representations of the Organization's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and have been consistently applied in the preparation of the accompanying financial statements.

<u>Nature of Operations</u>

MountainStar Family Relief Nursery (MountainStar), is a nonprofit organization incorporated under the laws of the State of Oregon that provides services to prevent and alleviate child abuse and neglect in families where abuse has already occurred or is identified as high risk. MountainStar staff and volunteers endeavor to establish a positive, nurturing, family environment for distressed children and to strengthen families so children will have their needs met in their own home and will not have to be placed in foster care. The flagship, Relief Nursery services, includes home visiting, crisis intervention, respite care, and therapeutic, early-childhood classes for children birth to five years old. MountainStar also contracts with the Oregon Department of Human Services to work with children and families already in the foster care system to support positive, family relationships and safe reunification.

<u>Basis of Accounting</u>

The Organization's policy is to maintain its accounts and prepare its financial statements based on the accrual method of accounting. Under the accrual method of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Temporarily restricted assets whose restrictions are met in the same reporting period as they are received are recorded as unrestricted assets. Contributions of long-lived assets are not deemed to have a time restriction unless specified by the donor.

<u>Basis of Presentation</u>

Financial statement presentation follows the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

<u>Program Services</u>

MountainStar services include early-childhood and family-strengthening programs based on the Oregon Relief Nursery Program model and intervention services for families with children in foster care. MountainStar envisions communities that support each parent's efforts to nurture their children's emotional, physical, and intellectual development in a safe environment.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Program Services (continued)

MountainStar operates Relief Nursery programs in Deschutes, Jeffereson, and Crook Counties providing therapeutic classrooms, parenting education services, and family support targeted at protecting 360 babies, toddlers, and preschoolers who are at significant risk for abuse and neglect. Families receive an initial assessment of the child's and family's needs, risk factors, and goals, and are placed into either the Safety Net or Therapeutic Early Childhood Program (TECP).

Safety Net Program – provides crisis intervention, home visits, community referrals, and respite care for high-risk, young children and their families. Families in this cost-effective program access tangible support in times of need.

Therapeutic Early Childhood Program (TECP) – includes high-quality, therapeutic classes for children six weeks to five years old in addition to regular home visits and parent training. Classes help children stay safe and heal from the physical, emotional, and social impacts of living in high-stress, chaotic environments during the critical development period of early childhood. Children receive regular, developmental screenings and the class curriculum is individualized to address a child's specific issues and/or developmental delays. Each child and family receives 300 hours of direct service through this program annually. MountainStar's Bend program has been accredited through the National Association for the Education of Young Children and awarded a 5-star rating through Oregon's Quality Rating Improvement System.

Families in either the Safety Net or TECP programs also receive children's clothing, food boxes, diapers, transportation for children to attend classes, and support accessing community services. MountainStar also provides child-centered, mental health services in the classroom and meetings with parents. An independent evaluation of Oregon Relief Nurseries has documented success at reducing family stress, improving parenting behaviors, and increasing child safety.

Intervention Services for Families in Foster Care – supports healthy, family relationships and safe reunification for children already in the foster care system. This work involves enhanced supervised visits in a family-friendly environment and intensive, parent education that supports parents accomplishing the steps required by Child Welfare. The Oregon Department of Human Services contracts with MountainStar to provide these services in Crook, Deschutes, and Jefferson counties targeted at serving 90 children annually.

Estimates and Assumptions

Management uses estimates and assumptions in preparing these financial statements in accordance with GAAP. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Cash and Cash Equivalents

The Organization considers highly liquid investments with an original maturity of three months or less to be cash equivalents.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentrations of Credit and Market Risk

Financial instruments that potentially expose the Organization to concentrations of credit and market risk consist primarily of cash, cash equivalents, and investments. Cash and cash equivalents are maintained at First Interstate Bank, Umpqua Bank, and Merrill Lynch. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 at each institution. At times, the balances may exceed federally insured limits. At June 30, 2018, the Organization had no uninsured cash balances. The Organization has not experienced any losses in such accounts. Management believes that the Organization is not exposed to any significant concentration risk associated with these accounts. The Organization’s investments do not represent significant concentrations of market risk in as much as the Organization’s investment portfolio is adequately diversified among issuers.

Beneficial Interest in Assets Held by Oregon Community Foundation

Contributions made to the Oregon Community Foundation (OCF), an Oregon nonprofit, become permanent funds of OCF under the MountainStar Family Relief Nursery Endowment Fund (the Endowment Fund). Distributions made to MountainStar are at the sole discretion of OCF. The agreement with OCF maintains variance power over the fund and specifies that the fund shall be held and owned by OCF. The OCF balance is shown as permanently restricted net assets by MountainStar and is considered a beneficial interest in the Endowment Fund. The OCF outstanding investment was $113,760 at June 30, 2018, of which $104,863 was permanently restricted and $8,897 was considered temporarily restricted.

The endowed principal balance of $104,863 is to be held by OCF in perpetuity. Upon OCF authorizing the distribution of funds, it is at management’s discretion to take receipt of those funds or reinvest them with OCF. Reinvested earnings become permanent funds of OCF. Earnings and distributions of the OCF endowment fund are restricted to use on infant programs. The investments utilized in the fund are at the discretion of OCF.

Fair Value Measurements

The Organization has determined the fair value of certain assets and liabilities in accordance with provisions of FASB ASC 820, which provides a hierarchy for measuring fair value under GAAP. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level of input that is significant to the fair value measurement.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

The three levels of categorizing assets and liabilities under GAAP's fair value measurement requirements are as follows:

> *Level 1* inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity 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 related asset or liability.
>
> *Level 3* inputs are unobservable inputs related to the asset or liability.

Subsequent to initial recognition, the Organization may be required to remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Nonrecurring adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Contributions and Pledges Receivable

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Unconditional promises to give are recorded net of an allowance for uncollectible pledges receivable, which has been estimated by management based on MountainStar's past collection history. Unconditional promises to give due beyond one year are reported at the present value of their net realizable value, using a reasonable discount rate applicable to the years in which the promises are to be received.

Property and Equipment

Property and equipment are reported at cost, including costs necessary to get the asset ready for its intended use. Donated assets are recorded at estimated fair market value. The Organization capitalizes expenditures for those items in excess of $2,500. Expenditures for maintenance and repairs are charged to operations as incurred. Renewals and betterments that materially extend the life of the asset are capitalized. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, ranging from two to ten years. The cost and related accumulated depreciation on property and equipment sold or otherwise disposed of are removed from the accounts and any gain or loss is reported as current revenue or expense. For the year ended June 30, 2018, depreciation expense was $16,454.

Long-Lived Assets

The Organization's long-lived assets, including land and buildings, are assessed for impairment if events or changes in circumstances indicate that their carrying amounts may not be recoverable. Based on this assessment, property that is considered impaired is written down to its fair value. Impairment losses are recognized through a charge to expense. As of June 30, 2018, management determined that there was no impairment of long-lived assets and, therefore, no impairment losses were recognized in the current year.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

All contributions and investment income are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor restriction expires, that is, when a stipulated time restriction or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Donated Assets and Services

Donations of equipment and other noncash items are recorded at their estimated fair market value at the date of the donation. Donations of professional services requiring special skills are recorded at fair market value as provided by the donor. A significant portion of the Organization’s functions and programs are conducted by unpaid volunteers. The value of this contributed time is not reflected in the accompanying financial statements because they are not specialized professional services.

Net Assets

The Organization’s net assets and revenues, gains, and losses are classified as unrestricted, temporarily restricted, and permanently restricted based upon the existence or absence of donor or Board-imposed restrictions. These classifications are defined as follows:

- Unrestricted net assets are not restricted by the donors, or the donor-imposed restrictions have expired.

- Temporarily restricted net assets contain donor-imposed restrictions that permit the Organization to use or expense the donated assets as specified and are satisfied either by the passage of time or fulfillment of the purpose.

- Permanently restricted net assets have been restricted by donor or by law to be maintained by the Organization in perpetuity.

Functional Allocation of Expenses

The costs of providing various support to the Organization’s operations, as well as other management and general activities, have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. MountainStar utilizes a simplified, cost-allocation method whereby specifically identifiable costs are charged directly to the grant or project and indirect costs are allocated among programs and grants through an allocation base. MountainStar uses salary and benefit expense as the allocation base.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising and Promotion Costs

The Organization follows the policy of charging the cost of advertising and promotion to expense as incurred. During the year ended June 30, 2018, $19,840 in advertising and promotion expense was incurred.

Income Taxes

The Organization qualifies as a tax-exempt organization under the provisions of Section 501(c)(3) of the Internal Revenue Code. It has no significant unrelated business income subject to taxation. Consequently, there is no provision for income taxes.

The Organization recognizes a liability for unrecognized tax benefits when facts and circumstances indicate that an uncertain tax position is more likely than not to be overturned by a taxing authority upon examination. The Organization recognizes accrued interest and penalties associated with uncertain tax positions, if any, as part of the income tax provision. There were no unrecognized income tax benefits, nor any interest and penalties associated with unrecognized tax benefits, accrued or expensed as of and for the year ended June 30, 2018.

The Organization files income tax returns in U.S. federal and State of Oregon jurisdictions. The Organization is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2015.

NOTE B – PLEDGES RECEIVABLE

At June 30, 2018, pledges receivable consisted of the following:

Unrestricted pledges receivable	$ 22,767
Allowance for uncollectible pledges receivable	(2,211)
Net pledges receivable before unamortized discount	20,556
Unamortized discount, discounted at 2%	(667)
Pledges receivable, net	$ 19,889
Amounts due in:	
Less than one year	$ 12,624
1 to 5 years	7,265
	$ 19,889

NOTE C – GRANTS RECEIVABLE

Grants receivable, at June 30, 2018, were comprised of $232,987 of receivables due within one year from various grantors and $46,804 due within two years from the Central Oregon Health Council. Management considers all grants receivable fully collectible; accordingly, an allowance for uncollectible grants receivable has not been reflected as of June 30, 2018. Approximately 66 percent of the total grants receivable balance as of June 30, 2018 was due from three grantors (Central Oregon Health Council, The Maybelle Clark Macdonald Foundation, and the State of Oregon, Department of Education, Early Learning Division.)

NOTE D – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments are stated at fair value and consist of the following:

	Level 1	Level 2	Level 3	Total
Beneficial interest in OCF	$ -	$ -	$ 113,760	$ 113,760
Total Investments	$ -	$ -	$ 113,760	$ 113,760

The principal input used in determining the fair value of the beneficial interest in OCF is the market value of the endowment fund, which is provided in their annual statement.

Investment income for the year ended June 30, 2018 is summarized as follows:

Beneficial interest in OCF, beginning of year	$ 58,930
Contributions	47,853
Unrealized gain	5,224
Net realized gains	1,844
Interest and dividends	741
Fees	(832)
Beneficial interest in OCF, end of year	$ 113,760

NOTE E – OPERATING LEASES

MountainStar leases office space in Bend, Prineville, Madras, and LaPine, Oregon. The terms vary by lease, but all leases are long-term operating leases with terms not exceeding two years. Rent expense for the year ended June 30, 2018 was $89,004.

Minimum future annual and aggregate lease payments over the remaining term of the leases are:

Year Ending June 30,	
2019	$ 77,154
2020	56,724
	$ 133,878

NOTE F – TEMPORARILY RESTRICTED NET ASSETS

The Organization had temporarily restricted net assets that consisted of the following as of June 30, 2018:

Meyer Memorial Trust Grant	$ 25,000
	$ 25,000

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors during the year ended June 30, 2018:

Storms Family Foundation	$ 10,000
Facebook's Prineville Community Action Grants Program	5,030
Saint Charles Health System	13,000
United Way of Deschutes County	17,000
PGE Foundation	7,500
Umpqua Bank Charitable Foundation	3,000
Crevier Family Foundation	5,000
Cow Creek Umpqua Indian Foundation	10,000
Pacific Power Foundation	1,500
Sunriver Rotary Club Foundation	1,500
The Herbert A. Templeton Foundation	10,000
Onpoint Community Credit Union	1,000
Jonas Family Foundation	25,000
Juan Young Trust	9,000
Oregon Association of Relief Nurseries	10,000
Wells Fargo Foundation	2,000
WHH Foundation	25,000
Rotary Club of Greater Bend	2,000
Ford Family Foundation	1,000
Deschutes Brewery	5,000
	$ 163,530

NOTE G – DONATED GOODS AND SERVICES

A significant portion of the Organization's program service and administrative functions are conducted by unpaid volunteers. The value of this contributed time is not reflected in the accompanying financial statements. During the year ended June 30, 2018, these volunteers donated approximately 5,662 hours. No amount of revenue or expense has been recognized in the statement of activities because the criteria for recognition under FASB ASC 958-605 has not been satisfied.

During the year ended June 30, 2018, the Organization received other goods and services that have been reflected in the financial statements totaling $153,145.

NOTE H - RETIREMENT PLAN

The Organization allows employees to make voluntary salary reductions to a Simple IRA retirement plan. Full-time and part-time employees scheduled to work at least 20 hours per week are eligible to participate in the plan at open enrollment following a 90-day introductory period. The Organization contributes up to 3% in matching contributions for all eligible employees. All contributions are fully vested when contributed. During the year ended June 30, 2018, employer contributions were $20,289.

NOTE I – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 30, 2018, the date the financial statements were available to be issued.

The Organization renewed the building leases for an additional two years ending June 30, 2020 for the main Bend and LaPine locations.

On July 24, 2018, the Organization entered into a contract with their IT service provider to provide both onsite and remote information technology services, including ongoing maintenance. The contract covers the period from August 1, 2018 through July 31, 2019 and requires monthly payments of $1,995.