MountainStar
strengthening families to keep children safe

Independent Auditors' Report
Financial Statements
Year Ended June 30, 2020
(With Comparative Totals for June 30, 2019)

KERNUTT STOKES

MOUNTAINSTAR FAMILY RELIEF NURSERY

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KERNUTTSTOKES

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
MountainStar Family Relief Nursery

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, 2020, the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MountainStar Family Relief Nursery as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the financial statements of MountainStar Relief Nursery as of June 30, 2019, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 21, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Kernutt Stokes LLP

Eugene, Oregon
November 12, 2020

MOUNTAINSTAR FAMILY RELIEF NURSERY

Statement of Financial Position

June 30, 2020

(With Comparative Totals for June 30, 2019)

		2020		2019
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$	829,763	$	575,067
Grants and pledges receivable, net		62,883		195,078
Prepaid expenses		8,300		13,948
Total current assets		900,946		784,093
PROPERTY AND EQUIPMENT, net		409,368		33,842
ENDOWMENTS		138,688		125,594
Total	$	1,449,002	$	943,529
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable	$	-	$	1,151
Accrued liabilities		-		798
Accrued payroll and payroll taxes		75,463		83,081
Accrued vacation		42,235		28,886
Current portion of long-term debt		6,419		-
Total current liabilities		124,117		113,916
LONG-TERM DEBT, net of current portion		287,863		-
Total liabilities		411,980		113,916
NET ASSETS:				
Without donor restrictions		910,038		600,972
With donor restrictions		126,984		228,641
Total net assets		1,037,022		829,613
Total	$	1,449,002	$	943,529

See accompanying notes.

MOUNTAINSTAR FAMILY RELIEF NURSERY
Statement of Activities
Year Ended June 30, 2020
(With Comparative Totals for the Year Ended June 30, 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
SUPPORT:				
Government and other grants	$ 1,035,952	$ -	$ 1,035,952	$ 936,715
Donations	452,592	14,375	466,967	405,364
Fundraising, net of direct expenses of $104,617	438,144	-	438,144	288,746
Foundation grants	276,950	-	276,950	290,750
In-kind donations	53,284	-	53,284	56,072
Total support	2,256,922	14,375	2,271,297	1,977,647
REVENUES:				
Unrealized (loss) gain on endowments	-	(1,446)	(1,446)	6,852
Realized gain on endowments, net	-	463	463	625
Dividend and interest income	-	4,487	4,487	3,957
Other revenue	-	169	169	313
Total revenues	-	3,673	3,673	11,747
Total revenue and support before release from restrictions	2,256,922	18,048	2,274,970	1,989,394
Net assets released from restrictions	119,705	(119,705)	-	-
Total revenue and support	2,376,627	(101,657)	2,274,970	1,989,394
EXPENSES:				
Program services	1,702,330	-	1,702,330	1,704,746
General and administrative	153,698	-	153,698	170,580
Fundraising	211,533	-	211,533	144,746
Total expenses	2,067,561	-	2,067,561	2,020,072
CHANGE IN NET ASSETS	309,066	(101,657)	207,409	(30,678)
NET ASSETS, beginning of year	600,972	228,641	829,613	860,291
NET ASSETS, end of year	$ 910,038	$ 126,984	$ 1,037,022	$ 829,613

See accompanying notes.

MOUNTAINSTAR FAMILY RELIEF NURSERY
Statement of Functional Expenses
Year Ended June 30, 2020
(With Comparative Totals for the Year Ended June 30, 2019)

	Program Services		Support Services			
	Family Relief Nursery	**Enhanced Visitation**	**Management and General**	**Fundraising**	**2020 Total**	**2019 Total**
Salaries and related expenses:						
Salaries and wages	$ 856,820	$ 118,064	$ 100,094	$ 146,002	$ 1,220,980	$ 1,157,219
Payroll taxes	83,030	8,231	9,088	13,271	113,620	113,210
Employee benefits	156,541	24,692	18,049	26,355	225,637	206,542
Total salaries and related expenses	1,096,391	150,987	127,231	185,628	1,560,237	1,476,971
Administrative and operating expenses:						
Occupancy	102,457	29,505	11,797	3,913	147,672	138,005
In-kind expense	53,284	-	-	-	53,284	56,072
Office expenses	50,005	1,510	4,493	6,739	62,747	86,234
Supplies	43,040	3,183	-	-	46,223	36,350
License, dues, and fees	25,787	92	2,250	3,378	31,507	25,978
Community outreach	25,934	-	-	-	25,934	21,130
Insurance	18,227	2,832	1,831	2,749	25,639	24,559
Professional fees	17,124	2,695	1,724	2,587	24,130	30,814
Depreciation	17,677	-	1,537	2,307	21,521	16,953
Advertising	13,128	-	1,141	1,714	15,983	26,385
Meals	12,595	-	-	-	12,595	14,088
Transportation	9,637	1,447	-	-	11,084	10,375
Travel	8,149	681	767	1,153	10,750	13,674
Staff development	6,547	373	689	1,006	8,615	24,319
Consultants	5,105	-	-	-	5,105	15,363
Interest expense	2,749	-	238	359	3,346	-
Investment fees	1,189	-	-	-	1,189	1,010
Bad debt expense	-	-	-	-	-	1,792
Total administrative and operating expenses	412,634	42,318	26,467	25,905	507,324	543,101
Total functional expenses	$ 1,509,025	$ 193,305	$ 153,698	$ 211,533	$ 2,067,561	$ 2,020,072

See accompanying notes.

MOUNTAINSTAR FAMILY RELIEF NURSERY

Statement of Cash Flows

Change in Cash and Cash Equivalents
Year Ended June 30, 2020
(With Comparative Totals for the Year Ended June 30, 2019)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from services and other support	$ 2,424,821	$ 2,172,133
Cash paid to employees and suppliers	(2,068,505)	(2,082,898)
Interest, dividends, and other income received	5,119	4,895
Interest paid	(3,346)	-
Net cash provided by operating activities	358,089	94,130
CASH FLOWS FROM INVESTING ACTIVITIES:		
Reinvested dividends and interest, net of fees	(628)	143
Purchase of property and equipment	(101,047)	(2,865)
Net cash used in investing activities	(101,675)	(2,722)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt	(1,718)	-
Net cash used in financing activities	(1,718)	-
NET CHANGE IN CASH AND CASH EQUIVALENTS	254,696	91,408
CASH AND CASH EQUIVALENTS, beginning of year	575,067	483,659
CASH AND CASH EQUIVALENTS, end of year	$ 829,763	$ 575,067

(Continued)

See accompanying notes.

MOUNTAINSTAR FAMILY RELIEF NURSERY

Statement of Cash Flows (Continued)

Reconciliation of Change in Net Assets to
Net Cash Provided by Operating Activities
Year Ended June 30, 2020

(With Comparative Totals for the Year Ended June 30, 2019)

	2020	2019
CHANGE IN NET ASSETS	$ 207,409	$ (30,678)
ADJUSTMENT TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation expense	21,521	16,953
Bad debt expense	-	1,792
Change in allowance for doubtful accounts	(3,778)	1,567
Contributions received for endowments	(14,375)	(4,500)
Realized loss (gain) on endowments	463	(625)
Unrealized loss (gain) on endowments	1,446	(6,852)
Increase (decrease) in cash caused by certain working capital items:		
Grants and pledges receivable	135,973	101,243
Prepaid expenses	5,648	(5,756)
Accounts payable	(1,151)	1,151
Accrued liabilities	(798)	745
Accrued payroll and payroll taxes	(7,618)	13,114
Accrued vacation	13,349	5,976
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 358,089	$ 94,130

Schedule of Noncash Investing and Financing Activities

During 2020, the Organization purchased a building by incurring directly related long-term debt for $296,000.

See accompanying notes.

1. Summary of Significant Accounting Policies

Organization. MountainStar Family Relief Nursery (the Organization), is located in Bend, Oregon. The Organization operates Relief Nursery programs in Deschutes, Jefferson, and Crook counties.

The Organization's mission is to prevent child abuse and neglect through community support and therapeutic services that help vulnerable children and families succeed. The Organization is the only program in the community providing therapeutic classrooms, parenting education services, and family support targeted at protecting babies and toddlers who are at significant risk for abuse and neglect. The Organization's two major programs are the Relief Nursery services and the Enhanced Visitation programs.

Relief Nursery services provides crisis intervention and ongoing services to high risk families. Families are served through the Therapeutic Early Childhood Program (TECP) or the Outreach/Safety Net Program (OSNP). TECP includes four age specific therapeutic classrooms and the OSNP covers all other families who are not enrolled in TECP. To further meet the needs of client families in crisis, the Organization has regular child assessments, home visitations, transportation services, emergency food boxes, services for limited English-speaking families, and mental health services.

Enhanced Visitation programs help families after children have been placed in foster care. Parents who no longer have custody of their children are able to spend quality time with their children in a safe, supervised, and home-like environment at the Organization's visitation centers in Bend, Redmond, Madras, and Prineville.

Basis of Accounting. The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis of Presentation. Under accounting standards for not-for-profit organizations, the Organization is required to report information regarding its financial positions and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

> *Net Assets without Donor Restrictions* - Net assets available for general obligations of the Organization including all donor-restricted contributions whose restrictions are met in the same period as the donation is received.
>
> *Net Assets with Donor Restrictions* - Net assets subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization and/or the passage of time. Other donor-imposed restrictions stipulate the resources be maintained permanently, but permit the Organization to use the income.

(Continued)

1. Summary of Significant Accounting Policies (Continued)

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions.

Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulation or by law.

Newly Issued Accounting Pronouncements. Effective July 1, 2019, the Organization adopted Accounting Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers*, and all related amendments using the modified retrospective method. This standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The modified retrospective method of adoption allows the standard to be applied retrospectively to contracts that were not completed as of July 1, 2019 and any effect resulting from the adoption of the standard recorded as an adjustment to net assets on the date of adoption. The adoption of the standard did not have a significant financial statement impact to the Organization and thus no adjustment to net assets was required.

Effective July 1, 2019, the Organization adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard was issued to provide guidance to not-for-profit entities as they adopt Accounting Standard Codification 958-605, Not-for-Profit Entities - Revenue Recognition and ASU 2014-09, *Revenue from Contracts with Customers*. The Organization applies ASU 2018-08 in determining if grants and similar contracts with resource providers should be accounted as contributions or exchange transactions. When it is determined that an external resource provider does not receive commensurate value in return, the transactions are deemed nonreciprocal and should be accounted for as contributions. When it is determined that an external resource provider does receive commensurate value in return, the transactions are accounted for as an exchange transaction under ASU 2014-09.

In addition, the Organization evaluates whether a contribution is conditional, which affects the timing of the revenue recognized. Unconditional contributions are recognized immediately and classified as either net assets with donor restrictions or net assets without donor restrictions. Conditional contributions received are accounted for as a liability initially, until the barriers to entitlement are overcome, at which point the transaction is recognized as unconditional and classified as either net assets with restrictions or net assets without restrictions. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes contributions, and therefore no changes to the previously issues financial statements were required on a retrospective basis.

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1. Summary of Significant Accounting Policies (Continued)

Grants and Contributions. Funding for the Organization's programs consist of grants and contracts from federal and state entities, corporations, foundations, and private donors. Contributions and grants are recognized as support when they are received or unconditionally promised. Grants and other contracts are classified as contributions in instances in which a resource provider is not itself receiving commensurate value for the resources provided. Contributions are considered conditional when the agreement with the resource provider includes a barrier that must be overcome and either a right of return of assets transferred or right of release of a promisor's obligation to transfer assets. Conditional contributions are not recognized as revenue until the conditions are substantially met. Cash received prior to when conditions are substantially met are recognized as deferred revenues.

Funding from state and county grants and contracts is primarily derived from providing relief nursery services to children and families through TECP, OSNP, and enhanced visitation programs. Individual services or combinations of services are offered through these programs, the majority of which are generally distinct and are accounted for as separate performance obligations. The Organization satisfies these performance obligations over time and recognizes grant revenue as the services are provided. All performance obligations are satisfied within one year. Entitlement to the recovery of the direct and related indirect costs is conditional upon compliance with the terms and conditions of the grant agreements and with applicable regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance reviews and audits by the grantors.

The Early Learning grant with the State of Oregon expires on June 30, 2021. Revenues arising from this grant represented approximately 24% and 28% of total revenues during the years ended June 30, 2020 and 2019, respectively.

Special Events Revenue. Special events revenues, including related sponsorship revenue and other contributions, are considered unconditional contributions, except for the portion related to the direct benefit being provided to the donors that is considered an exchange transaction. The contribution portion is recognized when received and the exchange transaction portion of the revenue is recognized upon occurrence of the event. Funds received for the exchange transaction portion of the revenue for events occurring subsequent to the statement of financial position date is reflected as deferred revenue.

In-Kind Donations. Gifts of equipment and other noncash items are recorded at their estimated fair market value at the date of the gift. 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.

(Continued)

1. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents. The Organization considers all highly liquid investments with a maturity of three months or less when acquired to be cash equivalents. At times, balances may exceed amounts insured by the Federal Deposit Insurance Corporation. The Organization has not experienced any losses and does not anticipate any losses in such accounts.

Grants and Pledges Receivable. Management considers all grants receivable fully collectible and accordingly, have not recorded an allowance for doubtful accounts as of June 30, 2020. Two grantors represented 79% of total grants receivable as of June 30, 2020. Three grantors represented 75% of total grants receivable as of June 30, 2019.

Pledges are recorded net of allowances for uncollectible pledges receivable, which has been estimated by management based on the Organization's past collection history. Pledges 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. As of June 30, 2020, the Organization had no pledges due beyond one year. Pledges are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Pledges that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire during the fiscal year in which the pledge is recognized. All other pledges are reported as increases in net assets with donor restrictions. Three donors represented 96% of total pledges receivable as of June 30, 2020. One donor represented 80% of total pledges receivable as of June 30, 2019.

Property and Equipment. Property and equipment expenditures in excess of $2,500 are stated at cost, net of accumulated depreciation. Contributed property and equipment is capitalized at its fair market value at the date of the gift. Depreciation is computed using the straight-line method at rates based on the estimated useful life of the property and equipment. The estimated useful life of property and equipment ranges from two to ten years. Major renewals and betterments are capitalized, while replacements, maintenance, and repairs which do not improve or extend the lives of the respective assets are charged to expense.

Endowments. The Organization maintains an endowment fund managed by the Oregon Community Foundation (OCF), an Oregon nonprofit. The interest in OCF is reported at fair value determined by the market value of the endowment fund as of June 30, 2020. Unrealized appreciation or depreciation of the endowments is recognized as revenues in the statement of activities.

Income Taxes. The Organization is an Oregon not-for-profit organization and complies with the requirements of Section 501(c)(3) of the Internal Revenue Code. Thus, the Organization is exempt from federal and state income taxes. Management believes the Organization meets the requirements to maintain its tax-exempt status.

(Continued)

1. Summary of Significant Accounting Policies (Continued)

Advertising. Advertising costs are charged to expense as incurred. Advertising expense was $15,983 and $26,385 during the years ended June 30, 2020 and 2019, respectively.

Functional Expense Allocation. The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services that they benefit.

Fair Value Measurements. GAAP defines fair value 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, and establishes a framework for measuring fair value. The fair value framework requires the categorization of assets and liabilities into three levels based upon the ability to observe the assumption (inputs) used to value the assets and liabilities. Level One provides the most reliable and observable measure of fair value, whereas Level Three generally requires significant judgment. When valuing assets or liabilities, GAAP requires the most observable inputs to be used.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

> Level One - Unadjusted, quoted prices in active markets for identical assets and liabilities.
>
> Level Two - Observable inputs, other than those included in Level One. For example, quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.
>
> Level Three - Unobservable inputs reflecting assumptions about the inputs used in pricing the asset or liability.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

(Continued)

1. Summary of Significant Accounting Policies (Continued)

Use of Estimates. The preparation of financial statements in conformity with GAAP 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Additionally, in the context of the ongoing global COVID-19 pandemic, while there was no material impact to our estimates in the current period, in future periods, facts and circumstances could change and impact our estimates.

Prior-Year Summarized Information. The financial statements include certain prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Reclassification. Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported net assets and change in net assets.

Recently Issued Accounting Pronouncements. The FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the Organization for the year ending June 30, 2023. The Organization is currently in the process of evaluating the impact of this ASU on the financial statements.

Subsequent Events. Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through November 12, 2020, which is the date the financial statements were available to be issued.

2. Availability and Liquidity

The following reflects the Organization's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. As of June 30, financial assets available for general expenditures within one year consisted of the following:

	2020	2019
Financial assets at year-end:		
Cash and cash equivalents	$ 829,763	$ 575,067
Grants and pledges receivable, net	62,883	195,078
Total financial assets	892,646	770,145
Less amounts not available to be used within one year:		
Net assets with donor restrictions (excludes endowment)	3,246	119,278
Board-designated funds for future use	251,271	212,931
Total amounts not available to be used within one year	254,517	332,209
Total amounts available to be used within one year	$ 638,129	$ 437,936

The Organization has funds raised or contributed by donors for specific purposes that are limited to use (Note 10). Additionally, the Board of Directors (the Board) designates assets for the replacement of furniture, fixtures, and equipment, and operating reserves (Note 9). These assets are limited to use and are not available for general expenditure within one year. However, the board-designated amounts could be made available within a year, if necessary, with board approval.

As part of the Organization's liquidity management plan, cash in excess of daily requirements is invested in money market accounts. Further, the Board designates amounts to be held in an operating reserve, which was $251,271 and $212,931 as of June 30, 2020 and 2019, respectively. Investments may be liquidated and operating reserves may be drawn upon, if necessary, to meet unexpected liquidity needs.

3. Endowments

Contributions made to the Endowment Fund held by OCF become permanent funds of OCF under the MountainStar Family Relief Nursery Endowment Fund. Distributions made to the Organization are at the sole discretion of OCF. The agreement with OCF maintains variance power over the Endowment Fund and specifies that the Endowment Fund shall be held and owned by OCF. Variance power is the power to redirect the use of transferred assets to a different beneficiary. The donor of an asset grants variance power to the recipient by making a variance power statement in the documentation authorizing the asset donation.

(Continued)

3. Endowments (Continued)

The Endowment Fund's principal balance of $123,738 as of June 30, 2020 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 Endowment Fund are restricted for use on programs provided to infants. The investments utilized in the Endowment Fund are at the discretion of OCF.

The Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters, and Strategies. The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4.5%, while growing the funds if possible. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

The Endowment Fund held by OCF is stated at fair value and is categorized as level three in the fair value hierarchy. 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.

(Continued)

3. Endowments (Continued)

The fair value methodology used by the Organization may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. Valuation techniques utilized to determine fair value are consistently applied.

Investment return for the Endowment is classified as with donor restrictions on the statement of activities for the years ended June 30 and is summarized as follows:

	2020	2019
Beneficial interest in OCF, beginning of year	$ 125,594	$ 113,760
Contributions	14,375	4,500
Dividends and interest	891	867
Realized gains, net	463	625
Unrealized (loss) gain	(1,446)	6,852
Fees	(1,189)	(1,010)
Beneficial interest in OCF, end of year	$ 138,688	$ 125,594

4. Grants and Pledges Receivable

Grants and pledges receivable consisted of the following as of June 30:

	2020	2019
Grants receivable	$ 59,451	$ 147,604
Pledges receivable with donor restrictions	3,432	51,606
Allowance for uncollectible pledges	-	(4,132)
Grants and pledges receivable, net	$ 62,883	$ 195,078

5. Property and Equipment

Property and equipment consisted of the following as of June 30:

		2020		2019
Building	$	371,491	$	-
Vehicles		119,915		100,915
Equipment		11,102		11,102
Improvements		6,555		-
		509,063		112,017
Less accumulated depreciation		(99,695)		(78,175)
Property and equipment, net	$	409,368	$	33,842

6. Long-Term Debt

During the year ended June 30, 2020, the Organization obtained a mortgage from Mid Oregon Federal Credit Union. Payments are due in monthly installments of $1,688, including interest of 4.75%. A balloon payment of the unpaid balance of principal and interest will be due upon maturity in March 2035. The mortgage is secured by real and personal property and subject to certain non-financial covenants.

The aggregate payments of principal on long-term debt in the years subsequent to June 30, 2020, are as follows: 2021, $6,419; 2022, $6,731; 2023, $7,057; 2024, $7,400; thereafter, $266,675.

7. Paycheck Protection Program

In April 2020, the Organization received a forgivable loan under the Small Business Association's Paycheck Protection Program from First Interstate bank in the amount of $313,260. It is the Organization's policy to account for this funding as a conditional contribution in accordance with ASC 958-605. Upon receipt, the cash inflow is recorded as a refundable advance. As the barriers are overcome and the conditions of release have been substantially met or explicitly waived, the Organization is entitled to the assets and the refundable advance is reduced. As of June 30, 2020, management has determined the barriers were overcome and the conditions of release have been substantially met. As a result, $313,260 of revenue is included in government grants in the statement of activities for the year ended June 30, 2020.

8. Leases

The Organization leases office space in Bend, Prineville, Madras, and LaPine, Oregon with monthly payments ranging from $116 to $2,510 and terms expiring through 2024. Rent expense was $86,728 and $89,704 for the years ended June 30, 2020 and 2019, respectively.

Minimum future annual and aggregate lease payments over the remaining terms of the lease are as follows: 2021, $72,929; 2022, $67,327; 2023, $23,958; 2024, $12,156.

9. Board-Designated Net Assets

It is the policy of the Board of the Organization to review its plans for future equipment acquisitions and to designate appropriate sums to assure adequate financing of such plans. The net change in reserves designated by the Board totaled $413,866 and $35,579 for the years ended June 30, 2020 and 2019, respectively.

Board-designated net assets consisted of the following as of June 30:

	2020	2019
Investment in furniture, fixtures, and equipment	$ 409,368	$ 33,842
Operating reserve	251,271	212,931
Total	$ 660,639	$ 246,773

10. Net Assets with Donor Restrictions

Contributions by donors or funds raised designated for a specific purpose are classified as net assets with donor restrictions. The restriction of the assets is released as they are used for their specified purpose. Net assets with donor restrictions at June 30 were as follows:

	2020	2019
Event Manager Fund	$ -	$ 46,804
Kindergarten Readiness Project	-	25,000
Pledges receivable, net	3,246	47,474
OCF Endowment Principal Balance	123,738	109,363
Total net assets with donor restrictions	$ 126,984	$ 228,641

11. 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 years ended June 30, 2020 and 2019, these volunteers donated approximately 4,792 hours and 5,008 hours, respectively. 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 years ended June 30, 2020 and 2019, the Organization received donations of goods and services for program services totaling $53,284 and $56,072, respectively. These donations have been reflected as in-kind donations in the statement of activities and in-kind expense in the statement of functional expenses.

12. 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. Employer contributions were $26,054 and $22,853 during the years ended June 30, 2020 and 2019, respectively.