Lakes and Pines Community Action Council, Inc.

Financial Statements

September 30, 2018 and 2017

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Lakes and Pines Community Action Council, Inc.
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Independent Auditor's Report

To the Board of Directors
Lakes and Pines Community Action Council, Inc.
Mora, Minnesota

Report on the Financial Statements
We have audited the accompanying financial statements of Lakes and Pines Community Action Council, Inc. (the "Council"), which comprise the statements of financial position as of September 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended and related notes to 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 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 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 Council'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 Council'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 in the first paragraph present fairly, in all material respects, the financial position of Lakes and Pines Community Action Council, Inc., as of September 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Supplementary Information
Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis, and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other 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 financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued a report dated March 18, 2019, on our consideration of the Council's 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 the Council's internal control over financial reporting and compliance.

BerganKDV, Ltd.

St. Cloud, Minnesota
March 18, 2019

FINANCIAL STATEMENTS

Lakes and Pines Community Action Council, Inc.
Statements of Financial Position
As of September 30, 2018 and 2017

	2018	2017 (restated)
Assets		
Current assets		
Cash and cash equivalents	$ 965,086	$ 1,100,171
Restricted cash	213,424	219,104
Certificates of deposit	446,789	93,545
Interest receivable	502	502
Accounts receivable	25,713	10,534
Grants receivable	1,029,805	729,284
Prepaid expenses	24,821	26,021
Weatherization inventory	68,204	62,693
Total current assets	2,774,344	2,241,854
Property and equipment, net	496,299	501,988
Noncurrent assets		
Certificates of deposit	172,911	520,667
Total assets	$ 3,443,554	$ 3,264,509
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 497,521	$ 175,169
Due to other agencies	1,272	55,055
Accrued payroll and related taxes and benefits	234,231	205,813
Accrued vacation	131,172	132,035
Accrued unemployment insurance	37,439	52,947
Deferred revenue - grants	321,309	505,121
Total current liabilities	1,222,944	1,126,140
Net Assets		
Unrestricted		
Undesignated	1,645,085	1,557,444
Designated	79,226	78,937
Investment in property and equipment	496,299	501,988
Total net assets	2,220,610	2,138,369
Total liabilities and net assets	$ 3,443,554	$ 3,264,509

See notes to financial statements.

Lakes and Pines Community Action Council, Inc.
Statements of Activities
Years Ended September 30, 2018 and 2017

	2018	2017 (restated)
Revenues		
Grant revenue	$ 9,155,634	$ 7,812,204
In-kind contributions	-	2,466
Program support	308,214	180,014
Interest income	5,998	4,845
Total revenues	9,469,846	7,999,529
Expenses		
Wages and fringe benefits	5,042,858	4,600,032
Professional services	40,287	36,382
Contractual services	300,897	256,790
Vehicle expense and travel	355,335	326,271
Training	275,638	132,312
In-kind contribution	-	2,466
Supplies and copy costs	410,373	318,872
Insurance	46,273	51,223
Office rent, utilities, and space costs	236,339	253,605
Dues, subscriptions and memberships	38,092	41,556
Communication (postage and telephone)	99,604	79,066
Printed forms and advertising	67,982	61,901
Direct client support	2,392,288	1,543,300
Depreciation	81,639	55,363
Total expenses	9,387,605	7,759,139
Change in net assets	82,241	240,390
Net Assets		
Beginning of year	2,138,369	1,870,538
Prior period adjustment	-	27,441
Beginning of year, restated	2,138,369	1,897,979
End of year	$ 2,220,610	$ 2,138,369

See notes to financial statements.

Lakes and Pines Community Action Council, Inc.
Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	2018	2017 (restated)
Cash Flows - Operating Activities		
Change in net assets	$ 82,241	$ 240,390
Adjustments to reconcile change in net assets to net cash flows - operating activities		
Depreciation	81,639	55,363
Change in operating assets and liabilities		
Accounts receivable	(15,179)	17,951
Grants receivable	(300,521)	(131,048)
Prepaid expenses	1,200	18,836
Weatherization inventory	(5,511)	(6,268)
Accounts payable	322,352	(85,706)
Due to other agencies	(53,783)	53,782
Accrued payroll and related taxes and benefits	28,418	(81,032)
Accrued vacation	(863)	4,335
Accrued unemployment insurance	(15,508)	(22,311)
Deferred revenue - grants	(183,812)	309,673
Total adjustments	(141,568)	133,575
Net cash flows - operating activities	(59,327)	373,965
Cash Flows - Investing Activities		
Reinvested earnings for certificates of deposit	(5,488)	-
Maturities of certificates of deposit	-	149,385
Purchases of property and equipment	(75,950)	(165,419)
Net cash flows - investing activities	(81,438)	(16,034)
Cash Flows - Financing Activities		
Principal payments on note payable	-	(152,989)
Net change in cash and cash equivalents	(140,765)	204,942
Cash and Cash Equivalents		
Beginning of year	1,319,275	1,114,333
End of year	$ 1,178,510	$ 1,319,275
Reconciliation to Statement of Financial Position		
Cash and cash equivalents	$ 965,086	$ 1,100,171
Restricted cash	213,424	219,104
	$ 1,178,510	$ 1,319,275

See notes to financial statements.

Lakes and Pines Community Action Council, Inc.
Notes to Financial Statements

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Lakes and Pines Community Action Council, Inc. (the "Council") is a nonprofit community action agency incorporated under the provisions of the Minnesota Nonprofit Corporations Act, *Minnesota Statutes*. The mission of the Council is to build prosperous communities by serving local families and individuals in their pursuit of self-reliance. The Council is a private, non-profit corporation that offers a variety of programs to assist low-income families and individuals of seven county areas. Using income guidelines along with other criteria, the Council provides assistance to eligible residents of Aitkin, Carlton, Chisago, Isanti, Kanabec, Mille Lacs, and Pine Counties of Minnesota. The Board of Directors consists of representatives of the public sector, sector-served and private sector.

Basis of Accounting

The financial statements of the Council have been prepared on the accrual basis of accounting. The accounting policies of the Council conform to accounting principles generally accepted in the United States of America (U.S. GAAP) applicable to nonprofit organizations.

Revenues and expenses are accounted for on the accrual basis for all classes of net assets. Revenues are recognized when earned and expensed when incurred.

Financial Statement Presentation

The net assets and revenues of the Council are reported based upon net asset restrictions and the purposes for which resources are to be spent and the means by which spending activities are controlled. Net asset restrictions are categorized as follows:

Unrestricted

Accounts for all financial resources which are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Resources may be used at the discretion of the Board of Directors.

The Council has elected to present temporarily restricted contributions, which are fulfilled in the same period, within unrestricted net assets.

Temporarily Restricted

Accounts for (a) contributions and other inflows of assets whose use by the Council is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Council pursuant to those stipulations, (b) other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time or their fulfillment and removal by actions of the Council pursuant to those stipulations. At September 30, 2018 and 2017, the Council did not have temporarily restricted net assets.

Permanently Restricted

Accounts for all financial resources which include a donor-imposed restriction that stipulates the resources be maintained permanently, but permits the Council to use or expend part or all of the income derived from the donated assets. At September 30, 2018 and 2017, the Council did not have permanently restricted net assets.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates
The preparation of financial statements in conformity with U.S. 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.

Cash and Cash Equivalents
The Council considers cash in financial institutions and all highly liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalents. There were no payments made for interest or income taxes.

Restricted Cash
Restricted cash represents the Council's estimated cash balance for eligible unemployment insurance claims held with a grantor trust. The Council also maintains restricted cash for the self-insured employee dental plan.

Certificates of Deposit
Certificates of deposit have original maturities greater than three months and are recorded at cost. Certificates of deposit that mature within one year are shown as current assets.

Accounts Receivable
Accounts receivable are the result of the Council extending unsecured credit to the users of the Council's programs. Management reviews the current status of the receivables and currently expenses all accounts which are determined to be uncollectible, accordingly, no allowance for doubtful accounts was deemed necessary at September 30, 2018 and 2017. Accounts receivable are considered delinquent after 30 days and the Council does not accrue interest on delinquent receivables.

Weatherization Inventory
Inventory is valued at the lower of cost based on first-in, first-out (FIFO) method or net realizable value. Inventory consists of materials and supplies used for the Weatherization Program.

Property and Equipment
The Council capitalizes expenses for land, building, and equipment with a value greater than $5,000. Property and equipment purchased are stated at cost. Contributed items are recorded at fair value at the date of the contribution. Capitalized property and equipment are depreciated over their estimated useful lives ranging from 5 to 25 years. Depreciation is calculated using the straight line basis and totaled $81,639 and $55,363 for 2018 and 2017, respectively.

The funding sources have a reversionary interest in the equipment purchased with grant funds. Dispositions and ownership of any proceeds are subject to funding source regulations.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. The Council has determined that no impairment existed at September 30, 2018 and 2017.

Accrued Vacation

Compensated absences are charged to expenses during the period earned based on employees' length of service. As a result, a liability for accrued vacation is shown in the statements of financial position as of September 30, 2018 and 2017.

Due to Other Agencies

Due to other agencies for 2017, includes $53,782 to be paid back to a federal agency for grant funds received in excess of grant expenditures. The remaining balance is due to a fiscal agent (see Note 9).

Grants

Grants are recorded as contributions or exchange transactions based on grantor performance criteria. Grants that qualify as contributions follow contribution recognition policies. Grants that are exchange transactions are recognized as revenue in the accounting period when the related allowable expenses are incurred. Grant funds drawn in excess of the related grant expenses are treated as deferred revenue. Grant expenses in excess of the related grant funds drawn are treated as grants receivable.

In-Kind Contributions

In-kind contributions are reflected as contributions valued at fair value on date of donation. A similar amount is included in expenses on the statements of activities. Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

A substantial number of nonprofessional and professional volunteers have donated significant amounts of their time in the Council's Early Childhood and Family Development Program, specifically the Head Start Program. For 2018 and 2017, donated time totaling $713,817 and $629,388, respectively, was recorded in the Head Start Program. In addition, for 2018 and 2017, donated transportation costs totaled $0 and $899, respectively. The Council received the use of private vehicles driven by parents or guardians to transport Head Start children to required socialization visits. However, no amounts have been reflected in the statements for donated services or transportation costs.

Due to the nature of the Council's Head Start program, the Council receives the use of private homes while conducting home visits free of charge for the Head Start Program and recognizes an in-kind contribution for the fair value of rent. For 2018 and 2017, the fair value of the donated space was estimated at $0 and $2,466, respectively.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program Support
Program support is recognized as revenue in the year it is earned.

Functional Expense Allocation
The Council allocates its expenses on a functional basis among its programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expense classification. Other expenses that are common to several functions are allocated based on estimates by management.

	2018	2017
Program		(restated)
Community services	$ 1,863,201	$ 1,328,354
Early childhood and family development	3,113,830	2,923,290
Weatherization	1,887,114	1,552,323
Energy assistance	417,973	424,427
Housing rehab	657,532	353,434
Other program services	552,703	318,899
Total program expenses	8,492,353	6,900,727
Management and general	895,252	858,412
Total expenses	$ 9,387,605	$ 7,759,139

Advertising Costs
The Council's policy is to expense advertising costs as they are incurred. During 2018 and 2017, the Council incurred advertising costs totaling $67,982 and $61,901, respectively.

Tax Status
The Council is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Council is also exempt from Minnesota franchise and income tax.

The Council is required to assess whether any uncertain tax positions exist and if there should be recognition of a related benefit or liability in the financial statements. The Council has determined there are no amounts to record as assets or liabilities related to uncertain tax positions.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cost Allocation

The Council follows a cost allocation plan to allocate costs not directly attributable to specific programs. This cost allocation plan outlines the type of costs as well as the process for allocating the direct and joint expenses. Significant joint cost allocation methods include:

- Administration – based on the actual number of transactions by fund (grants) and based on the actual payroll distribution by fund (employees).
- Common area and custodial pools – based on the actual payroll distribution by fund and square footage of occupancy.
- Human resources – based on the actual payroll distribution by fund.
- Fiscal services – based on actual number of transactions by fund.
- Technology services – based on the actual number of computers and phones held by fund.

Recently Issued Accounting Pronouncements

Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The new guidance will require all leases to be recorded as assets and liabilities on the statement of financial position. This update would require capitalization of the "right to use" an asset and recognition of an obligation for future lease payments for most leases currently classified as operating leases. Other leases currently classified as capital leases will be referred to as financing leases and will continue to be recorded as assets and liabilities in a similar manner. This update is effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Council is currently evaluating the impact this standard will have on its financial statements.

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This update will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard will affect organizations that enter into contracts with customers and provides a five step process for determining when revenue should be recognized to match the transfer of goods or services. In August 2015, the FASB issued ASU No. 2015-14 which defers the effective date one year making it effective for annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Council is currently evaluating the impact this standard will have on its financial statements.

Clarifying Guidance for Contributions Received and Contributions Made

In June 2018, the FASB issued ASU No. 2018-08, Not-For-Profit Entities (Topic 958) Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made. This update aims to standardize how grants and other contracts are classified as either an exchange transaction or a contribution. Classifying grants as either a contribution or exchange transaction is the first step in implementing revenue recognition. For most recipients, this update is effective for annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Organization is currently evaluating the impact this standard will have on its financial statements.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Pronouncements (Continued)

Presentation of Financial Statements of Not-For-Profit Entities
In August 2016, the FASB issued ASU No. 2016-14, Presentation of Financial Statements of Not-For-Profit Entities (Topic 958). This update does not have an impact on recognition or measurement of assets, liabilities, net assets, revenues or expenses, it instead improves the presentation of financial statements of not-for-profit entities. This standard reduces the net asset classification from three to two; net assets with and without donor restrictions. In addition, this update expands disclosures about liquidity and financial performance of the not-for-profit entity. This update is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Council is currently evaluating the impact this standard will have on its financial statements.

Subsequent Events
The Council has evaluated subsequent events through March 18, 2019, the date which the financial statements were available to be issued.

NOTE 2 – GRANTS RECEIVABLE/DEFERRED REVENUE

Grants receivable and deferred revenue are included on statements of financial position as follows:

	2018	2017
Federal programs	$ 533,348	$ 313,852
State and local programs	175,148	(89,689)
Net grants receivable	$ 708,496	$ 224,163

	2018	2017
Grants receivable	$ 1,029,805	$ 729,284
Deferred revenue	(321,309)	(505,121)
Net grants receivable	$ 708,496	$ 224,163

NOTE 3 – PROPERTY AND EQUIPMENT

	2018	2017
Land	$ 60,818	$ 60,818
Buildings and improvements	717,122	670,656
Vehicles and equipment	916,652	961,660
	1,694,592	1,693,134
Less accumulated depreciation	(1,198,293)	(1,191,146)
Property and equipment, net	$ 496,299	$ 501,988

NOTE 4 – DESIGNATED NET ASSETS

	2018	2017
Designated for		
Caring members (East Central Energy)	$ 3,769	$ 3,769
Contracted services	16,743	16,743
EAP/furnace	16,771	16,746
Emergency services	23,288	23,271
Head Start	312	311
Head Start transportation	126	126
Inspection services	9,889	9,889
Pine county finanical education project	245	-
Reach out for warmth	4,398	4,397
Reading is fundamental (RIF)	2,941	2,941
Transportation assistance	744	744
Total board of director designated net assets	$ 79,226	$ 78,937

NOTE 5 – RETIREMENT PLAN

The Council sponsors a 403(b) retirement plan. The plan covers substantially all full-time employees. Contributions to the plan amounted to $90,561 and $93,355 for 2018 and 2017, respectively.

NOTE 6 – OPERATING LEASES

The Council leases certain office and warehouse facilities under leases classified as operating leases, the last of which expires July 2020. Total lease expense for 2018 and 2017 was $150,272 and $138,997, respectively.

Minimum future rental payments under noncancelable operating leases having initial or remaining terms in excess of one year as of September 30 for each of the next five years and in the aggregate are:

2019	128,319
2020	32,870
Total minimum future rental payments	$ 161,189

NOTE 7 – MATCHING FUNDS

Certain grants require securing of matching funds from other sources. The Council is meeting the matching fund requirements.

NOTE 8 – CONCENTRATIONS AND CONTINGENCIES

Concentrations – Revenue

During 2018, 29% of the Council's revenue was from the Head Start Program funded through the U.S. Department of Health and Human Services. During 2018, 27% of the Council's revenue was from the Energy Assistance and Weatherization Programs funded through the U.S. Department of Health and Human Services and the U.S. Department of Energy.

During 2017, 33% of the Council's revenue was from the Head Start Program funded through the U.S. Department of Health and Human Services. During 2017, 28% of the Council's revenue was from the Energy Assistance and Weatherization Programs funded through the U.S. Department of Health and Human Services and the U.S. Department of Energy.

Grants

Under provisions of various federal grants, title to all nonexpendable property acquired for use in the programs shall revert to the grantor upon termination of the programs.

Federal and state program activities are subject to financial and compliance regulation. To the extent that any expenditures are disallowed, a liability to the respective federal or state agency could result.

Claims

The Council is subject to claims arising in the normal course of business. While it is not feasible to determine the outcomes of any of these claims, it is the opinion of management that their outcomes will not have a material effect on the financial position or activities of the Council.

NOTE 8 – CONCENTRATIONS AND CONTINGENCIES (CONTINUED)

Employee Dental Plan

The Council maintains a self-insured employee dental plan which insures covered employees and their families for approved claims. The Council is liable for those claims up to the Plan's limit of $1,000 per enrolled employee and each eligible family member.

State Unemployment

The Council has elected out of Minnesota state unemployment insurance and participates in a grantor trust to cover unemployment insurance claims.

Restricted cash represents the Council's estimated cash balance at September 30, 2018 and 2017, for eligible unemployment insurance claims. If claims exceed payments into the trust the Council could become liable for those claims.

NOTE 9 – FISCAL AGENT AGREEMENT

Lakes Media Foundation

The Council acts as a fiscal agent for Lakes Media Foundation. During 2018 and 2017 the Council collected $556 and disbursed $556 on behalf of the Lakes Media Foundation. At September 30, 2018 and 2017, there was $1,272 of remaining unexpended funds.

NOTE 10 – RECLASSIFICATIONS

The amounts in the prior year financial statements have been reclassified to conform to the presentation used in the current year financial statements.

NOTE 11 – PRIOR PERIOD ADJUSTMENT

Unrestricted net assets at the beginning of 2017 have been adjusted for an overstated workers compensation accrual recorded in error in prior years. The correction has no effect on the results of the current year's activities; however, the effect increased beginning net assets for 2017 and decreased the workers compensation accrual by $27,441.

The Council also restated its financial statements for an overstated workers compensation accrual for the year ended September 30, 2017. The effect of the correction was to decrease the workers compensation accrual and workers compensation expense by $35,429.

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SUPPLEMENTARY INFORMATION

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Lakes & Pines Community Action Council, Inc.
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2018

Federal Grantors/Pass-Through Grantor/Program or Cluster Title/Project Name	CFDA Number	Pass - Through Entity Identification Number	Provided to Subrecipients	Federal Expenditures
U. S. Department of Agriculture				
Pass-through from Minnesota Department of Education				
Child and Adult Care Food Program	10.558	2MN300061	$ -	$ 35,786
U. S. Department of Housing and Urban Development				
Direct				
Supportive Housing Program				
Transitional Housing Grant	14.235		-	31,666
Transitional Housing Grant	14.235		-	105,068
Total Supportive Housing Program			-	136,734
Continuum of Care Program				
HUD Reallocation Navigation	14.267		-	8,016
Total U. S. Department of Housing and Urban Development			-	144,750
U. S. Department of Internal Revenue Service				
Direct				
Volunteer Income Tax Assistance	21.009		-	13,086
U. S. Department of Energy				
Pass-Through from Minnesota Deparment of Commerce				
Weatherization Assistance for Low-Income Persons				
DOE Weatherization 17/18	81.042	110587/8142	-	416,591
DOE Weatherization 18/19	81.042	110587/8142	-	34,527
Total U. S. Department of Energy			-	451,118
U. S. Department of Health And Human Services				
Pass-Through from Central MN Council & Aging				
Aging Cluster				
Title III - Adult Respite	93.044	315-18-003E-012	-	35,565
Title III - Sr. Chore Services	93.044	315-17-003B-012	-	6,888
Total Aging Cluster			-	42,453
Pass-Through from Minnesota Department of Commerce				
Low-Income Home Energy Assistance				
EAP/WX A2108 Carryover	93.568	A2108	-	651,978
EAP/WX A2109 Carryover	93.568	A2109	-	13,206
EAP/WX Carryover 2017	93.568	95378	-	(4,595)
EAP 2018	93.568	100523	-	1,469,116
EAP - Direct Payments from State	93.568	100523	-	4,558,015
Total Pass-Through from Minnesota Department of Commerce			-	6,687,720
Pass-Through from Minnesota Department of Health and Human Services				
Community Services Block Grant				
CSBG 2017-2019	93.569	GRK%127520	-	263,108
CSBG 2015-2018	93.569	GRK%94772	-	122,077
Total Community Services Block Grant			-	385,185
Direct				
Head Start				
Early Head Start 'X'	93.600		-	(9)
Head Start 'X'	93.600		-	653
Early Head Start 'Y'	93.600		-	817,337
Head Start 'Y'	93.600		-	1,581,180
Early Head Start 'Z'	93.600		-	137,587
Head Start 'Z'	93.600		-	242,054
Total Direct Head Start			-	2,778,802
Total U. S. Department of Health and Human Services			-	9,894,160
Total Expenditures of Federal Awards			$ -	$ 10,538,900

See notes to schedule of expenditures of federal awards.

Lakes and Pines Community Action Council, Inc.
Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2018

NOTE 1 – BASIS OF PRESENTATION

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting, which conforms to accounting principles generally accepted in the United States of America. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3 – INDIRECT COST RATE

The Council has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

NOTE 4 – ENERGY ASSISTANCE PAYMENTS

Included in CFDA 93.568 are client benefits paid by the State of Minnesota of $4,558,015. These expenditures are not included in the statements of activities.

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*

Independent Auditor's Report

To the Board of Directors
Lakes and Pines Community Action Council, Inc.
Mora, Minnesota

We have audited 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, the financial statements of Lakes and Pines Community Action Council, Inc. as of and for the year ended September 30, 2018, and the related notes to financial statements, which collectively comprise the Council's financial statements, and have issued our report thereon dated March 18, 2019.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Council'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control.

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 Council's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the schedule of questioned costs as items 2018-001 and 2018-002 that we consider to be material weaknesses.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Council's 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 tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Council's Response to Findings
The Council's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Council's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no such opinion on it.

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 Council'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 Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BerganKDV, Ltd.

St. Cloud, Minnesota
March 18, 2019

Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance

Independent Auditor's Report

To the Board of Directors
Lakes and Pines Community Action Council, Inc.
Mora, Minnesota

Report on Compliance for Each Major Federal Program
We have audited Lakes and Pines Community Action Council, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Council's major federal programs for the year ended September 30, 2018. The Council's major federal programs are identified in the summary of the 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

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

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

Opinion on Each Major Federal Program
In our opinion, the Council complied, in all material respects, with the types of compliance requirements referred to on the previous page that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2018.

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 2018-003 and 2018-004. Our opinion on each major federal program is not modified with respect to these matters.

The Council's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Council's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance
Management of the Council is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to on the previous page. In planning and performing our audit of compliance, we considered the Council'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 the Council's internal control over compliance.

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. 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.

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 have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2018-003, that we consider to be a significant deficiency.

Council's Response to Findings
The Council's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Council's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no such opinion on it.

Purpose of Report
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.

BerganKDV, Ltd.

St. Cloud, Minnesota
March 18, 2019

Lakes and Pines Community Action Council, Inc.
Schedule of Findings and Questioned Costs

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes, 2018-001, 2018-002
• Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major federal programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	Yes, 2018-003
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)	Yes, 2018-004

Identification of Major Federal Programs

CFDA No.:	93.568
Name of Federal Program or Cluster	Low-Income Home Energy Assistance
Dollar threshold used to distinguish between type A and type B programs?	$750,000
Auditee qualified as low-risk auditee?	No

Lakes and Pines Community Action Council, Inc.
Schedule of Findings and Questioned Costs

SECTION II – FINANCIAL STATEMENT FINDINGS

Material Weaknesses:

Audit Finding 2018-001 – Material Audit Adjustment for Unemployment Insurance (Repeat Finding 2017-001)

Criteria:
Provisions for a reserve under a self-insurance program for unemployment compensation are allowable to the extent that the provisions represent reasonable estimates of the liabilities for such compensation, and the types of coverage, extent of coverage, and rates and premiums would have been allowable had insurance been purchased to cover the risks. However, provisions for self-insured liabilities which do not become payable for more than one year after the provision is made must not exceed the present value of the liability. Actual claims paid to or on behalf of employees for unemployment compensation, are allowable in the year of payment provided that the non-Federal entity follows a consistent costing policy.

Condition:
The Council charged federal and nonfederal programs for unemployment insurance at a set rate which was allocated based on salaries. The rate was not updated timely to reflect changes within certain programs that decreased the actual unemployment claims during the year.

Cause:
Management did not analyze and timely update the rate allocated for unemployment insurance based on changes in certain programs.

Effect or potential effect:
Federal and nonfederal programs were charged approximately $61,998 in excess of actual claims during 2018. No one federal grant award had a direct and material amount charged in error, however Federal Head Start had questioned costs greater than $25,000 (see Audit Finding 2018-003).

Recommendation:
We recommend management analyze the rate charged to programs for unemployment insurance on a regular basis. We also recommend working with agencies to determine if any amounts should be paid back.

Views of responsible officials:
The Agency in establishing a method for assessing programs a charge for unemployment has deemed the charging of unemployment costs based on salaries to be reasonable since it is the method used by the State of Minnesota in its unemployment insurance system as well as recommend by both our unemployment carried and third-party administrator.

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Material Weaknesses (Continued):

Audit Finding 2018-001 – Material Audit Adjustment for Unemployment Insurance (Repeat Finding 2017-001) (Continued)

Views of responsible officials (continued):
The Agency in assessing risk has a tendency to look at what *could* be the Agency's liability rather than what has been the liability in the past. Although models have changed within programs which would reduce the amount of "anticipated" layoffs there has not been a reduction of numbers of staff. In an environment of State and Federal shutdowns, program cuts, discontinuation of funding, rescissions, un-allotments, and various other methods of fund (thus staff) reduction sometimes without preamble or notice the Agency views each staff person as potential liability in terms of unemployment as apposed simply viewing how many the Agency had laid off in the past or even anticipated laying off in the future in any given period.

That being said once altered to this issue in the previous year's audit the Agency reacted immediately to reduce program charges going toward unemployment once the determination from last year's audit became final by reducing the payroll charge to zero. Due to timing of last year's audit, the Agency did make the adjustments; however, there was not enough time (from May to September) to show the adjustments or to have them reflect the programs that were hit and then closed soon after May.
It should also be noted that the fund level within the unemployment is artificially high in that the Agency still has a potential liability to the Department of Human Services Office of Head Start based on the previous year's audit which determined a previous year's program was over charged. The Agency is still in the DHS process for them reclaiming those funds. Once DHS has determined if and/or at what amount it should want to reclaim funds from this account it can more accurately be adjusted. It should be noted also that in working through both this year's and last year's audit with our unemployment carrier we were informed that they have a trigger for just the eventuality of the fund balance reaching or potentially exceeding the liability. We were informed that although we were approaching their trigger we had not yet reached it.

In conclusion it would seem the Agency's tolerance for risk is very low thus view of liability relatively high, however deferring to our auditor's professional judgement on risk vs. liability the Agency reacted in a timely and reasonable manner to the previous year's finding. The Agency has made the required adjustments as previously requested in the 2017 audit finding and is continuing to lower the payable to reflect the current unemployment insurance liability.

Lakes and Pines Community Action Council, Inc.
Schedule of Findings and Questioned Costs

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Material Weaknesses (Continued):

Audit Finding 2018-002 – Prior Period Adjustment for Workers Compensation Accrual

Criteria:
The workers compensation insurance accrual should be reconciled on a regular basis against actual premiums paid. In addition, insurance refunds should be credited against insurance costs in the year the refund is received.

Condition:
The Council charged federal and nonfederal programs for workers compensation insurance at a set rate which was allocated based on salaries. The rate was not updated timely to reflect changes to the insurance premium paid. The Council also did not reduce the workers compensation expense for the refunds received for the workers compensation audit.

Cause:
Management did not analyze and timely update the rate allocated for workers compensation insurance based on changes in premiums charged and did not credit workers compensation expense when refunds were received.

Effect or potential effect:
Federal and nonfederal programs were charged approximately $35,429 in excess of actual premiums during 2017 and $27,441 for years prior to 2017.

Recommendation:
We recommend management analyze the rate charged to programs for workers compensation insurance on a regular basis and credit insurance refunds against insurance costs in the year the refund is received. We also recommend working with agencies to determine if any amounts should be paid back.

Views of responsible officials:
The Agency works with SFM to administer the Agency worker's compensation insurance. SFM bases their premiums on total salaries, thus the Agency has assessed program charges based on the same criteria. The Carrier adjusts the rates charged to the Agency on an annual basis however the calculation for those rates looks back over a four-year period to calculate an experience mod in setting the rates. Lakes and Pines has experienced a dramatic reduction in the Agency's experience mod over the past four years from over 2.20 to under .80, so although current expenses to worker's compensation are extremely low the rates as set buy the carrier, are based (in part) on years when those expenses were extremely high. Each year the Agency is subject to an audit by the worker's comp carrier to adjust for the discrepancies between what is charged to programs and what is actually spent in the current year. The audit for calendar year 2017 resulted in having to make an additional payment of $8,923 in addition to the payable. The audit for calendar year 2016 resulted in a refund of $35,905 which was applied towards the payable when we received the refund check in June 2017.

Lakes and Pines Community Action Council, Inc.
Schedule of Findings and Questioned Costs

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Material Weaknesses (Continued):

Audit Finding 2018-002 – Prior Period Adjustment for Workers Compensation Accrual (Continued)

Views of responsible officials (continued):
Although the Agency has shown a remarkable turnaround in worker's compensation from double figure mod rates and the State Risk Pool to a sub one mod rate and a preferred customer. The Agency realizes because of its staff size it is one serious injury away from or even a series of small calamities away from upward spiraling worker's comp premiums. The Agency has a history of low tolerance for risk thus an expanded view of liability and thus have felt comfortable with the rates charged by the carrier even though they have been reduced from $176,363 four years ago to $57,429 in our current fiscal year.

Lakes and Pines Community Action Council, Inc.
Schedule of Findings and Questioned Costs

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiency

U.S. Department of Health and Human Services
Pass-Through State of Minnesota Department of Commerce
CFDA 93.568
Low-Income Home Energy Assistance

Audit Finding 2018-003 – Period of Performance

Criteria or specific requirement:
In accordance with 2 CFR section 200.309, a nonfederal entity may charge to the federal award only allowable costs incurred during the period of performance.

Condition:
Training costs for fiscal year 2019 were prepaid in September 2018 and charged to the grant in 2018 in error.

Cause:
The Organization's internal controls did not ensure expenditures requested for reimbursement were within the grant period.

Effect or potential effect:
Expenditures incurred after the period of performance could be subject to disallowance by the Federal grantor agency.

Questioned costs:
None

Context:
1 of the 9 disbursements tested for period of performance were for expenditures that occurred outside the period of performance. The sample was not statistically valid.

Recommendation:
We recommend management perform periodic review of expenditures before and after the grant period to ensure compliance with the period of performance requirements. We also recommend advising and training program managers of impending cut-off dates for expenditures reviewed just before and after the grant period start and end dates.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Significant Deficiency (Continued)

U.S. Department of Health and Human Services
Pass-Through State of Minnesota Department of Commerce
CFDA 93.568
Low-Income Home Energy Assistance

Audit Finding 2018-003 – Period of Performance (Continued)

Views of responsible officials:
The voucher that was found was for OMB training held on October 30-31, 2018. The email from Minnesota Department of Health and Human Services was dated September 12, 2018, letting Minnesota Community Action Agencies know they could register for the OMB Uniform Guidance training that was for October 30-31, 2018. When we had Department of Commerce out for a fiscal monitoring visit September 19, 2018, it was strongly encouraged all new LIHEAP managers, supervisors and directors attend the training. The Agency signed up the EAP program director right away to ensure there was a spot reserved for them. Department of Commerce expressed how extremely important it was for T/TA and wanted to make sure fiscal training was provided to the key staff. Also, we were not provided with our NFA #1 until September 24, 2018, stating our funding was going to be available October 1, 2018. Going forward, the program and department directors along with fiscal staff are going to be trained on the OMB super circular and fiscal responsibilities. The fiscal department is going to ensure compliance and that funds are spent in the correct grant period.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

U.S. Department of Health and Human Services
CFDA 93.600
Head Start

Audit Finding 2018-004 – Allowable Costs - Unemployment Insurance (Repeat Finding 2017-004)

As discussed at Audit Finding 2018-001, the Council charged federal and nonfederal programs for unemployment insurance at a set rate which was allocated based on salaries. The rate was not updated timely to reflect changes within certain programs that decreased the actual unemployment claims during the year.

Questioned Costs:
Federal Head Start was charged approximately $26,653 for unemployment insurance in excess of actual claims during the year ended September 30, 2018.