

Lakes and Pines Community Action Council, Inc.

Financial Statements

September 30, 2019 and 2018



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., which comprise the statements of financial position as of September 30, 2019 and 2018, the related statements of activities and cash flows for the years then ended, the related statement of functional expenses for the year ended September 30, 2019, and the 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, 2019 and 2018, 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

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2019, the Council adopted Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

Other Information - Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, as identified in the Table of Contents, including the 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*, 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 July 20, 2020, 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
July 20, 2020

FINANCIAL STATEMENTS

Lakes and Pines Community Action Council, Inc.
Statements of Financial Position
As of September 30, 2019 and 2018

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 1,123,374	\$ 965,086
Restricted cash	223,159	213,424
Certificates of deposit	95,811	446,789
Interest receivable	502	502
Accounts receivable	143,354	25,713
Grants receivable	766,251	1,029,805
Prepaid expenses	42,462	24,821
Weatherization inventory	62,266	68,204
Total current assets	2,457,179	2,774,344
Property and equipment, net	528,620	496,299
Noncurrent assets		
Certificates of deposit	530,737	172,911
Total assets	\$ 3,516,536	\$ 3,443,554
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 334,082	\$ 497,521
Due to other agencies	3,293	1,272
Accrued payroll and related taxes and benefits	196,843	153,848
Accrued vacation	126,772	131,172
Accrued unemployment insurance	28,659	37,439
Deferred revenue - grants	543,971	321,309
Total current liabilities	1,233,620	1,142,561
Net Assets		
Without donor restrictions		
Undesignated	2,189,296	2,223,492
Designated	93,620	77,501
Total net assets	2,282,916	2,300,993
Total liabilities and net assets	\$ 3,516,536	\$ 3,443,554

See notes to financial statements.

Lakes and Pines Community Action Council, Inc.
Statements of Activities
Years Ended September 30, 2019 and 2018

	2019	2018
Revenues		
Grant revenue	\$ 9,004,333	\$ 9,155,634
Program support	449,634	308,214
Interest income	7,408	5,998
Total revenues	9,461,375	9,469,846
Expenses		
Program services		
Community services	\$ 2,231,174	\$ 1,863,201
Early childhood and family development	3,135,729	3,113,830
Weatherization	1,240,909	1,887,114
Energy assistance	1,140,430	417,973
Housing rehabilitation	474,583	657,532
Other program services	155,767	552,703
Supporting services		
Management and general	1,100,860	881,720
Total expenses	9,479,452	9,374,073
Change in net assets	(18,077)	95,773
Net Assets		
Beginning of year, as previously reported	2,300,993	2,138,369
Prior period adjustment	-	66,851
Beginning of year, restated	2,300,993	2,205,220
End of year	\$ 2,282,916	\$ 2,300,993

Lakes and Pines Community Action Council, Inc.
Statement of Functional Expenses
Year Ended September 30, 2019

	Program Services						Total	Management and General	Total
	Community Services	Early Childhood and Family Development	Weatherization	Energy Assistance	Housing Rehabilitation	Other Program Services			
Expenses									
Wages and fringe benefits	\$ 1,245,480	\$ 2,120,907	\$ 632,059	\$ 448,608	\$ 44,505	\$ 12,840	\$ 4,504,399	\$ 861,974	\$ 5,366,373
Professional services	8,416	8,222	2,248	1,654	1,702	707	22,949	4,381	27,330
Contractual services	57,265	291,870	-	222	-	-	349,357	22,030	371,387
Vehicle expenss and travel	68,942	209,024	62,954	5,100	3,440	148	349,608	40,163	389,771
Training	13,508	40,024	9,046	3,545	1,602	-	67,725	29,425	97,150
Supplies and copy costs	50,367	220,829	13,086	43,488	411	21,930	350,111	51,273	401,384
Insurance	1,354	17,855	18,621	6,275	593	37	44,735	3,953	48,688
Office rent, utilities, and space costs	22,838	70,111	25,478	145	-	8,862	127,434	38,751	166,185
Dues and subscriptions	250	14,717	10	-	-	-	14,977	17,926	32,903
Communication, postage and telephone	16,436	46,478	3,383	9,917	1,117	-	77,331	24,199	101,530
Printed forms and advertising	2,627	37,245	3,134	8,471	-	-	51,477	6,785	58,262
Direct client support	743,691	58,447	470,890	613,005	421,213	15,719	2,322,965	-	2,322,965
Depreciation	-	-	-	-	-	95,524	95,524	-	95,524
	<u>\$ 2,231,174</u>	<u>\$ 3,135,729</u>	<u>\$ 1,240,909</u>	<u>\$ 1,140,430</u>	<u>\$ 474,583</u>	<u>\$ 155,767</u>	<u>\$ 8,378,592</u>	<u>\$ 1,100,860</u>	<u>\$ 9,479,452</u>

Lakes and Pines Community Action Council, Inc.
Statements of Cash Flows
Years Ended September 30, 2019 and 2018

	2019	2018
Cash Flows - Operating Activities		
Change in net assets	\$ (18,077)	\$ 95,773
Adjustments to reconcile change in net assets to net cash flows - operating activities		
Depreciation	95,524	81,639
Change in operating assets and liabilities		
Accounts receivable	(117,641)	(15,179)
Grants receivable	263,554	(300,521)
Prepaid expenses	(17,641)	1,200
Weatherization inventory	5,938	(5,511)
Accounts payable	(163,439)	322,352
Due to other agencies	2,021	(53,783)
Accrued payroll and related taxes and benefits	42,995	14,886
Accrued vacation	(4,400)	(863)
Accrued unemployment insurance	(8,780)	(15,508)
Deferred revenue - grants	222,662	(183,812)
Total adjustments	320,793	(155,100)
Net cash flows - operating activities	302,716	(59,327)
 Cash Flows - Investing Activities		
Reinvested earnings for certificates of deposit	(6,848)	(5,488)
Purchases of property and equipment	(127,845)	(75,950)
Net cash flows - investing activities	(134,693)	(81,438)
 Net change in cash and cash equivalents	168,023	(140,765)
 Cash and Cash Equivalents and Restricted Cash		
Beginning of year	1,178,510	1,319,275
End of year	\$ 1,346,533	\$ 1,178,510
 Reconciliation to Statements of Financial Position		
Cash and cash equivalents	\$ 1,123,374	\$ 965,086
Restricted cash	223,159	213,424
	\$ 1,346,533	\$ 1,178,510

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.

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 and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

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 through contracts rather than grant agreements. 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, 2019 and 2018. Accounts receivable are considered delinquent after 30 days and the Council does not accrue interest on delinquent receivables.

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

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 property 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 \$95,524 and \$81,639 for 2019 and 2018, 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.

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, 2019 and 2018.

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, 2019 and 2018.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for various purposes.

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

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (Continued)

Net Assets With Donor Restrictions

Net assets subject to donor- (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Council reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Revenue and Revenue Recognition

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 expense are treated as deferred revenue. Grant expenses in excess of the related grant funds drawn are treated as grants receivable.

Revenue is recognized when earned. Program support and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively.

Contributions are recognized when cash, securities, or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

The Council participates in a program funded through Minnesota Housing Finance Agency (MHFA) to assist homeowners in the purchase of a home when there is an existing affordability gap. The gap financing is required to be paid back to the Council, and this expected affordable housing revenue is deferred until payment occurs.

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.

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

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In-Kind Contributions (Continued)

A substantial number of nonprofessional volunteers have donated significant amounts of their time in the Council's Early Childhood and Family Development Program, specifically the Head Start Program. For 2019 and 2018, donated time totaling \$747,488 and \$713,817, respectively, was recorded in the Head Start Program. However, no amounts have been reflected in the statements for donated services.

Functional Expense and Cost Allocation

The costs of program and supporting service activities have been summarized on a functional basis in the statements of activities. The statement of functional expense presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on estimates of time and effort.

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.

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.

Advertising Costs

The Council's policy is to expense advertising costs as they are incurred. During 2019 and 2018, the Council incurred advertising costs totaling \$58,262 and \$67,982, 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.

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

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Adopted Accounting Pronouncement

Presentation of Financial Statements of Not-For-Profit Entities

The Council adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, Presentation of Financial Statements of Not-For-Profit Entities (Topic 958) in its 2019 financial statements. This guidance reduces the net asset classification from three to two: net assets with and without donor restrictions; expands disclosures about liquidity; and requires expenses to be reported by their function and natural classification. The ASU has been adopted retrospectively except for liquidity disclosure and the reporting of expenses by function and natural classification which can be reported in the current period only. The adoption of this guidance did not have a material impact on the Council's financial statements.

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. In June 2020, the FASB issued ASU No. 2020-05 which defers the effective date one year making it effective for annual reporting periods beginning after December 15, 2021, with early adoption permitted. The provisions of this ASU are to be applied using either the retrospective approach or modified retrospective approach. 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 June 2020, the FASB issued ASU No. 2020-05 which defers the effective date one year making it 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.

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

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Pronouncements (Continued)

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 clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. Early adoption is permitted. This update is effective for annual reporting periods beginning after December 15, 2018. The Council is currently evaluating the impact of the adoption of this guidance on its financial statements.

NOTE 2 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise of the following:

	<u>2019</u>
Cash and cash equivalents	\$ 1,123,374
Certificates of deposit - current	95,811
Less deferred revenue - grants	(543,971)
Less board designated net assets	<u>(93,620)</u>
 Total financial assets available for general expenditures	 <u>\$ 581,594</u>

The Council does not have a formal policy; however, it structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, as part of its liquidity management, the Council would invest cash in excess of daily requirements in various short-term investments, including certificates of deposit and short-term treasury instruments. Although the Council does not intend to spend from the board designated net assets, these amounts could be made available if necessary.

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

NOTE 3 – GRANTS RECEIVABLE/DEFERRED REVENUE - GRANTS

	2019	2018
Federal programs	\$ 576,111	\$ 548,367
State and local programs	190,140	481,438
Grants receivable	\$ 766,251	\$ 1,029,805
	2019	2018
Federal programs	\$ 90	\$ 15,346
State and local programs	543,881	305,963
Deferred revenue - grants	\$ 543,971	\$ 321,309

NOTE 4 – PROPERTY AND EQUIPMENT

	2019	2018
Land	\$ 60,818	\$ 60,818
Buildings and improvements	802,023	717,122
Vehicles and equipment	943,586	916,652
	1,806,427	1,694,592
Less accumulated depreciation	(1,277,807)	(1,198,293)
Property and equipment, net	\$ 528,620	\$ 496,299

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

NOTE 5 – DESIGNATED NET ASSETS

	2019	2018
Designated for		
Pine county financial education project	\$ 245	\$ 245
Contracted services	10,638	16,743
Head Start transportation	126	126
Head Start	10,386	1,218
Caring members (East Central Energy)	8,934	35
Emergency services	22,863	23,444
Advance health care directive fund	25	25
Delivery donation fund	296	-
Transportation assistance	721	721
Reading is fundamental (RIF)	2,941	2,941
EAP refunds/income fund	13,761	14,121
Reach out for warmth	4,268	5,565
Inspection services	12,317	12,317
ECRAC fund	6,099	-
Total board of director designated net assets	\$ 93,620	\$ 77,501

NOTE 6 – RETIREMENT PLAN

The Council sponsors a 403(b) retirement plan. The plan covers substantially all full-time employees. Contributions to the plan amounted to \$102,760 and \$90,561 for 2019 and 2018, respectively.

NOTE 7 – OPERATING LEASES

The Council leases certain office and warehouse facilities under leases classified as operating leases, the last of which expires July 2021. Total lease expense for 2019 and 2018 was \$134,740 and \$150,272, respectively.

Minimum future rental payments under noncancelable operating leases having initial or remaining terms in excess of one year as of September 30 in the aggregate are as follows the year ended September 30:

2020	\$ 114,030
2021	56,010
Total minimum future rental payments	\$ 170,040

NOTE 8 – MATCHING FUNDS

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

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

NOTE 9 – CONCENTRATIONS AND CONTINGENCIES

Cash

At various times during the year, the Council had cash on deposit with banks in excess of Federal Deposit Insurance Corporation (FDIC) insured limits. The Council has not experienced any losses from such accounts.

Concentrations – Revenue

During 2019, 31% of the Council's revenue was from the Head Start Program funded through the U.S. Department of Health and Human Services. During 2019, 25% 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 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.

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.

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, 2019 and 2018, for eligible unemployment insurance claims. If claims exceed payments into the trust the Council could become liable for those claims

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

NOTE 10 – FISCAL AGENT AGREEMENT

Lakes Media Foundation

The Council acts as a fiscal agent for Lakes Media Foundation. During 2019 and 2018 the Council collected \$359 and \$556 and disbursed \$359 and \$556, respectively, on behalf of the Lakes Media Foundation. At September 30, 2019 and 2018, there was \$3,293 and \$1,272, respectively of remaining unexpended funds.

NOTE 11 – 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 12 – PRIOR PERIOD ADJUSTMENTS

Net assets without donor restrictions at the beginning of 2018 have been adjusted for an overstated dental insurance 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 2018 and decreased the dental insurance accrual by \$66,851.

The Council also restated its financial statements for an overstated dental insurance accrual for the year ended September 30, 2018. The effect of the correction was to decrease the dental insurance accrual and dental insurance expense by \$13,532.

NOTE 13 – SUBSEQUENT EVENTS

On March 13, 2020, a national emergency was declared for the COVID-19 outbreak in the United States of America. This event affects the economy and financial markets. The extent of the impact on the Council may be both direct and indirect and will vary based on the duration of the outbreak and various other factors. An estimate of the financial effect on the Council's financial statements at September 30, 2019, cannot be determined at this time.

The Council moved the 403(b) retirement plan to a 401(k) retirement plan effective January 1, 2020.

The Council has evaluated subsequent events through July 20, 2020, the date which the financial statements were available to be issued.

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SUPPLEMENTARY INFORMATION

Lakes & Pines Community Action Council, Inc.
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2019

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	\$ -	\$ 34,895
U. S. Department of Housing and Urban Development				
Direct				
Supportive Housing Program				
Transitional Housing Grant	14.235		-	7,849
Transitional Housing Grant	14.235		-	87,108
Total Supportive Housing Program			-	94,957
Continuum of Care Program				
HUD Reallocation Navigation	14.267		-	79,470
Total U. S. Department of Housing and Urban Development			-	174,427
U. S. Department of Internal Revenue Service				
Direct				
Volunteer Income Tax Assistance	21.009		-	5,500
U. S. Department of Energy				
Pass-Through from Minnesota Department of Commerce				
Weatherization Assistance for Low-Income Persons				
DOE Weatherization 18/19	81.042	110587/8142	-	501,599
DOE Weatherization 19/20	81.042	110587/8142	-	127,376
Total U. S. Department of Energy			-	628,975
U. S. Department of Health And Human Services				
Pass-Through from Central MN Council & Aging				
Aging Cluster				
Title III - Sr. Chore Services	93.044	315-19-003B-012	-	14,733
Total Aging Cluster			-	14,733
Pass-Through from Minnesota Department of Commerce				
Low-Income Home Energy Assistance				
EAP/WX A2109 Carryover	93.568	A2109	-	469,402
EAP/WX A2110 Carryover	93.568	A2110	-	11,543
EAP 2019	93.568	100523	-	1,288,630
EAP - Direct Payments from State	93.568	100523	-	4,491,717
Total Low-Income Home Energy Assistance			-	6,261,292
Pass-Through from Minnesota Department of Health and Human Services				
Community Services Block Grant				
CSBG 2017-2019	93.569	GRK%127520	-	219,951
Total Community Services Block Grant			-	219,951
Direct				
Head Start				
Early Head Start 'X'	93.600		-	981,284
Head Start 'X'	93.600		-	1,479,102
Early Head Start 'Y'	93.600		-	160,424
Head Start 'Y'	93.600		-	261,340
Total Direct Head Start			-	2,882,150
Total U. S. Department of Health and Human Services			-	9,378,126
Total Expenditures of Federal Awards			\$ -	\$ 10,221,923

Lakes and Pines Community Action Council, Inc.
Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2019

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, 2019. 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 Lakes and Pines Community Action Council, Inc., 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

Lakes and Pines Community Action Council, Inc. has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4 – ENERGY ASSISTANCE PAYMENTS

The Council assists the State of Minnesota with eligibility determinations for the LIHEAP program. Client benefits for LIHEAP eligible participants are subsequently paid directly by the State of Minnesota. For the year ended September 30, 2019, client benefits are in the amount of \$4,491,717, were paid by the state. These amounts are considered federal awards to the Council and are included in the schedule of expenditures of federal awards but are not included in the statement 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, which comprise the statement of financial position as of September 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to financial statements, and have issued our report thereon dated July 20, 2020.

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 a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a material weakness.

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
July 20, 2020

**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, 2019. 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, 2019.

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 2019-002, 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 compliance and, accordingly, we express opinion on the response.

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
July 20, 2020

**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, 2019-001
• 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, 2019-002
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

Identification of Major Federal Programs

CFDA No.:	93.568
Name of Federal Program or Cluster	Low-Income Home Energy Assistance
Name of Federal Program or Cluster	93.600 Head Start
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 Weakness:

Audit Finding 2019-001 – Material Audit Entries

Criteria or specific requirement:

It is important to timely and accurately reconcile subsidiary ledgers or supporting schedules to the general ledger to ensure the accuracy of financial information and minimize the risk of misstatement or misappropriation.

Condition/Context:

Material adjustments were made during the audit to correct unemployment insurance payable, unemployment insurance and workers compensation expense, fixed asset transactions and beginning net assets.

Cause:

The Council did not perform a timely reconciliation of all significant account balances prior to audit.

Effect or potential effect:

The following material adjustments were proposed and recorded during the audit.

- Current year unemployment insurance payable was overstated by \$185,491, current year unemployment expense was understated by \$56,777, and beginning net assets was understated by \$242,268.
- Current year workers compensation insurance expense and beginning net assets were understated by \$62,870.
- Current year depreciation expense was incorrectly coded to net assets resulting in understatement of depreciation expense and beginning net assets by \$95,524.
- The U.S. GAAP adjustment to remove fixed asset additions from expenses was incorrectly coded to net assets rather than crediting the related expense resulting in understatement of net assets and an overstatement of expenses by \$127,845.
- Prior year dental insurance payable was overstated and beginning 2018 net assets was understated by \$66,851.

Questioned costs:

None

Recommendation:

We strongly recommend that a policy be implemented, whereby all subsidiary ledgers and/or supporting schedules are reconciled to the general ledger or on a monthly basis. We also recommend that appropriate management-level personnel review the reconciliations for accuracy and document evidence of their review for audit purposes.

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

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Material Weakness (Continued):

Audit Finding 2019-001 – Material Audit Entries (Continued)

Views of responsible officials:

The Council agrees with the importance of a timely and accurate review and reconciliation of the general ledger, on a monthly basis. In June 2020, the Fiscal department began the implementation of reconciling subsidiary ledgers and supporting schedules, starting with those accounts with significant balances. Each reconciliation will be reviewed and approved by the Fiscal Controller or appropriate management-level personnel.

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 2019-002 – Eligibility

Criteria or specific requirement:

Uniform Guidance in 2 CFR Part 200.303 states that "the non-Federal entity must: establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award."

Condition/Context:

During the audit, it was noted that the same employee that prepared and logged the information regarding eligibility also submitted the information into the eHEAT system. Of the 40 participants that were selected for testing, 1 did not have independent review and approval of eligibility documentation inputted into the eHEAT system.

The sample was not statistically valid.

Cause:

During the summer of 2019, the Council was not fully staffed for this program.

Effect or potential effect:

Services could be provided to individuals that were not eligible.

Questioned costs:

None

Recommendation:

The Council should review its policies and procedures to ensure there are adequate controls in place over eligibility determination, including during the summer months.

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

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 2019-002 – Eligibility (Continued)

Views of responsible officials:

The Low-Income Energy Assistance Program is only fully staffed during peak application time mid-August through May or June, due to limitations of administrative dollars. During that time a dual verification method is used throughout the application process to assure segregation of duties. Similar segregation is maintained during the off-peak season however, when staffing is limited to two or three individuals, availability of staff may be limited due to leave (sick, annual or other). In situations such as this, applications are held for proper segregation with the exception of emergency applications. In this case the sole individual available will process and enter the application to assure the household health and safety.