

KOOTASCA COMMUNITY ACTION, INC.

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
Years Ended December 31, 2022 and 2021**

KOOTASCA COMMUNITY ACTION, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
KOOTASCA Community Action, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of KOOTASCA Community Action, Inc., which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of KOOTASCA Community Action, Inc. as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the 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 additional procedures in accordance with GAAS. In our opinion, the schedule of expenditures of federal awards 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 our report dated August 18, 2023 on our consideration of the Organization'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 solely 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 the effectiveness of the Organization's 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 Organization's internal control over financial reporting and compliance.

Walker, Giroux & Helne, LLC

Virginia, Minnesota

August 18, 2023

KOOTASCA COMMUNITY ACTION, INC.

STATEMENTS OF FINANCIAL POSITION
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 779,584	\$ 1,351,637
Certificates of deposit	150,000	150,000
Grants receivable	351,062	464,842
Accounts receivable	62,300	15,935
Current portion of contracts receivable	28,971	25,836
Inventory	32,575	-
Prepaid expenses	<u>73,381</u>	<u>108,502</u>
TOTAL CURRENT ASSETS	<u>1,477,873</u>	<u>2,116,752</u>
OTHER ASSETS		
Restricted cash and cash equivalents	264,740	258,941
Contracts receivable, net of current portion	113,978	122,273
Beneficial interest in assets held by others	<u>119,757</u>	<u>142,203</u>
TOTAL OTHER ASSETS	<u>498,475</u>	<u>523,417</u>
PROPERTY AND EQUIPMENT, NET	<u>3,428,824</u>	<u>1,093,014</u>
RIGHT-OF-USE ASSETS - OPERATING LEASES	<u>137,578</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 5,542,750</u>	<u>\$ 3,733,183</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 98,775	\$ 105,574
Accrued payroll and related expenses	530,086	541,709
Refundable grants	294,476	254,257
Deferred grant revenue	401,597	842,519
Current portion of operating lease liabilities	13,483	-
Current portion of notes payable	<u>14,139</u>	<u>13,087</u>
TOTAL CURRENT LIABILITIES	<u>1,352,556</u>	<u>1,757,146</u>
NONCURRENT LIABILITIES		
Noncurrent refundable grants	113,086	121,209
Operating lease liabilities, net of current portion	124,095	-
Long-term notes payable, net of current portion	<u>6,225</u>	<u>20,363</u>
TOTAL NONCURRENT LIABILITIES	<u>243,406</u>	<u>141,572</u>
TOTAL LIABILITIES	<u>1,595,962</u>	<u>1,898,718</u>
NET ASSETS		
Without donor restrictions		
Designated	119,757	142,203
Undesignated	3,761,795	1,618,097
With donor restrictions	<u>65,236</u>	<u>74,165</u>
TOTAL NET ASSETS	<u>3,946,788</u>	<u>1,834,465</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,542,750</u>	<u>\$ 3,733,183</u>

The accompanying notes are an integral part of these financial statements.

KOOTASCA COMMUNITY ACTION, INC.

STATEMENT OF ACTIVITIES
Year Ended December 31, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Grant revenue	\$ 7,995,948	\$ 47,542	\$ 8,043,490
Contributions	16,759	-	16,759
Interest income	776	-	776
Program and other income	176,277	-	176,277
In-kind contributions	2,862,839	-	2,862,839
Change in value of beneficial interest	(17,265)	-	(17,265)
Net assets released from restrictions	<u>56,471</u>	<u>(56,471)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>11,091,805</u>	<u>(8,929)</u>	<u>11,082,876</u>
EXPENSES			
Program Services			
Asset building	2,980,130	-	2,980,130
Education	4,311,068	-	4,311,068
Building social capital	<u>166,554</u>	<u>-</u>	<u>166,554</u>
Total Program Services	<u>7,457,752</u>	<u>-</u>	<u>7,457,752</u>
Support Services			
Management and general	1,512,499	-	1,512,499
Fundraising	<u>302</u>	<u>-</u>	<u>302</u>
Total Support Services	<u>1,512,801</u>	<u>-</u>	<u>1,512,801</u>
TOTAL EXPENSES	<u>8,970,553</u>	<u>-</u>	<u>8,970,553</u>
CHANGE IN NET ASSETS	2,121,252	(8,929)	2,112,323
NET ASSETS AT BEGINNING OF YEAR	<u>1,760,300</u>	<u>74,165</u>	<u>1,834,465</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,881,552</u>	<u>\$ 65,236</u>	<u>\$ 3,946,788</u>

The accompanying notes are an integral part of these financial statements.

KOOTASCA COMMUNITY ACTION, INC.

STATEMENT OF ACTIVITIES
Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Grant revenue	\$ 6,899,803	\$ 90,753	\$ 6,990,556
Contributions	5,233	-	5,233
Interest income	1,464	-	1,464
Program and other income	203,036	-	203,036
Liability forgiveness	95,507	-	95,507
In-kind contributions	1,354,526	-	1,354,526
Change in value of beneficial interest	16,749	-	16,749
Gain on disposal of fixed assets	1,936	-	1,936
Net assets released from restrictions	158,687	(158,687)	-
TOTAL SUPPORT AND REVENUE	8,736,941	(67,934)	8,669,007
EXPENSES			
Program Services			
Asset building	2,581,404	-	2,581,404
Education	3,833,637	-	3,833,637
Building social capital	167,929	-	167,929
Total Program Services	6,582,970	-	6,582,970
Support Services			
Management and general	1,380,330	-	1,380,330
Fundraising	229	-	229
Total Support Services	1,380,559	-	1,380,559
TOTAL EXPENSES	7,963,529	-	7,963,529
CHANGE IN NET ASSETS	773,412	(67,934)	705,478
NET ASSETS AT BEGINNING OF YEAR	986,888	142,099	1,128,987
NET ASSETS AT END OF YEAR	\$ 1,760,300	\$ 74,165	\$ 1,834,465

The accompanying notes are an integral part of these financial statements.

KOOTASCA COMMUNITY ACTION, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended December 31, 2022 and 2021

2022

	Program Services			Total Program Services
	Asset <u>Building</u>	<u>Education</u>	Building Social <u>Capital</u>	
Personnel	\$ 1,232,858	\$ 3,116,277	\$ 104,317	\$ 4,453,452
Contractual	1,166,386	97,669	24,219	1,288,274
Travel	8,156	24,765	1,424	34,345
Space costs	153,292	251,896	11,977	417,165
Supplies	78,480	212,362	19,873	310,715
Depreciation	21,929	37,284	-	59,213
Direct client assistance	181,479	-	-	181,479
Other	137,550	83,881	4,744	226,175
In-kind expenses	-	486,934	-	486,934
TOTAL EXPENSES	\$ 2,980,130	\$ 4,311,068	\$ 166,554	\$ 7,457,752

2021

	Program Services			Total Program Services
	Asset <u>Building</u>	<u>Education</u>	Building Social <u>Capital</u>	
Personnel	\$ 940,483	\$ 2,565,106	\$ 136,173	\$ 3,641,762
Contractual	1,010,940	112,919	3,154	1,127,013
Travel	1,929	23,662	471	26,062
Space costs	128,784	212,042	14,213	355,039
Supplies	101,981	298,651	11,552	412,184
Depreciation	11,745	7,512	-	19,257
Direct client assistance	298,038	-	-	298,038
Other	87,504	64,419	2,366	154,289
In-kind expenses	-	549,326	-	549,326
TOTAL EXPENSES	\$ 2,581,404	\$ 3,833,637	\$ 167,929	\$ 6,582,970

The accompanying notes are an integral part of these financial statements.

<u>Support Services</u>			
<u>Management and General</u>	<u>Fundraising</u>	<u>Total Support Services</u>	<u>Total All Services</u>
\$ 1,044,789	\$ -	\$ 1,044,789	\$ 5,498,241
233,265	-	233,265	1,521,539
11,382	-	11,382	45,727
58,645	-	58,645	475,810
42,889	-	42,889	353,604
58,283	-	58,283	117,496
-	-	-	181,479
63,246	302	63,548	289,723
-	-	-	486,934
<u>\$ 1,512,499</u>	<u>\$ 302</u>	<u>\$ 1,512,801</u>	<u>\$ 8,970,553</u>

<u>Support Services</u>			
<u>Management and General</u>	<u>Fundraising</u>	<u>Total Support Services</u>	<u>Total All Services</u>
\$ 1,033,916	\$ 229	\$ 1,034,145	\$ 4,675,907
201,672	-	201,672	1,328,685
3,578	-	3,578	29,640
46,594	-	46,594	401,633
27,616	-	27,616	439,800
24,007	-	24,007	43,264
-	-	-	298,038
42,947	-	42,947	197,236
-	-	-	549,326
<u>\$ 1,380,330</u>	<u>\$ 229</u>	<u>\$ 1,380,559</u>	<u>\$ 7,963,529</u>

KOOTASCA COMMUNITY ACTION, INC.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,112,323	\$ 705,478
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	117,496	43,264
Donated land and building	(2,375,906)	(805,200)
Change in discount on contracts receivable	(10,124)	(5,075)
(Gain)/Loss on disposal of fixed assets	9,075	(1,936)
Change in value of beneficial interest	22,446	(11,791)
(Increase) decrease in operating assets:		
Grants receivable	113,780	(71,624)
Accounts receivable	(46,365)	(6,912)
Inventory	(32,575)	-
Prepaid expenses	35,121	(89,688)
Increase (decrease) in operating liabilities:		
Accounts payable	(6,799)	(172,237)
Accrued payroll and related expenses	(11,623)	55,958
Refundable grants	32,096	(1,794)
Deferred grant revenue	(440,922)	439,772
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(481,977)</u>	<u>78,215</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Reinvestment in certificates of deposit	(150,000)	(150,000)
Proceeds from certificates of deposit	150,000	150,000
Collection of principal on contracts for deed	15,284	27,966
Purchases of property and equipment	(86,475)	(107,954)
Proceeds from sale of fixed assets	-	11,936
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(71,191)</u>	<u>(68,052)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	<u>(13,086)</u>	<u>(12,113)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(566,254)	(1,950)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR,	<u>1,610,578</u>	<u>1,612,528</u>
including restricted cash and cash equivalents of \$258,941 in 2022 and \$234,863 in 2021		
CASH AND CASH EQUIVALENTS AT END OF YEAR,	<u>\$ 1,044,324</u>	<u>\$ 1,610,578</u>
including restricted cash and cash equivalents of \$264,740 in 2022 and \$258,941 in 2021		
SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS		
Right-of-use assets acquired with operating leases	<u>\$ 137,578</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

KOOTASCA COMMUNITY ACTION, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Organization

KOOTASCA Community Action, Inc. (the "Organization") is a nonprofit corporation organized to provide assistance for disadvantaged persons in Itasca and Koochiching Counties of Northeastern Minnesota, primarily through the administration of federal, state and other grants.

The Organization was established in 1965. The mission of the Organization is to build a community to end poverty and to develop social capital in their service area. The Board of Directors has developed the following strategies (programs) to fulfill its mission:

Asset Building – Build community and organization capacity so all low income people have the assets they need to succeed. Identified desired outcomes include: low income people increase their assets; city, county and state public policies are reflective of a full commitment to providing safe, decent, affordable housing to all residents; safe, decent, affordable housing, appropriate to the family size, is available for all residents of the community and basic needs are met.

Education – Build community to ensure all low-income children receive a high-quality education, including early childhood programming, to meet their future needs. Identified desired outcomes include: all children are ready for kindergarten and educational achievement is not predicted by a family's economic status or cultural heritage.

Building Social Capital – Build relationships across class, race and gender lines to eliminate poverty. Empower low income citizens to advocate on their own behalf through involvement on community boards, committees and through the legislative process. Identified desired outcomes include: poverty becomes unacceptable to the community and community residents are out of poverty. An important aspect of building social capital is leadership development and it is the goal of the Organization to develop a skilled, committed group of community leaders to end poverty. The identified desired outcome is that change is being led by a skilled and committed group of community leaders.

Basis of Presentation

The financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Classification of Net Assets

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

Without Donor Restrictions: Net assets that are not subject to any donor-imposed stipulations.

With Donor Restrictions: Net assets subject to donor-imposed or other legal restrictions requiring that the principal be maintained permanently by the Organization. Net assets with donor restrictions also include net assets subject to donor-imposed restrictions on their use that may be met either by actions of the Organization or the passage of time.

KOOTASCA COMMUNITY ACTION, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of unrestricted and restricted demand deposits, savings accounts and securities with original maturities of three months or less. The Organization places its cash with high-credit, quality institutions. At times, such cash balances may be in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits.

Certificates of Deposit

Certificates of deposit have original maturities greater than three months and are recorded at cost.

Accounts Receivable

Accounts receivable are stated at net realizable value. Payment is required 30 days after receipt of the invoice. Accounts more than 90 days past due are individually analyzed for collectability. Accordingly, bad debts are provided for on the reserve method based upon prior experience and management's assessment of the collectability of existing specific accounts. When all collection efforts have been exhausted, the accounts are written off against the related allowance. No allowance for bad debts is considered necessary as of December 31, 2022 and 2021.

Contracts Receivable

The Organization operates a revolving loan program funded by Minnesota Housing and Finance Agency (MHFA). The Organization received funds from MHFA to construct or renovate homes and then sell those homes under land contracts (contract-for-deed) to eligible individuals. Funds repaid by the participants must be used to renovate homes, provide renovation loans to existing individuals under the program, or cover administrative and program costs. Loans receivable are stated at the amount of unpaid principal discounted at the prevailing market rate at the inception of the mortgage. The loans are non-interest bearing. There is no allowance provided on these loans as the Organization holds the home as collateral and can cancel the land contract if the individual is delinquent. The Organization classifies a receivable as delinquent if the individual is three or more months in arrears, has abandoned the home, or if the home is at risk of incurring damage.

Management has the intent and ability to hold all loans for the foreseeable future or until maturity or pay-off, generally, and has reported the loans at their outstanding unpaid principal balances. Loan origination fees, net of certain direct origination costs, are recognized as income or expense when received or incurred since capitalization of these fees or costs would not have a significant impact on the financial statements.

KOOTASCA COMMUNITY ACTION, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

Delinquent payments are treated on a case by case basis, but generally if a homeowner is late more than 30 days with a payment and no forbearance has been granted, a written contact is made with the homeowner. If the homeowner does not make payment or arrangements for a three-month period, cancellation proceedings are started. All cancellations are handled by the Organization's attorney in accordance with the laws of the State of Minnesota.

Allowance for Loan Losses

The Organization does not maintain an allowance for loan loss account due to the fact that in the event of non-payment by a homeowner, the Organization will start eviction proceedings and take back possession of the home. The home is then put back on the market to be contracted to another qualifying individual or family.

Property and Equipment

Property and equipment having an initial value greater than \$5,000 is recorded at cost and is depreciated over the useful lives of the assets, ranging from 5 to 27.5 years, using the straight-line method of depreciation.

Grant funds provided for the purchase of property and equipment for individual programs, are recognized as revenue when the qualifying expenditure is made. Property and equipment purchased with grant funds must continue to be used in the specific program for which purchased and funding sources have a reversionary interest in the property or the proceeds from the disposal of the property, therefore, the disposition of buildings or equipment, as well as the ownership of any proceeds therefrom, are subject to funding source regulations. The net book value of equipment purchased with grant funds was \$17,744 in 2022 and 2021.

Long-lived assets 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 and certain identifiable intangible assets that management expects to hold and use is based on the fair value of the asset. Long-lived assets and certain identifiable intangible assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. The Organization has determined that no impairment existed at December 31, 2022 and 2021.

Leases

Effective January 1, 2022, the Organization classifies leases as either operating or finance leases at the commencement date of the lease. A lease is classified as a finance lease if any of the five criteria are met: (1) ownership transfers at the end of the lease term, (2) there is an option to purchase the underlying assets and the lessee is reasonably certain to exercise the option, (3) the term of the lease is for a major part of the remaining economic life of the underlying assets, (4) the present value of the sum of the lease payments and any residual value guaranteed by the lessee equals or exceeds substantially all of the fair value of the underlying assets or (5) the underlying assets are of such a specialized nature that they are expected to have no alternative use to the lessor at the end of the lease term. Leases that do not meet any of the five criteria above for a finance lease are classified as operating leases.

KOOTASCA COMMUNITY ACTION, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

The Organization recognizes a right-of-use (ROU) asset and lease liability for each operating and finance lease with a term greater than 12 months at the time of lease inception. The Organization does not record a ROU asset or lease liability for leases with an initial term of 12 months or less but continues to record rent expense on a straight-line basis over the lease term. Options to extend or terminate at the sole discretion of the Organization are included in the determination of lease term when they are reasonably certain to be exercised. The lease liability represents the present value of future lease payments over the lease term. The Organization has elected the practical expedient that allows for private companies to utilize the risk-free rate based on asset class.

Prior to January 1, 2022, the Organization accounted for its leases as either operating or capital leases. Assets and liabilities for operating leases were not recorded and rent expense was recorded within operations on a straight-line basis over the term of the lease.

Revenue Recognition

Contributions and Grants

Contributions are considered conditional or unconditional, depending on the nature and existence of any donor or grantor conditions. A contribution contains a condition when both of the following are present:

- An explicit identifying of a barrier, that is more trivial, that must be overcome before the revenue can be earned and recognized
- An implicit right of return of assets transferred or a right of release of a donor or grantor's obligation to transfer assets promised, if the condition is not met

Conditional contributions are recognized when the barrier(s) to entitlement are overcome. Unconditional contributions are recognized as revenue when received. Unconditional contributions or conditional contributions in which the conditions have been substantially met or explicitly waived by the donor are recorded as support with or without donor restrictions, depending on the existence and nature of any donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized.

Grants are either recorded as contributions or exchange transactions based on criteria contained in the grant award:

- Grant awards that are contributions are evaluated for conditions and recognized as revenue when conditions in the award are satisfied. Unconditional awards are recognized as revenue when the award is received. Amounts received in which conditions have not been met are reflected as grant funds received in advance.
- Grant awards that are exchange transactions are those in which the resource provider or grantor receives a commensurate value in exchange for goods or services transferred. Revenue is recognized when control of the promised goods or services is transferred to the customer (grantor) in an amount that reflects the consideration to

KOOTASCA COMMUNITY ACTION, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

which the entity expects to be entitled in exchange for those goods or services. Amounts received in excess of recognized revenue are reflected as a contract liability.

Program Income

Revenue is recognized as the performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on the service period of the contract. The Organization measures the performance obligation from these particular services from the beginning of the performance period to the completion of services provided. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided, and the Organization does not believe they are required to provide additional goods or services to the client.

Certain program income is earned as a direct result of the activities funded under a grant and is recognized as revenue over time, in the year services are provided. Program income must be used for the purposes and under the conditions of the Federal award.

Affordable Housing

The Organization 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 Organization, and this expected revenue is deferred until payment occurs. MURL program income reflects the price determined by the original contract between the Organization and the homeowner and is annualized based on 25% of the homeowner's income.

The Organization sells prebuilt and pre-purchased homes to clients. Revenue is recognized at a point in time, when the home closing takes place. The price of the home depends on the cost of the supplies or specifications of the house as well as comparable houses in the area.

Rental Income

Rental income is recognized as revenue in the year rental space is provided.

Functional Expense Allocation

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support services are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases. Allocation methods comply with the requirements and limitations of the underlying grants.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization is classified as a public charity. The Organization is also exempt from Minnesota franchise or income tax.

KOOTASCA COMMUNITY ACTION, INC.

NOTES TO FINANCIAL STATEMENTS December 31, 2022 and December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

The Organization assesses whether it is more likely than not that a tax position will be sustained upon examination of the technical merits or the position, assuming the taxing authority has full knowledge of all information. If the tax position does not meet the more likely than not recognition threshold, the benefit of the tax position is not recognized in the financial statements. The Organization recorded no assets or liabilities for uncertain tax positions or unrecognized tax benefits. Federal returns for the years ended 2019 and thereafter remain subject to examination by the Internal Revenue Service.

Change in Accounting Policies

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). The objective of ASU No. 2016-02 is to increase transparency and comparability among organizations by recognizing right-of-use (ROU) lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. The Organization adopted this guidance as of January 1, 2022, using the modified retrospective approach where the cumulative catch-up adjustment is recorded at the date of adoption. The Organization has elected the package of practical expedients permitted by ASC Topic 842. Accordingly, the Organization did not reassess at adoption (a) whether the contract contains a lease under Topic 842, (b) whether classification of the operating lease would be different in accordance with Topic 842, or (c) initial direct costs for existing leases. The Organization also elected the practical expedients (1) to discount the lease liability using the risk-free rate, (2) to use hindsight for assessing the lease term and impairment of the ROU asset, and (3) to not separate lease and non-lease components. As a result of the adoption of the new lease accounting standard, the Organization's statement of financial position was impacted by the recognition of its ROU assets and lease liabilities of \$301,342 at January 1, 2022. There was no significant impact on the statement of activities, functional expenses, or cash flows as a result of the adoption.

In September 2020, the FASB issued ASU No. 2020-07 *Not-for-Profit Entities* (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which is intended to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind, for not-for-profit organizations. ASU No. 2020-07 requires not-for-profit organizations to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. In addition to separate presentation on the statement of activities, this amendment requires enhanced disclosures around each category of contributed nonfinancial assets for donor-imposed restrictions, valuation techniques, description of programs or activities in which the assets were used, and if monetized, a policy about monetizing rather than utilizing the asset(s). The amendments in this ASU were applied on a retrospective basis to all periods presented and did not have a material impact on the financial statements.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

KOOTASCA COMMUNITY ACTION, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and December 31, 2021

NOTE 2 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization has \$1,342,946 of financial assets available within one year of the December 31, 2022 to meet cash needs for general operating expenditures, consisting of cash of \$779,584, certificates of deposit of \$150,000, grants receivable of \$351,062, and accounts receivable of \$62,300. Financial assets of \$264,740 are subject to contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

The Organization has \$1,982,414 of financial assets available within one year of the December 31, 2021 to meet cash needs for general operating expenditures, consisting of cash of \$1,351,637, certificates of deposit of \$150,000, grants receivable of \$464,842, and accounts receivable of \$15,935. Financial assets of \$258,941 are subject to contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

NOTE 3 - CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances and certificates of deposit at several area financial institutions. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each institution. At certain times during the year, cash balances may be in excess of FDIC coverage. The Organization has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk on cash. The Organization has obtained collateral agreements with the financial institutions to safeguard portions of their cash balances in excess of insurance. At December 31, 2022 and 2021, the Organization's cash balances were insured or collateralized.

NOTE 4 - GRANTS RECEIVABLE

Grants receivable consist of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Direct federal programs	\$ 66,394	\$ 156,453
Pass-through federal programs	174,639	183,909
State programs	101,575	113,951
Other programs	8,454	10,529
Total grants receivable	<u>\$ 351,062</u>	<u>\$ 464,842</u>

NOTE 5 - CONTRACTS RECEIVABLE

Homes sold as part of the Minnesota Housing Rehabilitation Loan (MURL) Program are generally sold under contract for deed which provides that the property serves as collateral, no interest is charged and monthly payments from the homebuyer are based on the homebuyer's ability to pay as determined from the family income. Ability to pay is determined annually. Loans

KOOTASCA COMMUNITY ACTION, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and December 31, 2021

NOTE 5 - CONTRACTS RECEIVABLE (CONTINUED)

are discounted at a risk-free rate at the date of inception and recorded at their net present value at the date of inception. Discount rates for new loans in 2022 and 2021 were 5.68% and 2.35%, respectively. There were no new loans in 2022 or 2021. No allowance for uncollectible loans is provided because it is anticipated the collateral will be adequate to cover any losses.

Contracts receivable at December 31, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Contracts receivable at face value	\$ 178,135	\$ 193,419
Discount to present value	<u>(35,186)</u>	<u>(45,310)</u>
Contracts receivable at net present value	142,949	148,109
Less: current portion	<u>(28,971)</u>	<u>(25,836)</u>
Noncurrent portion	<u>\$ 113,978</u>	<u>\$ 122,273</u>

NOTE 6 - RESTRICTED CASH AND CASH EQUIVALENTS

The Organization owns properties that are financed with loans and other funding from the U.S. Department of Agriculture and the MURL Program that requires cash balances be restricted for replacement reserves, security deposits, and program purposes. Restricted cash and cash equivalents in 2022 and 2021 were \$264,740 and \$258,941, respectively.

NOTE 7 - PROPERTY AND EQUIPMENT

The Organization's investment in property and equipment consisted of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Land	\$ 87,700	\$ 40,400
Building	3,587,636	1,209,421
Equipment	454,123	457,409
Vehicles	133,929	104,942
Construction in Progress	<u>-</u>	<u>9,075</u>
Total	4,263,388	1,821,247
Accumulated depreciation	<u>(834,564)</u>	<u>(728,233)</u>
Net Book Value	<u>\$ 3,428,824</u>	<u>\$ 1,093,014</u>

KOOTASCA COMMUNITY ACTION, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and December 31, 2021

NOTE 8 - LEASES

The Organization has entered into various operating leases for space, primarily for its offices and for its Head Start Program with remaining lease terms of one to two years. Payments under these lease arrangements are all fixed. The right-of-use assets and operating lease liabilities were calculated utilizing the weighted-average discount rate of 0.78%.

Cash paid for amounts included in the measurement of operating lease liabilities was \$163,764 and total lease expense was \$231,301 for the year ended December 31, 2022.

Lease expense, which was accounted for under Accounting Standards Codification 840, for all operating leases was \$216,285 for the year ended December 31, 2021.

Future minimum lease payments are as follows for the years ending December 31:

2023	\$ 124,095
2024	<u>13,483</u>
Total minimum lease payments and operating lease liabilities	<u>\$ 137,578</u>

NOTE 9 - NOTES PAYABLE

Notes payable consisted of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Farmers' Home Administration:		
Monthly payments of \$648 including interest at 8.25%, \$375 monthly currently subsidized by FmHA, note matures May 2024, secured by the Fairview Horizon land and building	\$ 10,367	\$ 16,990
Monthly payments of \$620 including interest at 7.25%, \$332 monthly currently subsidized by FmHA, note matures May 2024, secured by the Fairview Horizon land and building	<u>9,997</u>	<u>16,460</u>
Total notes payable	20,364	33,450
Less current portion	<u>(14,139)</u>	<u>(13,087)</u>
Total long-term portion	<u>\$ 6,225</u>	<u>\$ 20,363</u>

KOOTASCA COMMUNITY ACTION, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and December 31, 2021

NOTE 9 - NOTES PAYABLE (CONTINUED)

Future maturities are as follows for the years ending December 31:

2023	\$	14,139
2024		<u>6,225</u>
Total	\$	<u>20,364</u>

NOTE 10 - REFUNDABLE GRANTS

Refundable grants consist of the MURL Program. Under terms of the program, the net remaining assets of the program are to be returned to the State of Minnesota. Grant revenues were temporarily invested as follows at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Cash on hand, repayments from homebuyers	\$ 236,157	\$ 231,640
Accounts receivable	296	-
Contracts for deed	142,949	148,109
Inventory	32,575	-
Less: accounts payable	(553)	(670)
Homeowners' funds held in escrow	<u>(3,862)</u>	<u>(3,613)</u>
Total refundable grants	407,562	375,466
Less: current portion	<u>(294,476)</u>	<u>(254,257)</u>
Long-term portion	<u>\$ 113,086</u>	<u>\$ 121,209</u>

KOOTASCA COMMUNITY ACTION, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and December 31, 2021

NOTE 11 - DEFERRED GRANT REVENUE

Deferred grant revenue consists of unearned grants from federal, state and other program funding sources where the grants are treated as an exchange transaction. Grant revenue is recognized when the qualifying expenditure is made.

Deferred grant revenue consisted of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
MHFA Rehab Loan Program	\$ 61,582	\$ 376,224
MHFA Family Homeless Prevention	14,048	-
MHFA Homeownership Education Counseling and Training Program	-	1,562
MHFA Propel	8,168	8,168
Homeownership Assistance	-	2,813
Rapid Rehousing	1,963	-
Blandin Foundation	253,185	346,483
MDE Summer Preschool	-	11,608
Digital Divide	-	9,598
MN After School Advance Navigation	-	70
Crisis Housing - Otto Bremer	-	18,653
Alexander Baker Building	576	577
EAP/WX	-	12,015
Education contracts	62,066	54,738
MURL	<u>9</u>	<u>8</u>
Total deferred grant revenue	<u>\$ 401,597</u>	<u>\$ 842,517</u>

NOTE 12 - NET ASSETS WITH DONOR RESTRICTIONS

The Organization purchased a property to be used as a shelter for men needing temporary emergency housing in 2007. The purchase was made with funds from the U.S. Department of Housing and Urban Development (HUD) under the HOME Program, administered by St. Louis County. The property is restricted to use for a period of 15 years. If the Organization converts the use of the property prior to expiration of the 15-year period, proceeds of the sale of the property must be returned to HUD.

KOOTASCA COMMUNITY ACTION, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and December 31, 2021

NOTE 12 - NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Net assets with donor restrictions consisted of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Men's Shelter	\$ 62,980	\$ 68,083
Foundation Grants	<u>2,256</u>	<u>6,082</u>
Total	<u>\$ 65,236</u>	<u>\$ 74,165</u>

All releases from restrictions during the years ended December 31, 2022 and 2021 were due to fulfillment of purposes.

NOTE 13 - DESIGNATED ENDOWMENT FUNDS

The Organization has designated the beneficial interest funds held by the Grand Rapids Area Community Foundation for endowment.

NOTE 14 - RETIREMENT PLAN

The Organization has a defined contribution retirement plan covering all employees with 12 months of prior service during which the employee worked at least 1,000 hours. Employees hired prior to January 1, 2019, the Organization contributes 5% of each participant's eligible wages to the Plan. Employees hired on or after January 1, 2019, the Organization contributes 2% of each participant's eligible wages to the Plan and also matches participants' contributions up to the first 3% for a total possible employer contribution of 5% of eligible wages. Participants direct the investment of their contribution into various investment options offered by the Plan. Effective January 1, 2019, if eligible employees do not elect to waive their rights to defer a portion of their compensation by the time they become eligible, the Organization will automatically withhold 3% of their compensation and contribute that amount to the Plan as a salary deferral. Employees may also make voluntary contributions to the plan. The employer's contributions for the years ended December 31, 2022 and 2021 were \$169,782 and \$157,099.

NOTE 15 - BENEFICIAL INTERESTS IN ASSETS HELD BY OTHERS

In prior years the Organization transferred funds to the Grand Rapids Area Community Foundation (the Community Foundation) and specified itself as the beneficiary of the funds. Annually distributions from the funds are available to the Organization according to the Community Foundation's distribution policy. The Community Foundation maintains variance power over these assets. Variance power assures donors that if the charitable purpose of their contribution becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community serviced, the distributions will be directed to similar purposes for the community. Despite the variance power, the Organization believes that the Community Foundation will continue to make annual distributions to the Organization.

KOOTASCA COMMUNITY ACTION, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and December 31, 2021

NOTE 15 - BENEFICIAL INTERESTS IN ASSETS HELD BY OTHERS (CONTINUED)

Changes in the fair value of the Organization's beneficial interest in assets held by others are as follows:

	KOOTASCA Community Action, Inc. <u>Endowment Fund</u>	
	<u>2022</u>	<u>2021</u>
Balance, Beginning of Year	\$ 142,203	\$ 130,412
Distribution to KOOTASCA	(5,180)	(4,958)
Net investment performance	<u>(17,266)</u>	<u>16,749</u>
Balance, Ending of Year	<u>\$ 119,757</u>	<u>\$ 142,203</u>

The assets held at the Community Foundation are entirely comprised of pooled investment funds held and managed by the Community Foundation. Fair value is based on the net asset value per share as determined by the Community Foundation and provided to the Organization. Investments cannot be redeemed at current net asset value per share. The Organization is only the beneficiary of the earnings, which are distributed in accordance with the Community Foundation's spending policy. Based on the valuation method and nonredeemable nature of the assets, the measures of the fair value of the beneficial interest are categorized as Level 3 (measurement inputs supported by little or no market activity).

NOTE 16 - CONTINGENCIES

Federal and state program activities are subject to financial and compliance regulation. To the extent any expenditure is disallowed, a liability to the respective federal or state agency could result. No provision has been made for any liabilities that may arise from such audits.

NOTE 17 - CONCENTRATION

The Organization received approximately 29% and 32% of its revenues from the U.S. Department of Health and Human Services for its Head Start program for the years ended December 31, 2022 and 2021.

NOTE 18 - IN-KIND CONTRIBUTIONS

During the years ended December 31, 2022 and 2021, the Organization received the following without donor restrictions; donations of land, a building, professional volunteer services, contractual services, materials, and free use of facilities:

KOOTASCA COMMUNITY ACTION, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and December 31, 2021

NOTE 18 - IN-KIND CONTRIBUTIONS (CONTINUED)

	<u>2022</u>	<u>2021</u>
Land	\$ 47,300	\$ 21,600
Building	2,328,605	783,600
Professional volunteer services	113,906	127,846
Contractual services	106,941	127,861
Materials	868	1,599
Free use of facilities	<u>265,219</u>	<u>292,020</u>
	<u>\$ 2,862,839</u>	<u>\$ 1,354,526</u>

Contributed land and buildings were valued based on estimated fair market value of the properties had they been sold on the open market. Professional volunteer services and contractual services were valued based on time rates for each practitioner based on fair market value at the time donated. Contributed free use of facilities was valued based on estimated fair market value should the space be rented on the open market.

In addition, the Organization received contributions of nonprofessional volunteer services during the years ended December 31, 2022 and 2021 with fair values of \$136,474 and \$162,500, respectively, for its Head Start and other programs, which are not recognized in the financial statements.

NOTE 19 - COVID-19 PANDEMIC

In December 2019, a novel strain of coronavirus was reported in Wuhan, China. The World Health Organization has declared the outbreak to constitute a “Public Health Emergency of International Concern.” The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the Organization’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our customers, employees, vendors, and grantors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Organization’s financial condition or results of operations is uncertain.

NOTE 20 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through August 18, 2023, the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

KOOTASCA COMMUNITY ACTION, INC
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2022

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE		
<i>Direct</i>		
Rural Rental Housing Loans - FMHA 515 Fairview Building	10.415	\$ 8,453
Total Assistance Listing No.10.415		<u>8,453</u>
<i>Direct</i>		
Rural Rental Assistance Payments - FMHA 515 Fairview Building	10.427	19,846
Total Assistance Listing No.10.427		<u>19,846</u>
<i>Pass-through Program from: Minnesota Department of Education</i>		
Child and Adult Care Food Program	10.558	101,702
Child and Adult Care Food Program	10.558	<u>37,309</u>
Total Assistance Listing No.10.558		<u>139,011</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE		<u>167,310</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
<i>Pass-through Program from: Minnesota Homeownership Center</i>		
Housing Counseling Assistance Program	14.169	14,154
Housing Counseling Assistance Program	14.169	<u>4,200</u>
Total Assistance Listing No.14.169		<u>18,354</u>
<i>Pass-through Program from: City of Northome, Minnesota</i>		
CDBG/State's program and Non-Entitlement Grants in Hawaii - SCDP Northome	14.228	<u>1,459</u>
<i>Pass-through Program from: Minnesota Department of Human Services</i>		
Emergency Solutions Grant Program - Emergency Shelter Grant Rehousing - GRK%200575	14.231	45,228
COVID-19 - Emergency Solutions Grant Program - Emergency Solutions Grant		
CARES Act (ESG-CV2) - Rapid Rehousing	14.231	<u>34,618</u>
Total Assistance Listing No.14.231		<u>79,846</u>
<i>Pass-through Program from: St. Louis County, Minnesota</i>		
Home Investment Partnerships Program	14.239	47,464
Home Investment Partnerships Program	14.239	<u>16,237</u>
Total Assistance Listing No.14.239		<u>63,701</u>
<i>Direct</i>		
Continuum of Care Program	14.267	14,963
Continuum of Care Program	14.267	<u>24,754</u>
Total Assistance Listing No.14.267		<u>39,717</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		<u>203,077</u>
U.S. DEPARTMENT OF TREASURY		
<i>Pass-through Program from: Minnesota Housing Finance Agency</i>		
COVID-19 - Emergency Rental Assistance Program	21.023	12,571
COVID-19 - Emergency Rental Assistance Program	21.023	<u>7,324</u>
Total Assistance Listing No. 21.023		<u>19,895</u>

The accompanying notes are an integral part of this schedule.

KOOTASCA COMMUNITY ACTION, INC
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
Year Ended December 31, 2022

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Federal Expenditures
U.S. DEPARTMENT OF TREASURY (CONTINUED)		
<i>Pass-through Program from: Minnesota Department of Education</i> COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	\$ <u>20,008</u>
TOTAL U.S. DEPARTMENT OF TREASURY		<u>39,903</u>
U.S. DEPARTMENT OF ENERGY		
<i>Pass-through Program from: Minnesota Department of Commerce</i> Weatherization Assistance for Low-Income Persons	81.042	154,363
Weatherization Assistance for Low-Income Persons	81.042	<u>45,533</u>
TOTAL U.S. DEPARTMENT OF ENERGY		<u>199,896</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
<i>Pass-through Program from: Minnesota Department of Commerce</i> Low-Income Home Energy Assistance	93.568	41,333
Low-Income Home Energy Assistance	93.568	90,265
Low-Income Home Energy Assistance - 2102MNLIEA	93.568	174,336
Low-Income Home Energy Assistance - 2202MNLIEA	93.568	165,330
COVID-19 - Low-Income Home Energy Assistance - 2202MNLIEA	93.568	233,931
COVID-19 - Low-Income Home Energy Assistance	93.568	371,366
COVID-19 - Low-Income Home Energy Assistance - 2102MNE5C6	93.568	<u>227,015</u>
Total Assistance Listing No. 93.568		<u>1,303,576</u>
<i>Pass-through Program from: Minnesota Department of Human Services</i> Community Services Block Grant - GRK%197530	93.569	124,011
COVID-19 - Community Services Block Grant - COVID-19 Supplemental 210719	93.569	<u>20,000</u>
Total Assistance Listing No. 93.569		<u>144,011</u>
<i>Pass-through Program from: Minnesota Department of Human Services</i> COVID-19 - Child Care and Development Block Grant	93.575	<u>130,176</u>
Head Start Cluster <i>Direct</i> Head Start - 05CH010837-03-03	93.600	453,178
Head Start - 05CH010837-04-02	93.600	2,199,108
Head Start - 05CH010837-03-03	93.600	36,028
Head Start - 05CH010837-04-02	93.600	165,114
COVID-19 - Head Start - 05HE000691-01-01	93.600	239,300
COVID-19 - Head Start - 05HE000691-01-00	93.600	41,079
<i>Pass-through Program from: Tri-County Community Action Partnership</i> Head Start	93.600	41,804
Head Start	93.600	<u>37,018</u>
Total Assistance Listing No. 93.600		<u>3,212,629</u>
Total Head Start Cluster		<u>3,212,629</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		<u>4,790,392</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 5,400,578</u>

The accompanying notes are an integral part of this schedule.

KOOTASCA COMMUNITY ACTION, INC.

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2022**

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of KOOTASCA Community Action, Inc. under programs of the federal government for the year ended December 31, 2022. 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 KOOTASCA Community Action, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of KOOTASCA Community Action, Inc.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization has elected to not use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE C - CLUSTERS

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Head Start Cluster	<u>\$ 3,212,629</u>
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NOTE D - PASS-THROUGH ENTITIES

There were no pass-through entities.



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
KOOTASCA Community Action, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of KOOTASCA Community Action, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 18, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered KOOTASCA Community Action, Inc.'s internal control over financial reporting (internal control) as a basis for designing 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 KOOTASCA Community Action, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of KOOTASCA Community Action, Inc.'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 entity'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether KOOTASCA Community Action, Inc.'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 financial statements. 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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Walker, Miray & Helne, LLC

Virginia, Minnesota
August 18, 2023



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors of
KOOTASCA Community Action, Inc.

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited KOOTASCA Community Action, Inc.'s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of KOOTASCA Community Action, Inc.'s major federal programs for the year ended December 31, 2022. KOOTASCA Community Action, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, KOOTASCA Community Action, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of KOOTASCA Community Action, Inc. and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of KOOTASCA Community Action, Inc.'s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to KOOTASCA Community Action, Inc.'s federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on KOOTASCA Community Action, Inc.'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about KOOTASCA Community Action, Inc.'s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding KOOTASCA Community Action, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of KOOTASCA Community Action, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 KOOTASCA Community Action, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Walker, Miray & Helne, LLC

Virginia, Minnesota
August 18, 2023

KOOTASCA COMMUNITY ACTION, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2022

None noted.

KOOTASCA COMMUNITY ACTION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2022

Section I - Summary Of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Type of auditor's report issued on compliance for major federal programs:

unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

yes no

Identification of major federal programs:

Assistance Listing Number(s)
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?

yes no

KOOTASCA COMMUNITY ACTION, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended December 31, 2022**

Section II – Financial Statement Findings

None noted.

Section III – Federal Award Findings and Questioned Costs

There were no federal award findings or questioned costs.