

**Lakes & Prairies Community  
Action Partnership, Inc.**

**Financial Statements**

**February 28, 2017 and February 29, 2016**



**Lakes & Prairies Community Action Partnership, Inc.**  
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## Independent Auditor's Report

Board of Directors  
Lakes & Prairies Community  
Action Partnership, Inc.  
Moorhead, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Lakes & Prairies Community Action Partnership, Inc., which comprise the statements of financial position as of February 28, 2017 and February 29, 2016, and the related statements of activities and cash flows for the years then ended, and related notes to financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization'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 & Prairies Community Action Partnership, Inc., as of February 28, 2017 and February 29, 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters – Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, 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 additional 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 27, 2017, 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 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 Organization's internal control over financial reporting and compliance.

St. Cloud, Minnesota  
July 27, 2017

## **FINANCIAL STATEMENTS**

**Lakes & Prairies Community Action Partnership, Inc.**  
**Statements of Financial Position**  
**As of February 28, 2017 and February 29, 2016**

	2017	2016 (restated)
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 429,184	\$ 425,093
Restricted cash - unemployment trust	145,126	111,884
Due from other funds	728,834	496,167
Grants receivable	717,297	873,171
Other receivables	61,539	20,702
Prepaid expenses	59,495	57,128
Total current assets	2,141,475	1,984,145
Investments, at cost	82,145	82,145
Property and equipment, net	817,914	280,852
Total assets	\$ 3,041,534	\$ 2,347,142
<b>Liabilities and Net Assets</b>		
Current liabilities		
Current maturities of capital lease	\$ 1,634	\$ 19,279
Current maturities of long-term debt	33,933	-
Due to other funds	728,834	496,167
Accounts payable	84,134	297,106
Accrued payroll, taxes, and related benefits	173,320	183,157
Accrued compensated absences	212,790	204,569
Deferred revenue	214,128	84,173
Total current liabilities	1,448,773	1,284,451
Long-term liabilities		
Long-term debt, less current maturities	542,818	-
Total liabilities	1,991,591	1,284,451
Net assets		
Unrestricted		
Undesignated	810,414	801,118
Investment in net fixed assets	239,529	261,573
Total net assets	1,049,943	1,062,691
Total liabilities and net assets	\$ 3,041,534	\$ 2,347,142

See notes to financial statements.

**Lakes & Prairies Community Action Partnership, Inc.**  
**Statements of Activities**  
**Years Ended February 28, 2017 and February 29, 2016**

	2017	2016 (restated)
<b>Revenues</b>		
Grant revenue		
Federal	\$ 3,450,310	\$ 3,317,676
State of Minnesota	2,218,832	2,186,586
State of North Dakota	36,498	1,097,792
Local revenue	472,521	837,621
Contributions	89,277	34,300
In-kind contributions	2,114	1,663
Charges for services	346,597	315,094
Reimbursements	46,631	69,166
Interest	837	1,663
Gain (loss) on disposal of property and equipment	312	(2,597)
Total revenues	6,663,929	7,858,964
<b>Expenses</b>		
Salaries and wages	2,939,797	3,099,011
Fringe benefits	727,403	817,353
Administration	165,565	167,736
Contracted services	80,955	91,867
Supplies	287,001	251,961
Travel	149,801	153,956
Space costs and rentals	251,820	264,724
Other direct costs	1,809,265	2,668,007
Insurance	30,651	25,207
Depreciation	108,745	99,139
In-kind	2,114	1,663
Bad debt	-	30,720
Consultants and professional services	123,560	103,298
Total program expenses	6,676,677	7,774,642
Change in net assets	(12,748)	84,322
<b>Net Assets</b>		
Beginning of year, as previously reported	1,062,691	886,846
Prior period adjustment	-	91,523
Beginning of year, restated	-	978,369
End of year	\$ 1,049,943	\$ 1,062,691

See notes to financial statements.

**Lakes & Prairies Community Action Partnership, Inc.**  
**Statements of Cash Flows**  
**Years Ended February 28, 2017 and February 29, 2016**

	2017	2016
		(restated)
<b>Cash Flows - Operating Activities</b>		
Change in net assets	\$ (12,748)	\$ 84,322
Adjustments to reconcile change in net assets to net cash flows - operating activities		
Depreciation	108,745	99,139
(Gain) loss on disposal of property and equipment	(312)	2,597
Change in operating assets and liabilities		
Due from other funds	(232,667)	68,765
Grants receivable	155,874	19,971
Other receivables	(40,837)	22,152
Prepaid expenses	(2,367)	13,414
Due to other funds	232,667	(68,765)
Accounts payable	(212,972)	39,614
Accrued payroll, taxes, and related benefits	(9,837)	(61,901)
Accrued compensated absences	8,221	(39,383)
Deferred revenue	129,955	(250,049)
Total adjustments	136,470	(154,446)
Net cash flows - operating activities	123,722	(70,124)
 <b>Cash Flows - Investing Activities</b>		
Sale of investment	-	39,675
Proceeds from disposal of property and equipment	-	9,000
Purchases of property and equipment	(57,995)	(89,495)
Net cash flows - investing activities	(57,995)	(40,820)
 <b>Cash Flows - Financing Activities</b>		
Principal payments on capital lease obligation	(17,645)	(18,192)
Principal payments on long-term debt	(10,749)	-
Net cash flows - financing activities	(28,394)	(18,192)
 Net change in cash and cash equivalents	37,333	(129,136)
 <b>Cash and Cash Equivalents</b>		
Beginning of year	536,977	666,113
 End of year	\$ 574,310	\$ 536,977
 <b>Cash and Cash Equivalents</b>		
Cash and cash equivalents	\$ 429,184	\$ 425,093
Restricted cash - unemployment trust	145,126	111,884
	\$ 574,310	\$ 536,977
 <b>Supplementary Disclosure of Cash Flow Information</b>		
Property acquired through issuance of debt	\$ 587,500	\$ -

See notes to financial statements.



**Lakes & Prairies Community Action Partnership, Inc.**  
**Notes to Financial Statements**

**NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Organization**

Lakes & Prairies Community Action Partnership, Inc. (the "Organization") operates as a nonprofit organization to eliminate poverty, empower families, and engage communities. The Organization's main programs include:

- Head Start
- Clay Seniors Program
- Child Care Aware
- Rainbow Bridge
- Family and Community Services

**Basis of Accounting**

The financial statements of the Organization have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded as earned and expenses are recorded as incurred. The accounting policies of the Organization conform to accounting principles generally accepted in the United States of America (U.S. GAAP) applicable to nonprofit organizations.

**Financial Statement Presentation**

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

**Unrestricted**

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

**Temporarily Restricted**

Accounts for (a) contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations, (b) other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time or their fulfillment and removal by actions of the Organization pursuant to those stipulations. At February 28, 2017 and February 29, 2016, the Organization did not have any temporarily restricted net assets.

**Permanently Restricted**

Accounts for all financial resources which include a donor-imposed restriction that stipulates the resources be maintained permanently, but permits the Organization to use or expend part or all of the income derived from the donated assets. At February 28, 2017 and February 29, 2016, the Organization did not have any permanently restricted net assets.

**Lakes & Prairies Community Action Partnership, Inc.**  
**Notes to Financial Statements**

**NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 these estimates.

**Cash and Cash Equivalents**

The Organization considers cash in financial institutions and all highly liquid instruments purchased with a maturity of three months or less to be cash and cash equivalents. There was no cash paid for income taxes during 2017 and 2016.

Cash paid for interest for 2017 and 2016 was \$9,619 and \$1,700, respectively.

**Investments**

The Organization considers all financial instruments with a maturity greater than three months to be investments. Investments consist of certificates of deposit carried at cost, which approximates fair value.

**Grants Receivable**

Grants receivable are government and pass-through grant funds received subsequent to year end and are specifically allocated to the Organization's operations for the years 2017 and 2016. No allowance is deemed necessary due to the nature of the government grants.

**Other Receivables**

The other receivables are a result of the Organization extending unsecured credit to the users of the Organization's programs.

Management reviews the current status of existing receivables and charges off all receivables determined to be uncollectible; accordingly, no allowance for bad debts was considered necessary at February 28, 2017 and February 29, 2016.

The Organization considers receivables over 30 days to be past due and accrues interest at a monthly rate of 0.83% (10% annually) with a \$5 minimum on all past due accounts until collected. There were no accounts receivable that were 90 days or more past due and accruing interest at February 28, 2017 and February 29, 2016.

**Lakes & Prairies Community Action Partnership, Inc.**  
**Notes to Financial Statements**

**NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Property and Equipment**

Office furniture and computer equipment are capitalized and depreciated over their estimated useful lives of five to seven years. All other fixed assets purchased over \$5,000 are capitalized and depreciated over the estimated useful lives of 5 to 31 years. Contributed property and equipment are recorded at fair value at the date of the donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Depreciation is calculated using the straight line basis and totaled \$108,745 and \$99,139 for 2017 and 2016, respectively.

Some 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 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 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 Organization has determined that no impairment existed at February 28, 2017 and February 29, 2016.

**Compensated Absences**

Employees of the Organization are entitled to paid time off, depending on job classification, length of service, and other factors. Compensated absences are charged to expenses during the period earned. A liability for accrued compensated absences is shown in the statements of financial position.

**Grants**

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

**Lakes & Prairies Community Action Partnership, Inc.**  
**Notes to Financial Statements**

**NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Contributions**

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. Support that is not restricted by the donor is reported as an increase in unrestricted net assets. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Restricted contributions whose restrictions are met in the same reporting period are recorded as unrestricted contributions.

**In-Kind Contributions**

In-kind contributions are reflected as contributions valued at fair value on the date of donation. A similar amount is included in expenses on the statements of activities unless capitalized as donated property and equipment. The Organization recognizes the fair value of contributed services received if such services (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. For 2017 and 2016, donated goods totaling \$2,114 and \$1,663, respectively, were recorded in various programs.

A substantial number of volunteers have donated significant amounts of their time in the Organization's program services. However, no amounts have been reflected in the statements for donated services, since no objective basis is available to measure the value of such services.

**Charges for Services**

Charges for services are recognized as revenue in the year services are provided.

**Cost Allocation**

The Organization 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:

Office Space/Rental Costs – Allocated based on actual square footage occupied by each program.

Office Related Costs – Allocated to individual programs based on their actual usage.

Employee Overhead Costs – Allocated based on the amount of time an employee works for a program.

Insurance Costs – Allocated based on type and whether the policies are specifically written and required for an individual program or a universal policy that is required for the entire Organization.

**Lakes & Prairies Community Action Partnership, Inc.**  
**Notes to Financial Statements**

**NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Functional Expenses**

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

<b>Program</b>	2017	2016
Head Start	\$ 2,264,614	\$ 1,924,424
Clay Seniors	63,397	67,134
Child Care Aware	1,967,109	3,476,439
Rainbow Bridge	191,361	179,341
Family and Community Services	1,315,789	1,227,257
Total program expenses	5,802,270	6,874,595
Management and general	874,407	900,047
Total expenses	\$ 6,676,677	\$ 7,774,642

**Advertising Costs**

The Organization's policy is to expense advertising costs as they are incurred. During 2017 and 2016, the Organization incurred advertising costs totaling \$12,326 and \$28,440, respectively.

**Tax Status**

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

The Organization 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 Organization has determined there are no amounts to record as assets or liabilities related to uncertain tax positions.

**Subsequent Events**

The Organization has evaluated subsequent events through July 27, 2017, the date which the financial statements were available to be issued

**Lakes & Prairies Community Action Partnership, Inc.**  
**Notes to Financial Statements**

**NOTE 2 – GRANTS RECEIVABLE**

	2017	2016
Federal		
Food Support Outreach	\$ 5,146	\$ -
MNSure	8,104	-
Head Start	83,041	66,516
CDBG	6,201	-
CSGB	10,527	20,142
North Dakota STOP Grant	9,370	752
Clay Seniors	-	3,194
HUD Transitional Housing	-	22,704
HUD Permanent Supportive Housing	11,601	-
Emergency Solutions Grant	2,499	-
Minnesota Child Care Aware	308,447	127,344
VITA	4,186	15,447
Total Federal	449,122	256,099
State of Minnesota		
CAG	10,234	-
FHPAP Technology	11,870	-
Transitional Housing	3,095	6,126
Head Start	23,420	23,515
Homeless Youth Act	8,477	9,438
DHS LT Homeless Supp Serv	11,636	20,235
Pathways II	13,891	3,751
Early Learning Scholarship	164,780	503,463
Total State of Minnesota	247,403	566,528
State of North Dakota	5,569	6,334
Local	15,203	44,210
Total grants receivable	\$ 717,297	\$ 873,171

**Lakes & Prairies Community Action Partnership, Inc.**  
**Notes to Financial Statements**

**NOTE 3 – PROPERTY AND EQUIPMENT**

	<u>2017</u>	<u>2016</u>
Property and equipment	\$ 1,627,453	\$ 1,002,445
Leasehold improvements	95,900	95,900
	<u>1,723,353</u>	<u>1,098,345</u>
Less accumulated depreciation	<u>(905,439)</u>	<u>(817,493)</u>
Property and equipment, net	<u>\$ 817,914</u>	<u>\$ 280,852</u>

**NOTE 4 – DEFERRED REVENUE**

	<u>2017</u>	<u>2016</u>
Federal		
Area Agency on Aging	\$ 1,423	\$ -
SNAP	-	1,475
Total Federal	<u>1,423</u>	<u>1,475</u>
State of Minnesota		
CAG	-	1,414
Clay-Wilkin CWHAPP	27,932	18,998
Community Action Leadership Institute	18,462	-
Home Ownership Education Counseling and Training	6,713	-
MN Department of Revenue	-	4,571
MNSure	-	22,878
Total State of Minnesota	<u>53,107</u>	<u>47,861</u>
State of North Dakota		
Rainbow Bridge Visitation Center	<u>-</u>	<u>10</u>
Local	<u>159,598</u>	<u>34,827</u>
Total deferred revenue	<u>\$ 214,128</u>	<u>\$ 84,173</u>

**Lakes & Prairies Community Action Partnership, Inc.**  
**Notes to Financial Statements**

**NOTE 5 – LINE OF CREDIT**

In December 2016, the Organization obtained an \$80,000 line of credit from a bank to help finance its short-term capital needs. This line is collateralized by certificates of deposit. The interest rate the line is subject to change from time to time based on changes in an index which is the reference rate set by the lender. The agreement matures November 2018 and interest is payable monthly on outstanding balances. At February 28, 2017, the effective interest rate on the line of credit was 3.5%. No borrowings occurred during 2017.

**NOTE 6 - LONG-TERM DEBT**

	2017
Area Foundation	
Monthly installments of \$1,865, including interest at 4.50%, through October 2021, secured by mortgage	\$ 94,056
Bank	
Monthly installments of \$3,163, including interest at 4.73%, with a balloon payment due October 2026, secured by mortgage	482,695
	576,751
Less current maturities	(33,933)
	\$ 542,818

Future principal payments on long-term debt are as follows for the years ending February 28/29,

2018	\$ 33,933
2019	35,600
2020	37,274
2021	39,027
2022	33,303
Thereafter	397,614
Total	\$ 576,751

In connection with the line of credit and bank debt agreements, the Organization has agreed to certain restrictive covenants. At February 28, 2017, the Organization violated some of these covenants; however, those violations have been waived by the lender.



**Lakes & Prairies Community Action Partnership, Inc.**  
**Notes to Financial Statements**

**NOTE 7 – RETIREMENT PLAN**

The Organization sponsors a voluntary 403(b) retirement plan that covers all employees. The Organization matches up to 2% of employee deferrals after one year of service. The Organization also contributes a base contribution amount equal to 5% of wages for each eligible participant after they complete one year of service with 1,000 hours. The employer contributions for 2017 and 2016 were \$169,899 and \$182,925 respectively.

**NOTE 8 – CAPITAL LEASE**

The Organization leases servers under a capital lease which expired in February 2017. The asset and liability under the capital lease is recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The asset is depreciated over the lower of their related lease terms or their estimated useful life. The asset under the capital lease had a net book value of \$7,285 at February 28, 2017, and \$21,855 at February 29, 2016. Depreciation of the asset under the capital lease was \$14,570 and \$16,739 and is included in depreciation expense for 2017 and 2016, respectively.

**NOTE 9 – OPERATING LEASES**

The Organization leases various facilities and equipment through operating leases. Lease expense is included within the space costs and rentals and other direct costs and totaled \$244,051 and \$260,884 for 2017 and 2016, respectively.

Total minimum future lease payments are as follows for the years ending February 28/29:

2018	\$ 191,875
2019	23,977
2020	21,300
2021	21,300
Thereafter	<u>95,850</u>
Total minimum future lease payments	<u><u>\$ 354,302</u></u>

**NOTE 10 – CONCENTRATIONS**

**Revenue**

For 2017 and 2016, approximately 86% and 84%, respectively, of the Organization's revenues were derived from grants through federal and state agencies.

**Cash**

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

**Lakes & Prairies Community Action Partnership, Inc.**  
**Notes to Financial Statements**

**NOTE 11 – CONTINGENCIES**

**Property**

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

**Regulation**

The 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 government could result.

**Restricted Cash**

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

Restricted cash represents the Organization's estimated cash balance for eligible unemployment insurance claims. If claims exceed payments into the trust the Organization could become liable for those claims.

**NOTE 12 – RECLASSIFICATIONS**

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

**NOTE 13 – PRIOR PERIOD ADJUSTMENT**

The accrual for unemployment insurance was overstated in error for the year ended February 29, 2016. Accordingly, the Organization restated its financial statements for the year ended February 29, 2016. The effect of the correction was to decrease the accrued payroll, taxes and related benefits by \$156,830 for the year ended February 29, 2016 and increase the change in net assets for 2016 by \$65,307. The cumulative effect from the years ended February 28, 2015 and earlier increased beginning unrestricted net assets for 2016 by \$91,523.

**SUPPLEMENTARY INFORMATION**

**Lakes & Prairies Community Action Partnership, Inc.**  
**Notes to Schedule of Expenditures of Federal Awards**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the Organization under the programs of the federal government for the year ended February 28, 2017. The information in this schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

**NOTE 2 – 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. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

**NOTE 3 - INDIRECT COST RATE**

The Organization has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**Lakes & Prairies Community Action Partnership, Inc.**  
**Schedule of Expenditures of Federal Awards**  
**February 28, 2017**

Program	CFDA No.	Contract Number	Funding Source	Passed Through to Subrecipients	Federal Expenditures
<b>Federal Expenditures</b>					
U.S. Department of Agriculture:					
Child and Adult Care Food Program	10.558		Direct	\$ -	\$ 70,164
State Administrative Matching Grants for the Supplemental Food Support Outreach	10.561	GRK%85304	MDHS	-	61,216
State Administrative Matching Grants for the Supplemental Food Support Outreach	10.561	GRK%102152	MDHS	-	60,785
Total U.S. Department of Agriculture				-	192,165
U.S. Department of Housing and Urban Development:					
Emergency Solutions Grant Program	14.231	GRK%94480	MDHS	-	114,592
Transitional Housing	14.235		Direct	-	90,934
Transitional Housing	14.235		Direct	-	65,430
CDBG	14.288			-	6,201
Total U.S. Department of Housing and Urban Development				-	277,157
Internal Revenue Service					
VITA	21.009		Direct	-	15,914
U.S. Department of Justice:					
Visitation Center	16.588	G13.1159	NDDH	-	26,690
Visitation Center	16.588	G15.322	NDDH	-	22,898
Total U.S. Department of Justice				-	49,588
U.S. Department of Education:					
Minnesota School Age Child Care Aware	84.412A	GRK%95079	MDHS	-	133,816
U.S. Department of Health and Human Services					
Clay Seniors	93.044	314-15-003-416	WCAAA	-	28,270
Clay Seniors	93.044	314-17-003b-416	WCAAA	-	13,212
State Planning and Establishment Grant ACA	93.525	N/A	UCAP	-	59,550
CSBG	93.569	GRK%77063	MDHS	-	5,614
CSBG	93.569	GRK%64980	MDHS	-	108,250
CSBG	93.569	GRK%64980	MDHS	-	6,287
Minnesota School Age Child Care Aware	93.575	GRK%64861	MDHS	-	47,177
Minnesota School Age Child Care Aware	93.575	GRK%95079	MDHS	-	130,115
Minnesota School Age Child Care Aware	93.575	GRK%64861	MDHS	-	172,854
Minnesota School Age Child Care Aware	93.575	GRK%95079	MDHS	-	349,535
Head Start No. 05CH4119/49	93.600		Direct	-	1,860,806
Total U.S. Department of Health and Human Services				-	2,781,670
Total federal expenditures				\$ -	\$ 3,450,310

**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**

Board of Directors  
Lakes & Prairies Community  
Action Partnership, Inc.  
Moorhead, Minnesota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lakes & Prairies Community Action Partnership, Inc. as of and for the year ended February 28, 2017, and the related notes to financial statements, which collectively comprise the Organization's financial statements, and have issued our report thereon dated July 27, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization'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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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 were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness (2017-001).



### **Internal Control over Financial Reporting (Continued)**

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 Organization'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.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2017-002 and 2017-003.

### **The Organization's Responses to Findings**

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

### **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 result 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.

St. Cloud, Minnesota  
July 27, 2017

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

**Independent Auditor's Report**

Board of Directors  
Lakes & Prairies Community  
Action Partnership, Inc.  
Moorhead, Minnesota

**Report on Compliance on Each Major Federal Program**

We have audited Lakes & Prairies Community Action Partnership, Inc., 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 Organization's major federal programs for the year ended February 28, 2017. The Organization's major federal programs are identified in the summary of 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 laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to in the first paragraph. We conducted our audits 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 in the first paragraph 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 Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.





### ***Auditor's Responsibility (Continued)***

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 a legal determination of the Organization's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Lakes & Prairies Community Action Partnership, Inc. complied, in all material respects, with the types of compliance requirements referred to in the first paragraph that could have a direct and material effect on each of its major federal for the year ended February 28, 2017.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-002 and 2017-003. Our opinion on each major federal program is not modified with respect to these matters.

### **The Organization's Responses to Findings**

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

### **Report on Internal Control over Compliance**

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to in the first paragraph. In planning and performing our audit of compliance, we considered the Organization'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 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 Organization's internal control over compliance.



### **Report on Internal Control over Compliance (Continued)**

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 were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-002 and 2017-003, that we consider to be significant deficiencies.

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

### **Purpose of this 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.

St. Cloud, Minnesota  
July 27, 2017

**Lakes & Prairies Community Action Partnership, 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, 2017-001
• Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	Yes, 2017-002 and 2017-003
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes

**Identification of Major Programs**

CFDA No.	93.600
Name of Federal Program or Cluster	Head Start
Dollar threshold used to distinguish between type A and type B programs	\$750,000
Auditee qualified as low risk auditee?	Yes

**Lakes & Prairies Community Action Partnership, Inc.**  
**Schedule of Findings and Questioned Costs**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Material Weakness**

**AUDIT FINDING 2017-001 – MATERIAL AUDIT ADJUSTMENT**

*Criteria or Specific Requirement:*

Internal control that supports the Organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements requires management to reconcile and adjust all significant financial statement accounts prior to the audit.

*Condition:*

The Organization did not properly adjust the year end accrual for unemployment insurance.

*Context:*

This finding impacts the internal control over the preparation of financial statements and related notes in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

*Effect:*

A material audit adjustment of \$118,997 was proposed and recorded to decrease the year end liability for unemployment insurance, which was included in accrued payroll, taxes and related benefits. The adjustment also resulted in a decrease to fringe expense by \$74,051 and an increase in beginning net assets by \$44,946 through a prior period adjustment. A prior period adjustment of \$111,884 was also proposed and recorded to decrease the prior year accrued unemployment insurance.

*Cause:*

Management did not update the year end accrual for unemployment insurance based on incurred but not reported claims at the end of the year.

*Recommendation:*

We recommend management analyze the reserve level for unemployment insurance and update the year end accrual to claims that have transpired but have not yet been reported to the insurance company.

*Views of Responsible Officials and Planned Corrective Actions:*

Management agrees that year end accruals for unemployment insurance were not properly adjusted. We did not project the decrease in claims due to changes related to conversion of Head Start slots into Early Head Start slots. Management has developed a plan to analyze the reserve level for unemployment insurance and reconcile the restricted cash fund at least quarterly. Yearend adjustment will include consideration of claims incurred but not reported.

**Lakes & Prairies Community Action Partnership, Inc.**  
**Schedule of Findings and Questioned Costs**

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Significant Deficiencies**

**U.S. Department of Health and Human Services**  
**Head Start, CFDA 93.600**  
**05CH41119/49**

**AUDIT FINDING 2017-002 – ALLOWABLE COSTS – SELF INSURED UNEMPLOYMENT  
COMPENSATION**

*Criteria or Specific Requirement:*

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

*Condition:*

The Organization did not properly adjust the year end accrual for unemployment insurance and over charged the federal grant for unemployment insurance costs.

*Questioned Costs:*

The Federal Head Start program was charged \$53,930 for unemployment insurance during the fiscal year ended February 28, 2017. Total claims paid to Federal Head Start staff amounted to \$22,732 for the fiscal year ended February 28, 2017, the difference being \$31,198 of questioned costs.

*Context:*

The Organization charged unemployment expenses to the program which were based on an estimate and did not adjust to actual.

*Effect:*

\$31,198 of unemployment costs were charged to the program in excess of actual claims.

*Cause:*

Management did not analyze the reserve level and update the year end accrual for unemployment insurance based on incurred but not reported claims at the end of the year.

*Recommendation:*

We recommend management analyze the reserve level for unemployment insurance on a regular basis and update the year end accrual to the claims that have transpired but have not yet been reported to an insurance company.

**Lakes & Prairies Community Action Partnership, Inc.**  
**Schedule of Findings and Questioned Costs**

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

**Significant Deficiencies (Continued)**

**AUDIT FINDING 2017-002 – ALLOWABLE COSTS – SELF INSURED UNEMPLOYMENT COMPENSATION (CONTINUED)**

*Views of Responsible Officials and Planned Corrective Actions:*

Management agrees with the finding that reserve levels were not analyzed to properly charge the program for actual costs. There were significant changes in the Head Start Program with the implementation of Early Head Start. As a result of those program changes, we had several staff employed year-round, who had previously been laid off seasonally. To remedy this the rates charged to programs have been reduced. Management has developed a plan to analyze the reserve level for unemployment insurance and reconcile the restricted cash fund at least quarterly. Claims made to the State of MN will be reconciled against what was reimbursed by the trust on at least a quarterly basis, and charges to programs will be adjusted so as not to exceed a reasonable accrual.

**U.S. Department of Health and Human Services**  
**Head Start, CFDA 93.600**  
**05CH41119/49**

**AUDIT FINDING 2017-003 – CASH MANAGEMENT**

*Criteria or Specific Requirement:*

According to 2 CFR section 200.305(b)(3) program costs must be paid by nonfederal entity funds before submitting a payment request i.e., the nonfederal entity must disburse funds for program purposes before requesting payment from the federal awarding agency or pass-through entity.

*Condition:*

The Organization requested reimbursement funds prior to incurring costs.

*Questioned Costs:*

\$40,368 of program costs were requested twice in the same cash request.

*Context:*

We noted 1 out of 7 federal cash requests tested in a population of 31 cash requests included a duplicate request for \$40,368. The Organization detected the error prior to the next cash request and decreased the subsequent amount requested by the duplicated amount noted above.

*Effect:*

The Organization drew down costs that were not supported at the time the cash request was made.

*Cause:*

The Organization did not have a preventive control in place to ensure cash requests were properly supported.

**Lakes & Prairies Community Action Partnership, Inc.**  
**Schedule of Findings and Questioned Costs**

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

**Significant Deficiencies (Continued)**

**AUDIT FINDING 2017-003 – CASH MANAGEMENT (CONTINUED)**

*Recommendation:*

We recommend the Organization create a preventive control process that ensures only costs supported by proper documentation and that are incurred and paid for prior to requesting reimbursement from the grantor.

*Views of Responsible Officials and Planned Corrective Actions:*

We agree with the auditors' assessment that we did not have a preventive control in place to ensure cash requests were properly supported. The management team has developed a process to ensure all cash requests are supported by proper documentation and reconciled for accuracy. A Balance Sheet dashboard has been created in the Financial Software to total the Cash Balance as of the cash request date. The general ledger specialist will reconcile the Balance Sheet dashboard against detail reports on existing funding streams. In addition, the adding machine tape will have a total at the top and the bottom to ensure we are starting with a zero total. Training on this process has occurred and written procedures were updated.