

KOOTASCA COMMUNITY ACTION, INC.

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
Years Ended December 31, 2023 and 2022**

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, 2023 and 2022, 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, 2023 and 2022, 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 January 15, 2025 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, Miray & Helne, LLC

Virginia, Minnesota
January 15, 2025

KOOTASCA COMMUNITY ACTION, INC.

STATEMENTS OF FINANCIAL POSITION
December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 387,021	\$ 779,584
Certificates of deposit	-	150,000
Grants receivable	567,882	351,062
Accounts receivable	103,368	62,300
Current portion of contracts receivable	20,364	28,971
Inventory	-	32,575
Prepaid expenses	<u>103,590</u>	<u>73,381</u>
TOTAL CURRENT ASSETS	<u>1,182,225</u>	<u>1,477,873</u>
OTHER ASSETS		
Restricted cash and cash equivalents	294,869	264,740
Contracts receivable, net of current portion	101,499	113,978
Beneficial interest in assets held by others	<u>127,003</u>	<u>119,757</u>
TOTAL OTHER ASSETS	<u>523,371</u>	<u>498,475</u>
PROPERTY AND EQUIPMENT, NET	<u>4,902,211</u>	<u>3,428,824</u>
RIGHT-OF-USE ASSETS - OPERATING LEASES	<u>13,483</u>	<u>137,578</u>
TOTAL ASSETS	<u>\$ 6,621,290</u>	<u>\$ 5,542,750</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Line of credit	\$ 55,278	\$ -
Accounts payable	158,119	98,775
Accrued payroll and related expenses	451,670	530,086
Refundable grants	277,315	294,476
Deferred grant revenue	276,745	401,597
Current portion of operating lease liabilities	13,483	124,095
Current portion of notes payable	<u>6,225</u>	<u>14,139</u>
TOTAL CURRENT LIABILITIES	<u>1,238,835</u>	<u>1,463,168</u>
NONCURRENT LIABILITIES		
Noncurrent refundable grants	100,421	113,086
Operating lease liabilities, net of current portion	-	13,483
Long-term notes payable, net of current portion	<u>-</u>	<u>6,225</u>
TOTAL NONCURRENT LIABILITIES	<u>100,421</u>	<u>132,794</u>
TOTAL LIABILITIES	<u>1,339,256</u>	<u>1,595,962</u>
NET ASSETS		
Without donor restrictions		
Designated	127,003	119,757
Undesignated	5,138,623	3,761,795
With donor restrictions	<u>16,408</u>	<u>65,236</u>
TOTAL NET ASSETS	<u>5,282,034</u>	<u>3,946,788</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,621,290</u>	<u>\$ 5,542,750</u>

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

KOOTASCA COMMUNITY ACTION, INC.

STATEMENT OF ACTIVITIES
Year Ended December 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Grant revenue	\$ 8,991,205	\$ 132,043	\$ 9,123,248
Contributions	22,780	-	22,780
Interest income	1,784	-	1,784
Program and other income	319,094	-	319,094
In-kind contributions	296,611	-	296,611
Change in value of beneficial interest	12,561	-	12,561
Net assets released from restrictions	180,871	(180,871)	-
TOTAL SUPPORT AND REVENUE	9,824,906	(48,828)	9,776,078
EXPENSES			
Program Services			
Asset building	2,689,787	-	2,689,787
Education	3,956,714	-	3,956,714
Building social capital	178,873	-	178,873
Total Program Services	6,825,374	-	6,825,374
Support Services			
Management and general	1,597,883	-	1,597,883
TOTAL EXPENSES	8,423,257	-	8,423,257
Loss on disposal of inventory	17,575	-	17,575
TOTAL EXPENSES AND LOSSES	8,440,832	-	8,440,832
CHANGE IN NET ASSETS	1,384,074	(48,828)	1,335,246
NET ASSETS AT BEGINNING OF YEAR	3,881,552	65,236	3,946,788
NET ASSETS AT END OF YEAR	\$ 5,265,626	\$ 16,408	\$ 5,282,034

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

KOOTASCA COMMUNITY ACTION, INC.

STATEMENT OF ACTIVITIES
Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
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	56,471	(56,471)	-
TOTAL SUPPORT AND REVENUE	11,091,805	(8,929)	11,082,876
EXPENSES			
Program Services			
Asset building	2,980,130	-	2,980,130
Education	4,311,068	-	4,311,068
Building social capital	166,554	-	166,554
Total Program Services	7,457,752	-	7,457,752
Support Services			
Management and general	1,512,499	-	1,512,499
Fundraising	302	-	302
Total Support Services	1,512,801	-	1,512,801
TOTAL EXPENSES	8,970,553	-	8,970,553
CHANGE IN NET ASSETS	2,121,252	(8,929)	2,112,323
NET ASSETS AT BEGINNING OF YEAR	1,760,300	74,165	1,834,465
NET ASSETS AT END OF YEAR	\$ 3,881,552	\$ 65,236	\$ 3,946,788

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

KOOTASCA COMMUNITY ACTION, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended December 31, 2023 and 2022

2023

	Program Services			Total Program Services
	Asset <u>Building</u>	<u>Education</u>	Building Social <u>Capital</u>	
Personnel	\$ 1,342,255	\$ 2,585,261	\$ 107,322	\$ 4,034,838
Contractual	464,633	296,797	26,879	788,309
Travel	14,174	22,991	4,598	41,763
Space costs	183,859	285,345	13,169	482,373
Supplies	60,298	251,914	20,040	332,252
Depreciation	28,139	96,488	-	124,627
Direct client assistance	518,449	-	-	518,449
Other	77,980	121,307	6,865	206,152
In-kind expenses	-	296,611	-	296,611
TOTAL EXPENSES	<u>\$ 2,689,787</u>	<u>\$ 3,956,714</u>	<u>\$ 178,873</u>	<u>\$ 6,825,374</u>

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	<u>\$ 2,980,130</u>	<u>\$ 4,311,068</u>	<u>\$ 166,554</u>	<u>\$ 7,457,752</u>

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>
\$ 1,147,702	\$ -	\$ 1,147,702	\$ 5,182,540
203,397	-	203,397	991,706
12,088	-	12,088	53,851
46,260	-	46,260	528,633
72,160	-	72,160	404,412
52,575	-	52,575	177,202
-	-	-	518,449
63,701	-	63,701	269,853
-	-	-	296,611
<u>\$ 1,597,883</u>	<u>\$ -</u>	<u>\$ 1,597,883</u>	<u>\$ 8,423,257</u>

<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>

KOOTASCA COMMUNITY ACTION, INC.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,335,246	\$ 2,112,323
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	177,202	117,496
Donated land and building	-	(2,375,906)
Change in discount on contracts receivable	1,886	(10,124)
(Gain)/Loss on disposal of fixed assets	-	9,075
(Gain)/Loss on disposal of inventory	17,575	-
Change in value of beneficial interest	(7,246)	22,446
(Increase) decrease in operating assets:		
Grants receivable	(216,820)	113,780
Accounts receivable	(41,068)	(46,365)
Inventory	32,575	(32,575)
Prepaid expenses	(30,209)	35,121
Increase (decrease) in operating liabilities:		
Accounts payable	59,344	(6,799)
Accrued payroll and related expenses	(78,416)	(11,623)
Refundable grants	(29,826)	32,096
Deferred grant revenue	(124,852)	(440,922)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>1,095,391</u>	<u>(481,977)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Reinvestment in certificates of deposit	-	(150,000)
Proceeds from certificates of deposit	150,000	150,000
Collection of principal on contracts for deed	17,648	15,284
Purchases of property and equipment	(1,666,612)	(86,475)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(1,498,964)</u>	<u>(71,191)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	1,557,903	-
Principal paid on line of credit	(1,502,625)	-
Payments on notes payable	(14,139)	(13,086)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>41,139</u>	<u>(13,086)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(362,434)	(566,254)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR,	<u>1,044,324</u>	<u>1,610,578</u>
including restricted cash and cash equivalents of \$264,740 in 2023 and \$258,941 in 2022		
CASH AND CASH EQUIVALENTS AT END OF YEAR,	<u>\$ 681,890</u>	<u>\$ 1,044,324</u>
including restricted cash and cash equivalents of \$294,869 in 2023 and \$264,740 in 2022		
SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS		
Right-of-use assets acquired with operating leases	<u>\$ -</u>	<u>\$ 137,578</u>

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

KOOTASCA COMMUNITY ACTION, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

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, 2023 and 2022

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 for credit losses. No allowance for credit losses is considered necessary as of December 31, 2023 and 2022.

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 for credit losses 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, 2023 and 2022

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 \$1,610,589 and \$17,744 in 2023 and 2022.

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, 2023 and 2022.

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, 2023 and 2022

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.

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 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 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.

KOOTASCA COMMUNITY ACTION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

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. Minnesota Urban and Rural Homestead Program (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, 2023 and 2022

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 2020 and thereafter remain subject to examination by the Internal Revenue Service.

Change in Accounting Policy

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13" or "ASC 326"). ASU 2016-13 revises the accounting requirements related to the measurement of credit losses and requires organizations to measure all expected credit losses for financial assets based on historical experience, current conditions, and reasonable and supportable forecasts about collectability. Assets must be presented in the financial statements at the net amount expected to be collected. The FASB has subsequently issued additional ASUs amending certain aspects of ASU 2016-13. The Organization adopted this guidance as of January 1, 2023, using the modified retrospective method. There was no significant impact on the statement of activities, functional expenses, or cash flows as a result of the adoption.

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.

NOTE 2 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization has \$1,058,271 of financial assets available within one year of the December 31, 2023 to meet cash needs for general operating expenditures, consisting of cash of \$387,021, grants receivable of \$567,882, and accounts receivable of \$103,368. Financial assets of \$294,869 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 \$1,342,946 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.

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

KOOTASCA COMMUNITY ACTION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

NOTE 3 - CONCENTRATION OF CREDIT RISK (CONTINUED)

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, 2023 and 2022, the Organization's cash balances were insured or collateralized.

NOTE 4 - GRANTS RECEIVABLE

Grants receivable consist of the following at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Direct federal programs	\$ 64,982	\$ 66,394
Pass-through federal programs	185,998	174,639
State programs	266,501	101,575
Other programs	<u>50,401</u>	<u>8,454</u>
Total grants receivable	<u>\$ 567,882</u>	<u>\$ 351,062</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 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 2023 and 2022 were 5.93% and 5.68%, respectively. There were no new loans in 2023 or 2022. No allowance for credit losses is provided because it is anticipated the collateral will be adequate to cover any losses.

Contracts receivable at December 31, 2023 and 2022 consisted of the following:

	<u>2023</u>	<u>2022</u>
Contracts receivable at face value	\$ 158,936	\$ 178,135
Discount to present value	<u>(37,073)</u>	<u>(35,186)</u>
Contracts receivable at net present value	121,863	142,949
Less: current portion	<u>(20,364)</u>	<u>(28,971)</u>
Noncurrent portion	<u>\$ 101,499</u>	<u>\$ 113,978</u>

KOOTASCA COMMUNITY ACTION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

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 2023 and 2022 were \$294,869 and \$264,740, respectively.

NOTE 7 - PROPERTY AND EQUIPMENT

The Organization's investment in property and equipment consisted of the following at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Land	\$ 127,700	\$ 87,700
Building	3,587,636	3,587,636
Equipment	377,619	454,123
Vehicles	133,929	133,929
Construction in progress	<u>1,610,589</u>	<u>-</u>
Total	5,837,473	4,263,388
Accumulated depreciation	<u>(935,262)</u>	<u>(834,564)</u>
Net book value	<u>\$ 4,902,211</u>	<u>\$ 3,428,824</u>

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 \$124,095 and total lease expense was \$172,480 for the year ended December 31, 2023.

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.

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

2024	<u>\$ 13,483</u>
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KOOTASCA COMMUNITY ACTION, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 9 - LINE OF CREDIT

The Organization currently has a line of credit of \$700,000 with Park State Bank, which expires on March 17, 2024.

Interest is payable monthly at the prime rate published by the Wall Street Journal minus 0.75 percentage points with a floor of 7.00%, which for the year ended December 31, 2023 was 7.75%. At December 31, 2023, \$55,278 was outstanding on the line of credit. The line of credit is secured by assets of the Organization including deposit accounts, accounts receivable, inventory, and property and equipment.

Interest expense for the line of credit was \$10,647 for the year ended December 31, 2023.

NOTE 10 - NOTES PAYABLE

Notes payable consisted of the following at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</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	\$ 3,175	\$ 10,367
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>3,050</u>	<u>9,997</u>
Total notes payable	6,225	20,364
Less current portion	<u>(6,225)</u>	<u>(14,139)</u>
Total long-term portion	<u>\$ -</u>	<u>\$ 6,225</u>

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

2024	<u>\$ 6,225</u>
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KOOTASCA COMMUNITY ACTION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

NOTE 11 - 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, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Cash on hand, repayments from homebuyers	\$ 260,623	\$ 236,157
Accounts receivable	-	296
Contracts for deed	121,863	142,949
Inventory	-	32,575
Less: accounts payable	(1,078)	(553)
Homeowners' funds held in escrow	<u>(3,672)</u>	<u>(3,862)</u>
Total refundable grants	377,736	407,562
Less: current portion	<u>(277,315)</u>	<u>(294,476)</u>
 Long-term portion	 <u>\$ 100,421</u>	 <u>\$ 113,086</u>

NOTE 12 - 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, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
MHFA Rehab Loan Program	\$ -	\$ 61,582
MHFA Family Homeless Prevention	36,251	14,048
MHFA Propel	-	8,168
Rapid Rehousing	-	1,963
Blandin Foundation	207,918	253,185
Housing Instability - Otto Bremer	8,360	-
Alexander Baker Building	-	576
EAP/WX	24,204	-
Education contracts	-	62,066
MURL	<u>12</u>	<u>9</u>
 Total deferred grant revenue	 <u>\$ 276,745</u>	 <u>\$ 401,597</u>

KOOTASCA COMMUNITY ACTION, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 13 - 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. The restrictions were released in 2023 with the expiration of the 15-year period and all requirements having been met.

Net assets with donor restrictions consisted of the following at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Men's Shelter	\$ -	\$ 62,980
Foundation Grants	<u>16,408</u>	<u>2,256</u>
Total	<u>\$ 16,408</u>	<u>\$ 65,236</u>

All releases from restrictions during the years ended December 31, 2023 and 2022 were due to fulfillment of purposes.

NOTE 14 - DESIGNATED ENDOWMENT FUNDS

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

NOTE 15 - 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, 2023 and 2022 were \$168,862 and \$169,782.

KOOTASCA COMMUNITY ACTION, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 16 - 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.

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>2023</u>	<u>2022</u>
Balance, Beginning of Year	\$ 119,757	\$ 142,203
Contributions to Endowment Fund	1,000	-
Distribution to KOOTASCA	(5,315)	(5,180)
Net investment performance	<u>11,561</u>	<u>(17,266)</u>
Balance, Ending of Year	<u>\$ 127,003</u>	<u>\$ 119,757</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 17 - 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 18 - CONCENTRATION

The Organization received approximately 25% and 29% of its revenues from the U.S. Department of Health and Human Services for its Head Start program for the years ended December 31, 2023 and 2022.

KOOTASCA COMMUNITY ACTION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

NOTE 19 - IN-KIND CONTRIBUTIONS

During the years ended December 31, 2023 and 2022, the Organization received the following without donor restrictions; donations of land, a building, professional volunteer services, contractual services, materials, and free use of facilities:

	<u>2023</u>	<u>2022</u>
Land	\$ -	\$ 47,300
Building	-	2,328,605
Professional volunteer services	100,040	113,906
Contractual services	-	106,941
Materials	2,077	868
Free use of facilities	<u>194,494</u>	<u>265,219</u>
	<u>\$ 296,611</u>	<u>\$ 2,862,839</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, 2023 and 2022 with fair values of \$96,680 and \$136,474, respectively, for its Head Start and other programs, which are not recognized in the financial statements.

NOTE 20 - RELATED PARTIES

Two members of the Organization's Board of Directors are married. The interested Directors abstain from votes and motions as needed to avoid potential conflicts of interest.

NOTE 21 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through January 15, 2025, 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, 2023

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	\$ 8,469
<i>Direct</i>		
Rural Rental Assistance Payments - FMHA 515 Fairview Building	10.427	35,712
<i>Pass-through Program from: Minnesota Department of Education</i>		
Child and Adult Care Food Program	10.558	97,669
Child and Adult Care Food Program	10.558	52,511
Total Assistance Listing No.10.558		150,180
TOTAL U.S. DEPARTMENT OF AGRICULTURE		194,361
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
<i>Pass-through Program from: Minnesota Homeownership Center</i>		
Housing Counseling Assistance Program	14.169	19,800
Housing Counseling Assistance Program	14.169	5,311
Total Assistance Listing No.14.169		25,111
<i>Pass-through Program from: Minnesota Department of Human Services</i>		
Emergency Solutions Grant Program - Emergency Shelter Grant Rehousing - GRK%200575	14.231	28,947
Emergency Solutions Grant Program - Emergency Shelter Grant Rehousing - GRK%200575	14.231	17,266
COVID-19 - Emergency Solutions Grant Program - Emergency Solutions Grant CARES Act (ESG-CV2) - Rapid Rehousing	14.231	19,818
Total Assistance Listing No.14.231		66,031
<i>Pass-through Program from: St. Louis County, Minnesota</i>		
Home Investment Partnerships Program	14.239	4,382
Home Investment Partnerships Program	14.239	53,760
Total Assistance Listing No.14.239		58,142
<i>Direct</i>		
Continuum of Care Program	14.267	6,113
Continuum of Care Program	14.267	17,358
Total Assistance Listing No.14.267		23,471
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		172,755
U.S. DEPARTMENT OF TREASURY		
<i>Pass-through Program from: Minnesota Department Human Services</i>		
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	3,203
TOTAL U.S. DEPARTMENT OF TREASURY		3,203

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, 2023

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Federal Expenditures
U.S. DEPARTMENT OF ENERGY		
<i>Pass-through Program from: Minnesota Department of Commerce</i>		
Weatherization Assistance for Low-Income Persons	81.042	\$ 136,088
Weatherization Assistance for Low-Income Persons	81.042	40,410
Weatherization Assistance for Low-Income Persons - DOE BIL	81.042	6,098
Weatherization Assistance for Low-Income Persons - WAP BIL	81.042	<u>72,426</u>
Total Assistance Listing No. 81.042		<u>255,022</u>
TOTAL U.S. DEPARTMENT OF ENERGY		<u>255,022</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	352,513
Low-Income Home Energy Assistance	93.568	118,334
Low-Income Home Energy Assistance	93.568	127,584
Low-Income Home Energy Assistance - 2202MNLIEA	93.568	301,525
Low-Income Home Energy Assistance - 2302MNLIEA	93.568	<u>2,241</u>
Total Assistance Listing No. 93.568		<u>902,197</u>
<i>Pass-through Program from: Minnesota Department of Human Services</i>		
Community Services Block Grant - GRK%197530	93.569	114,806
Community Services Block Grant - 229518	93.569	<u>27,149</u>
Total Assistance Listing No. 93.569		<u>141,955</u>
<i>Pass-through Program from: Minnesota Department of Human Services</i>		
COVID-19 - Child Care and Development Block Grant	93.575	<u>53,968</u>
Head Start Cluster		
<i>Direct</i>		
Head Start - 05CH010837-04-02	93.600	212,081
Head Start - 05CH010837-05-01	93.600	2,028,197
Head Start - 05CH010837-05-01	93.600	177,557
<i>Pass-through Program from: Tri-County Community Action Partnership</i>		
Head Start	93.600	37,105
Head Start	93.600	<u>35,080</u>
Total Assistance Listing No. 93.600		<u>2,490,020</u>
Total Head Start Cluster		<u>2,490,020</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		<u>3,588,140</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 4,213,481</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, 2023**

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, 2023. 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>\$ 2,490,020</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 and for the year ended December 31, 2023, 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 January 15, 2025.

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
January 15, 2025



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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, 2023. 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, 2023.

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, Miroux & Helue, LLC

Virginia, Minnesota
January 15, 2025

KOOTASCA COMMUNITY ACTION, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2023

None noted.

KOOTASCA COMMUNITY ACTION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2023

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:

<u>Assistance Listing Number(s)</u>	<u>Name of Federal Program or Cluster Head Start</u>
93.600	

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, 2023

Section II – Financial Statement Findings

None noted.

Section III – Federal Award Findings and Questioned Costs

There were no federal award findings or questioned costs.