

**COMMUNITY ACTION PARTNERSHIP
OF SUBURBAN HENNEPIN**

St. Louis Park, Minnesota

Audit Report on Financial Statements
And Federal Awards

For the Year Ended December 31, 2016

**COMMUNITY ACTION PARTNERSHIP
OF SUBURBAN HENNEPIN**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Community Action Partnership of Suburban Hennepin
St. Louis Park, MN

Report on the Financial Statements

We have audited the accompanying financial statements of Community Action Partnership of Suburban Hennepin (the "Organization"), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditors' 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 entity'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 entity'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 above present fairly, in all material respects, the financial position of Community Action Partnership of Suburban Hennepin as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Period Financial Statements

The financial statements of Community Action Partnership of Suburban Hennepin as of December 31, 2015 were audited by other auditors whose report dated March 16, 2016 expressed an unmodified opinion on those statements.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 our report dated August 24, 2017 on our consideration of Community Action Partnership of Suburban Hennepin'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.

Baker Tilly Veitchau Krause, LLP

Minneapolis, Minnesota
August 24, 2017

COMMUNITY ACTION PARTNERSHIP OF SUBURBAN HENNEPIN

STATEMENTS OF FINANCIAL POSITION
As of December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 205,966	\$ 261,610
Grants and contracts receivable	785,584	491,779
Prepaid expenses	84,565	81,984
Investments	<u>99,796</u>	<u>92,690</u>
Total current assets	1,175,911	928,063
PROPERTY AND EQUIPMENT		
Furniture and fixtures	157,965	140,512
Accumulated depreciation	<u>(81,809)</u>	<u>(59,841)</u>
Property and equipment, net	<u>76,156</u>	<u>80,671</u>
TOTAL ASSETS	<u>\$ 1,252,067</u>	<u>\$ 1,008,734</u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 92,564	\$ 46,297
Accrued expenses	131,604	101,664
Compensated absences payable	60,929	51,692
Grant advances	<u>218,090</u>	<u>996</u>
TOTAL LIABILITIES	503,187	200,649
NET ASSETS		
Unrestricted		
Undesignated	532,502	546,905
Designated for future initiatives	99,796	92,690
Investment in property and equipment	<u>76,156</u>	<u>80,671</u>
Total unrestricted	708,454	720,266
Temporarily restricted	<u>40,426</u>	<u>87,819</u>
TOTAL NET ASSETS	<u>748,880</u>	<u>808,085</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,252,067</u>	<u>\$ 1,008,734</u>

See accompanying notes to financial statements.

COMMUNITY ACTION PARTNERSHIP OF SUBURBAN HENNEPIN

STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
UNRESTRICTED SUPPORT AND REVENUE		
Public Support		
Government grants and contracts	\$ 5,931,589	\$ 4,474,418
Corporate/foundation grants	28,360	26,500
Other grants and contributions	8,338	5,737
In-kind contributions	<u>-</u>	<u>11,190</u>
Total Public Support	<u>5,968,287</u>	<u>4,517,845</u>
Program and Other Revenue		
Program service fees	12,505	22,174
Investment income (loss)	9,165	(1,438)
Releases from restrictions	<u>47,393</u>	<u>-</u>
Total Support, Program and Other Revenue	<u>69,063</u>	<u>20,736</u>
Total unrestricted public support and revenue	<u>6,037,350</u>	<u>4,538,581</u>
EXPENSE		
Program services	5,153,881	3,858,526
Management and general	895,281	604,558
Fundraising	<u>-</u>	<u>12,367</u>
Total Expense	<u>6,049,162</u>	<u>4,475,451</u>
Change in unrestricted net assets	(11,812)	63,130
TEMPORARILY RESTRICTED NET ASSETS		
Releases from restrictions	<u>(47,393)</u>	<u>-</u>
Change in temporarily restricted net assets	(47,393)	-
TOTAL CHANGE IN NET ASSETS	(59,205)	63,130
Net Assets - Beginning of Year	<u>808,085</u>	<u>744,955</u>
NET ASSETS - END OF YEAR	<u>\$ 748,880</u>	<u>\$ 808,085</u>

See accompanying notes to financial statements.

COMMUNITY ACTION PARTNERSHIP OF SUBURBAN HENNEPIN

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2016

(With Comparative Totals for 2015)

	Program Services				Supporting Services			2016 Total	2015 Total	
	Community Development	Housing Services	Energy Assistance	Other	Total	Management and General	Fundraising			Total
Salaries, payroll taxes and benefits										
Salaries	\$ 203,044	\$ 587,037	\$ 957,373	\$ 268,303	\$ 2,015,757	\$ 474,391	\$ -	\$ 474,391	\$ 2,490,148	\$ 2,229,500
Payroll taxes and benefits	50,528	175,008	210,406	53,074	489,016	122,483	-	122,483	611,499	547,853
Total salaries, payroll taxes and benefits	<u>253,572</u>	<u>762,045</u>	<u>1,167,779</u>	<u>321,377</u>	<u>2,504,773</u>	<u>596,874</u>	<u>-</u>	<u>596,874</u>	<u>3,101,647</u>	<u>2,777,353</u>
Expenses										
Direct client services	-	226,361	488,720	54,418	769,499	-	-	-	769,499	1,009,224
Occupancy	3,384	24,750	88,455	6,323	122,912	118,625	-	118,625	241,537	195,306
Printing, publications and advertising	5,321	34,127	147,413	2,657	189,518	4,293	-	4,293	193,811	105,287
Professional fees	356	45,000	5,150	253,626	304,132	27,568	-	27,568	331,700	35,584
Equipment expense	15,843	19,161	31,499	39,380	105,883	46,764	-	46,764	152,647	139,469
Travel	7,430	18,765	1,474	2,432	30,101	15,990	-	15,990	46,091	43,102
Postage and shipping	2,006	4,885	7,844	271	15,006	1,350	-	1,350	16,356	24,053
Supplies	528	779	8,139	1,026	10,472	21,521	-	21,521	31,993	22,914
Dues and licenses	830	1,620	100	49,652	52,202	21,222	-	21,222	73,424	28,492
Conferences, meetings and training	6,876	6,793	609	10,789	25,067	18,282	-	18,282	43,349	33,126
Insurance	961	1,674	3,611	448	6,694	2,114	-	2,114	8,808	8,890
Telephone	1,921	5,207	11,298	1,109	19,535	5,806	-	5,806	25,341	19,491
Grants to others		-	-	961,538	961,538	-	-	-	961,538	-
Miscellaneous	4,274	3,511	10,830	728	19,343	10,110	-	10,110	29,453	21,516
Total expenses before depreciation	303,302	1,154,678	1,972,921	1,705,774	5,136,675	890,519	-	890,519	6,027,194	4,463,807
Depreciation	1,173	3,785	11,906	342	17,206	4,762	-	4,762	21,968	11,644
Total Expenses	<u>\$ 304,475</u>	<u>\$ 1,158,463</u>	<u>\$ 1,984,827</u>	<u>\$ 1,706,116</u>	<u>\$ 5,153,881</u>	<u>\$ 895,281</u>	<u>\$ -</u>	<u>\$ 895,281</u>	<u>\$ 6,049,162</u>	<u>\$ 4,475,451</u>

See accompanying notes to financial statements.

COMMUNITY ACTION PARTNERSHIP OF SUBURBAN HENNEPIN

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2015

	Program Services				Supporting Services			2015 Total	
	Community Development	Housing Services	Energy Assistance	Other	Total	Management and General	Fundraising		Total
Salaries, payroll taxes and benefits									
Salaries	\$ 215,652	\$ 520,759	\$ 999,820	\$ 113,226	\$ 1,849,457	\$ 370,517	\$ 9,526	\$ 380,043	\$ 2,229,500
Payroll taxes and benefits	52,314	156,536	211,331	27,429	447,610	98,257	1,986	100,243	547,853
Total salaries, payroll taxes and benefits	<u>267,966</u>	<u>677,295</u>	<u>1,211,151</u>	<u>140,655</u>	<u>2,297,067</u>	<u>468,774</u>	<u>11,512</u>	<u>480,286</u>	<u>2,777,353</u>
Expenses									
Direct client services	95	351,023	631,665	26,441	1,009,224	-	-	-	1,009,224
Occupancy	36,012	21,379	109,439	2,797	169,627	25,643	36	25,679	195,306
Printing, publications and advertising	12,556	9,754	77,667	3,759	103,736	1,544	7	1,551	105,287
Professional fees	2,414	1,105	471	11,616	15,606	19,962	16	19,978	35,584
Equipment expense	14,178	21,771	64,465	4,802	105,216	34,108	145	34,253	139,469
Travel	10,431	12,269	2,490	4,053	29,243	13,510	349	13,859	43,102
Postage and shipping	1,064	5,256	15,455	687	22,462	1,591	-	1,591	24,053
Supplies	3,352	3,911	11,466	1,639	20,368	2,515	31	2,546	22,914
Dues and licenses	504	798	3,747	121	5,170	23,172	150	23,322	28,492
Conferences, meetings and training	6,066	6,630	9,046	9,859	31,601	1,503	22	1,525	33,126
Insurance	838	2,365	4,570	497	8,270	582	38	620	8,890
Telephone	1,614	5,092	10,530	614	17,850	1,588	53	1,641	19,491
Miscellaneous	760	1,788	7,814	1,894	12,256	9,254	6	9,260	21,516
Total expenses before depreciation	<u>357,850</u>	<u>1,120,436</u>	<u>2,159,976</u>	<u>209,434</u>	<u>3,847,696</u>	<u>603,746</u>	<u>12,365</u>	<u>616,111</u>	<u>4,463,807</u>
Depreciation	1,529	2,679	6,568	54	10,830	812	2	814	11,644
Total Expenses	<u>\$ 359,379</u>	<u>\$ 1,123,115</u>	<u>\$ 2,166,544</u>	<u>\$ 209,488</u>	<u>\$ 3,858,526</u>	<u>\$ 604,558</u>	<u>\$ 12,367</u>	<u>\$ 616,925</u>	<u>\$ 4,475,451</u>

See accompanying notes to financial statements.

COMMUNITY ACTION PARTNERSHIP OF SUBURBAN HENNEPIN

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (59,205)	\$ 63,130
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	21,968	11,644
Unrealized (gain) loss on investments	(5,189)	5,532
Change in assets and liabilities		
Grants and contracts receivable	(293,805)	196,657
Prepaid expenses	(2,581)	48,049
Accounts payable	46,267	(171,250)
Accrued expenses	29,940	21,372
Compensated absence payable	9,237	(1,751)
Grant advances	<u>217,094</u>	<u>(148,539)</u>
Net Cash Flows From Operating Activities	(36,274)	24,844
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(17,453)	(66,368)
Investment purchases	(25,859)	(26,997)
Investment sales	<u>23,942</u>	<u>24,031</u>
Net Cash Flows From Investing Activities	(19,370)	(69,334)
Net Change in Cash and Cash Equivalents	(55,644)	(44,490)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>261,610</u>	<u>306,100</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 205,966</u>	<u>\$ 261,610</u>

See accompanying notes to financial statements.

**COMMUNITY ACTION PARTNERSHIP
OF SUBURBAN HENNEPIN**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Community Action Partnership of Suburban Hennepin (the "Organization") is incorporated under the Minnesota Nonprofit Corporation Act and is tax exempt under the federal tax laws.

The Organization provides services to low-income people, based on the Organization's mission statement, "to improve the quality of life in suburban Hennepin by creating and supporting links between individuals and communities through service, education, and collaboration." In August 2016, the Organization received official designation to be the Community Action Agency serving the City of Minneapolis. The Organization now works to provide opportunities and improve the quality of life in all of Hennepin County (e.g., increase safe, affordable housing, decrease numbers of foreclosures, increase number of grassroots organizations aiding people to improve their lives, etc.). Its service area includes the 45 communities that make up Hennepin County, Minnesota.

In keeping with its mission statement, the Organization provided services in the following areas during program year 2016 (October 1, 2015 through September 30, 2016):

Direct services - The Organization provided direct services to 66,945 individuals (30,670 households) in the Organization's service area during program year 2016.

Energy Assistance - The Organization provides financial assistance to low-income households to assist with energy costs (gas, heat, oil) and repairs. The Organization provides direct, one-time payments to energy vendors through funding received from the state and federal governments; additionally, emergency funds are made available to households through state and private funding resources. Marketing and outreach efforts are utilized to inform customers of fuel efficiency strategies; this past year, the Organization conducted several Energy Conservation Fairs to provide information and free energy conservation supplies to low-income households. During 2016, 22,322 households received Energy Assistance or Energy Crisis assistance through the Organization, which translates into assistance being provided to 58,205 people.

Housing and Related Services - The Organization provides full-cycle homeownership services, as well as rental services, for clients. These services are offered to assist low-income people obtain, maintain and retain safe, affordable housing. Services related to meeting basic needs are also provided (e.g., financial or other assistance with healthcare, child care, employment, financial counseling, education, etc.). Housing services include:

- > Foreclosure prevention counseling and loan assistance - 203 people (92 households) served.
- > First time homebuyer workshops, counseling and assistance with obtaining loans available for first-time homebuyers and low-income homebuyers - 258 people attended workshops and/or received 1:1 counseling.
- > Housing rehabilitation services, counseling and workshops - 121 households assisted through repairs, grants, and loans.
- > Reverse mortgage counseling - 134 households received reverse mortgage counseling.
- > Homeless and transitional housing intensive case management services and financial assistance - 334 people served (108 households).

**COMMUNITY ACTION PARTNERSHIP
OF SUBURBAN HENNEPIN**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following programs were also offered through the Organization during the 2016 program year:

- > Emergency Services (short-term assistance) - which includes limited financial assistance for housing, basic needs and transportation and energy related repairs - 806 units of service provided.
- > Vehicle Repair Program - provided financial assistance to individuals to enable them to obtain or maintain employment to 55 households.
- > SNAP (Food Support) Outreach - 2,069 people were provided information/outreach, 341 households received assistance to apply for SNAP food assistance.
- > Legal Services Clinics - 209 people received free legal advice through mobile legal services clinics.
- > Tax Clinics - 27 mobile Tax Clinics at 12 locations in Hennepin County. Prepared and filed tax returns for 680 households, resulting in over \$1,100,000 in federal, state, and property tax refunds.
- > Financial Education, Budget Counseling, and Restored Credit - 839 households received financial and budgeting education and/or counseling and improved their credit (some services provided in collaboration with Lutheran Social Services).
- > Employment counseling - 412 people received employment counseling and related services to improve their employment status (some services provided in collaboration with HIRED).
- > Benefit Enrollment assistance and services - including MNsure application assistance, helped 632 households.
- > Served approximately 5,361 seniors through all programs, including Senior Oriented Services.

Education, Information, and Referral: The Organization provides many opportunities to inform and educate its customers and the community at large. Strategies include: conducting workshops related to renters' duties and rights; offering voter education and registration services; providing information and resources to people to help them understand the nature of poverty and methods to reduce or mitigate its effects; providing oral and written information and referral services to people who contact the Organization; participating in community events throughout the service area several times per year; and offering or collaborating on programs designed to engage people in the political, social and educational processes that affect them. Aside from workshops, community events and informational sessions, information is made available through the Organization's website, which was redesigned this year with new functions (more applications and forms online) and is updated on a regular and timely basis. The website can be translated into different languages using a free, online translation program.

Approximately 33,657 people received information and referral services during program year 2016. In addition, approximately 51,700 people received information through outreach services, and an estimated 1,902,101 people received information through advocacy information and education services (including through media). The significant increase in advocacy information and education services was due to a voter education mailing, prepared with assistance from the Minnesota Secretary of State's office that was mailed to all Energy Assistance clients (including Minneapolis).

**COMMUNITY ACTION PARTNERSHIP
OF SUBURBAN HENNEPIN**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Community Development: The Organization engages in community development, which assists other organizations to develop to the fullest capacities, in order for them to better serve the low-income and historically underrepresented populations they serve. The Organization focuses on working with groups and organizations that are initiated at a grass-roots level that want to provide services at a local, community level. Strategies for community development include providing the following services to both new and more mature organizations: corporate formation and organization; Board training; staff training; obtaining tax-exempt status; resource development and fund-raising strategies; marketing assistance; developing evaluation and reporting strategies. The Organization also serves as the fiscal agent for two organizations that do not have internal financial capacity and do not have tax-exempt status. During the 2016 program year, the Organization worked with 261 entities, to increase their capacities and abilities to serve low-income people. In addition, in keeping with its commitment to strengthen communities through active partnering and collaboration partnered or collaborated with 261 public and private groups, organizations, and agencies within its service area during program year 2016, resulting in approximately 548 partnerships.

The Organization's work during 2016 was enriched and expanded by nearly 107 volunteers, who donated 1,690 hours of their time.

Financial Statement Presentation

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

Unrestricted Net Assets - Resources over which the Board of Directors has discretionary control and are available for support of the operations of the Organization.

Temporarily Restricted - Resources subject to donor imposed restrictions, which will be satisfied by actions of the Organization or passage of time.

Permanently Restricted - Those resources subject to a donor imposed restriction that they be maintained permanently by the Organization. The donors of these resources permit the Organization to use all or part of the income earned, including capital appreciation, or related investments for unrestricted or temporarily restricted purposes. The Organization did not have any permanently restricted net assets at December 31, 2016 and 2015.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting. The accounting policies of the Organization conform to accounting principles generally accepted in the United States of America applicable to nonprofit organizations.

Use of Estimates

The preparation of the 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**COMMUNITY ACTION PARTNERSHIP
OF SUBURBAN HENNEPIN**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Organization considers all short-term instruments purchased with maturity of 3 months or less to be cash equivalents. Cash and cash equivalents consist of demand deposits and U.S. Government money market funds. Excluded from cash and cash equivalents are cash and money market funds maintained for investment purposes. The carrying amounts approximate fair values because of the short maturities of the instruments.

Grants and Contracts Receivable

Grants and contracts receivable are amounts outstanding under government reimbursement grants and contract agreements. The Organization recognizes revenue from governmental agreements on a cost reimbursement or fee for service basis. Based upon prior experience and continual assessments of future collections, the Organization estimates its allowance for uncollectible grants and contracts receivable to be \$0 at both December 31, 2016 and 2015.

Investments

Investments consist of mutual funds and money market funds held at fair value.

Property and Equipment

Property and equipment are stated at cost or fair market value at the date of acquisition or donation. Depreciation is computed using appropriate straight-line methods over estimated useful lives of property and equipment. The Organization considers items with a cost greater than \$5,000 and a useful life greater than two years to be property and equipment. Prior to 2016, the Organization capitalized property and equipment with a useful life greater than one year. Depreciation expense for 2016 and 2015 was \$21,968 and \$11,644, respectively.

The property and equipment acquired is owned by the Organization while used in the program for which it was purchased or in other future authorized programs. However, the funding sources have a reversionary interest in the property and equipment purchased with grant funds; its disposition, as well as the ownership of any proceeds, is subject to funding source regulations.

Compensated Absences Payable

Employees of the Organization are entitled to personal time off, depending on job classification, length of service, and other factors. A liability for compensated absences is shown in the statements of financial position as of December 31, 2016 and 2015.

Grant Advances

Grant advances consist of payments received in advance that relate to program services to be rendered in a future period. Grant advances do not represent total grant values. All grant advances are classified as current and will be recognized over the next year.

**COMMUNITY ACTION PARTNERSHIP
OF SUBURBAN HENNEPIN**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

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. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as released from restrictions. If the restriction is met on a contribution in the year the contribution is received, the contribution is reported as unrestricted revenue.

Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Grants and contracts revenue is recognized in the accounting period when the related allowable expenses are incurred or the service has been performed. The Organization receives substantially all of its grant and contract revenue from government reimbursement or fee for service agreements.

Program revenue is recognized when services are performed.

In-Kind Contributions

Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair market value at the time donated.

Functional Expenses

The costs of providing programs and services have been summarized on a functional basis in the statements of activities and statements of functional expenses. Accordingly, certain costs have been allocated between program and the supporting services benefited. The additional costs related to the transition to the designated Community Action Agency serving the city of Minneapolis are included in other program expenses in the schedule of functional expenses.

The Organization utilizes costs allocation methods to allocate certain direct and indirect costs to its various programs. Costs, which are common to more than one program, have been identified and classified into costs pools. These cost pools have been allocated to the programs based on formulas developed by the Organization for each pool.

Advertising Costs

The Organization's policy is to expense advertising costs as they are incurred. During 2016 and 2015, the Organization incurred advertising costs totaling \$156,907 and \$13,216, respectively.

**COMMUNITY ACTION PARTNERSHIP
OF SUBURBAN HENNEPIN**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax Status

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). However, any unrelated business income may be subject to taxation. The Organization is also exempt from Minnesota franchise and income tax.

The Organization is required to assess whether an uncertain tax position exists 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. The Organization's tax returns are subject to review and examination by federal and state authorities.

Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to the presentation used in the 2016 financial statements.

Subsequent Events

In March 2017, the Organization legally changed their name to Community Action Partnership of Hennepin County.

In May 2017, the Organization was notified that their final indirect cost rate for the years ended December 31, 2016 and 2015 was reduced from the provisional rate of 32.46% to 26.19%. The Organization is in the process of quantifying the impact on their federal grants and contracts for the years ended 2016 and 2015.

In June 2017, the Organization entered into a \$350,000 line of credit that matures on June 1, 2018. Principal and accrued interest is due upon maturity. The interest rate on the line of credit is 5.25%. The Organization must maintain a debt service coverage ratio greater than 1.0 and all of the assets of the Organization are held as security. As of August 24, 2017, there is no outstanding balance on the line of credit.

The Organization has evaluated subsequent events through August 24, 2017 which is the date that the financial statements were available for issue.

New Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. This new accounting guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2018. Early application is permitted. The Organization is assessing the impact this new standard will have on its financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019. Early application is permitted. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. The Organization is assessing the impact this standard will have on its financial statements.

**COMMUNITY ACTION PARTNERSHIP
OF SUBURBAN HENNEPIN**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In August 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Organization is assessing the impact this standard will have on its financial statements.

NOTE 2 - FAIR VALUE OF INVESTMENTS

Fair Value Hierarchy - Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which is based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

The fair value hierarchy consists of three levels of inputs that may be used to measure fair value, as follows:

Level 1 - Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or market-corroborated data.

Level 3 - Inputs that are unobservable inputs for the assets or liability, which are typically based on an entity's own assumption, as there is little, if any, related market activity.

The assets or liabilities fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2016 and 2015.

Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value ("NAV") and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

Money markets are traded on an active market for which a closing price is readily available.

**COMMUNITY ACTION PARTNERSHIP
OF SUBURBAN HENNEPIN**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 2 - FAIR VALUE OF INVESTMENTS (CONTINUED)

Fair values of assets measured on a recurring basis are as follows:

	December 31, 2016		
	Level 1	Level 2	Level 3
Mutual funds	\$ 97,358	\$ -	\$ -
Money markets	2,438	-	-
Total investments	\$ 99,796	\$ -	\$ -
	December 31, 2015		
	Level 1	Level 2	Level 3
Mutual funds	\$ 90,608	\$ -	\$ -
Money markets	2,082	-	-
Total investments	\$ 92,690	\$ -	\$ -

Gains and losses (realized and unrealized) included in the statements of activities in investment income (loss) consists of the following:

	2016	2015
Interest, dividends and capital gains, net fees	\$ 3,976	\$ 4,094
Unrealized gain (loss)	5,189	(5,532)
Total investment income (loss)	\$ 9,165	\$ (1,438)

NOTE 3 - Retirement Plan

The Organization sponsors a 403(b) retirement plan (the "Plan"). The Plan is open to all employees who have been employed by the Organization for three months. Employees are allowed to defer amounts from their salary. In addition, the Organization contributes to the Plan. Those employer contributions are determined at the discretion of the Board of Directors. Participants become fully vested at the time of employer contribution. Contributions to the plan for 2016 and 2015 were \$76,014 and \$63,845, respectively.

**COMMUNITY ACTION PARTNERSHIP
OF SUBURBAN HENNEPIN**

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 4 - OPERATING LEASES

The Organization leases office facilities and equipment under operating leases totaling approximately \$18,317 per month, which expire in 2017 through 2020. Rent expense for leases was \$222,110 and \$200,033 for 2016 and 2015, respectively.

Approximate future minimum payments under these agreements are as follows:

2017	\$	272,797
2018		208,678
2019		65,184
2020		<u>24,625</u>
	\$	<u>571,284</u>

NOTE 5 - CONCENTRATIONS

Cash and Cash Equivalents

The Organization maintains cash balances at a local bank. The accounts at the institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At certain times during the year, the Organization had cash on deposit in excess of the FDIC insured limits.

The Organization has funds held at the Minnesota Association of Governments Investing for Counties (MAGIC). The balance in this fund at December 31, 2016 and 2015 was \$129,994 and \$144,354, respectively. This fund is not insured or guaranteed by the FDIC.

Revenue

Approximately 37% and 71% of the Organization's funding was provided by various grants from the Minnesota Department of Commerce for 2016 and 2015, respectively. An additional 53% and 15% of the Organization's funding was provided by various grants from the Minnesota Department of Human Services for 2016 and 2015, respectively.

NOTE 6 - FISCAL AGENT AGREEMENTS

The Organization acts as a fiscal agent for Outdoors with Heroes, Inc. During 2016 and 2015, the Organization collected \$784 and \$4 and disbursed \$495 and \$8,384, respectively, and has a cash balance of \$1,478 and \$1,189 at December 31, 2016 and 2015, respectively.

The Organization acts as a fiscal agent for Chanhassen Beyond the Yellow Ribbon. During 2016 and 2015, the Organization collected \$110 and \$3,034 and disbursed \$2,442 and \$890, respectively, and has a cash balance of \$0 and \$2,332 at December 31, 2016 and 2015, respectively.

The Organization acts as a fiscal agent for Hennepin County Teen Parent Connection. During 2016 and 2015, the Organization collected \$105 and \$32,092 and disbursed \$13,128 and \$0 and has a cash balance of \$19,069 and \$32,092 at December 31, 2016 and 2015, respectively.

At December 31, 2016, agency funds totaling \$20,547 are included in accounts payable on the statement of financial position.

COMMUNITY ACTION PARTNERSHIP OF SUBURBAN HENNEPIN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2016

Federal Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity	Pass-through Entity Identification Number	Federal Expenditures	Sub Recipient Expenditures
CDBG - Entitlement Grants Cluster					
U.S. Department of Housing and Urban Development					
		Plymouth Housing and Redevelopment Authority	Unknown	\$ 2,044	\$ -
Community Development Block Grants / Entitlement grants	14.218		Unknown	46,993	-
Community Development Block Grants / Entitlement grants	14.218	City of St. Louis Park	Unknown	2,166	-
Community Development Block Grants / Entitlement grants	14.218	City of Minnetonka	Unknown	<u>2,166</u>	<u>-</u>
Total CDBG - Entitlement Grants Cluster				<u>51,203</u>	<u>-</u>
SNAP Cluster					
U.S. Department of Agriculture					
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	MN Dept of Human Services	Unknown	<u>57,931</u>	<u>-</u>
Total SNAP Cluster				<u>57,931</u>	<u>-</u>
Other Programs					
U.S. Department of Housing and Urban Development					
Housing Counseling Assistance Program	14.169			<u>16,382</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development				<u>16,382</u>	<u>-</u>
U.S. Department of Veterans Affairs					
Supportive Service for Veterans Families	64.003	MN Assistance Council of Veterans	Unknown	<u>132,417</u>	<u>-</u>
Total U.S. Department of Veterans Affairs				<u>132,417</u>	<u>-</u>
U.S. Department of Health and Human Services					
Low-Income Home Energy Assistance	93.568	MN Dept of Commerce	Unknown	2,244,039	-
Community Services Block Grant	93.569	MN Dept of Human Services	Unknown	<u>2,553,151</u>	<u>961,538</u>
Total U.S. Department of Health and Human Services				<u>4,797,190</u>	<u>961,538</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 5,055,123</u>	<u>\$ 961,538</u>

See accompanying notes to schedule of expenditures of federal awards.

COMMUNITY ACTION PARTNERSHIP OF SUBURBAN HENNEPIN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended December 31, 2016

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Community Action Partnership of Suburban Hennepin (the "Organization") under programs of the United States government for the year ended December 31, 2016. 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 in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Nonprofit Organizations*, or the cost principles contained in the Title 2 U.S. *Code of Federal Regulations part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 – PASS-THROUGH ENTITY IDENTIFICATION NUMBERS

All of the programs, grants and/or awards included in the Schedule are missing the pass-through entity identification numbers. The missing numbers are due to the pass-through entities not providing the pass-through entity identification numbers.

NOTE 4 - INDIRECT COST RATE

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

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 AUDITORS' REPORT

To the Board of Directors
Community Action Partnership of Suburban Hennepin
St. Louis Park, MN

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, the financial statements of Community Action Partnership of Suburban Hennepin (the "Organization"), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 24, 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.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002, that we consider to be material weaknesses.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Organization's Responses to Findings

The Organization's responses to the 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 it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
August 24, 2017

REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Community Action Partnership of Suburban Hennepin
St. Louis Park, MN

Report on Compliance for the Major Federal Program

We have audited Community Action Partnership of Suburban Hennepin's (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2016. The Organization's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2016.

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 2016-003 and 2016-004. Our opinion on the major federal program is not modified with respect to these matters.

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 above. 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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-003 and 2016-004, that we consider to be material weaknesses.

Organization's Responses to Findings

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.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
September 20, 2017

**COMMUNITY ACTION PARTNERSHIP
OF SUBURBAN HENNEPIN**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2016-001: Material Weakness - Internal Control over Financial Reporting

Criteria

Management is responsible for controls over the year-end financial reporting process, including controls over procedures used to enter transaction totals in the general ledger, initiate, authorize, record and process journal entries into the general ledger, and recording recurring and non-recurring adjustments to the financial statements. As part of the financial reporting process, reconciliations should be performed each month.

Condition

During the course of our audit, we noted reconciliations were not performed on a regular basis, including reconciliations related to grant accounting. In addition, management did not have a process in place to prepare a complete set of financial statements, including related notes to the financial statements and the schedule of expenditure of federal awards.

Cause

In 2016, the Organization experienced unusually high turnover in the Finance department, including Director of Finance and Administration position. In addition, those in key positions within the Finance department lacked adequate technical skills and industry knowledge.

Effect

The lack of controls over the financial reporting process resulted in several adjusting journal entries that were material to the financial statements. Many of these adjusting entries were corrections made to expenditures that had been previously recorded and charged to state and/or federal grants.

Recommendation

The Organization should review the financial reporting process to ensure controls are in place to properly record transactions in the general ledger. In addition, the Organization should review the Finance department to ensure they have adequate staffing and that those in key position have adequate technical skills and industry knowledge.

Management's Response

Management acknowledges the finding. We have reviewed the internal controls and have put into place policies and procedures to address the deficiencies. For details on actions taken, refer to the Corrective Action Plan.

Finding 2016-002: Material Weakness - Segregation of Duties

Criteria

The origination and completion of single transactions should not be under the control of the same individual. Each transaction should pass through two or more individuals with the result that the work of one is under the review of another. In addition, those performing the review would possess the knowledge, skills and understanding of the transaction being reviewed.

**COMMUNITY ACTION PARTNERSHIP
OF SUBURBAN HENNEPIN**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS (cont.)

Finding 2016-002: Material Weakness - Segregation of Duties (cont.)

Condition

The Organization operates its accounting and reporting functions with a limited number of individuals, which precludes proper segregation of duties, specifically over the general ledger, and those individuals in key positions within the control structure did not demonstrate the adequate knowledge, skill and understanding.

Cause

The size of the Organization's finance department does not allow for enough employees to adequately separate the various accounting functions.

Effect

Errors in the accounting records may occur and may not be detected within a timely manner by employees in the normal course of performing their assigned functions.

Recommendation

The Organization should review the control structure to segregate incompatible duties, to the extent practical. In those cases where it is not practical to properly segregate duties, mitigating controls should be identified, put into place and documented. It is equally important to ensure that the individuals responsible for the accounting and reporting function demonstrate the necessary technical skills and industry knowledge.

Management Response

Management acknowledges the finding. We have reviewed the internal controls and have put into place policies and procedures to address the deficiencies. For details on actions taken, refer to the Corrective Action Plan.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2016-003: Material Weakness - Cost Principles - Indirect Costs

Federal Program - Community Services Block Grant
Federal Agency - U.S. Department of Health and Human Services
Pass-Through Entity - Minnesota Department of Human Services
CFDA Number - 93.569
Federal Award Number - GRK%64931, GRK%114793, GRK%94746
Federal Award Year - December 31, 2016

COMMUNITY ACTION PARTNERSHIP OF SUBURBAN HENNEPIN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended December 31, 2016

SECTION III – FEDERAL FINDINGS AND QUESTIONED COSTS (cont.)

Finding 2016-003: Material Weakness - Cost Principles - Indirect Costs (cont.)

Criteria

For federal awards authorized prior to December 26, 2014, OMB A-122, Part 230, Appendix A, states that where an organization's major functions benefit from its indirect costs to approximately the same degree, the allocation of indirect costs may be accomplished by separating the organization's total costs for the base period as either direct or indirect, and dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base. The result of this process is an indirect cost rate which is used to distribute indirect costs to individual awards. The rate should be expressed as the percentage which the total amount of allowable indirect costs bears to the base selected. For federal awards authorized after December 26, 2014, Uniform Guidance in 2 CFR Part 200, Subpart F, Appendix IV states that "where an organization's major functions benefit from its indirect costs to approximately the same degree, the allocation of indirect costs may be accomplished by (i) separating the organization's total costs for the base period as either direct or indirect, and (ii) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base. The result of this process is an indirect cost rate which is used to distribute indirect costs to individual Federal awards. The rate should be expressed as the percentage which the total amount of allowable indirect costs bears to the base selected.

The rate developed using the above methodology was submitted and approved in the Organization's most recent indirect cost rate proposal to its cognizant agency. This negotiated rate should be applied to the applicable base noted in the proposal for all federal grants received, absent any restrictions on indirect cost recovery.

Condition/Context

During our testing of indirect costs, we noted the Organization did not consistently apply their negotiated indirect cost rate to the CSBG program as required by the Uniform Guidance and OMB A-122, as applicable, in each of the three months tested. In addition, the methodology used to calculate indirect costs was not consistent with that submitted and approved by the cognizant agency. The sample was not statistically valid.

In addition, the Organization did not have in place a review process over the allocation of indirect costs to the CSBG program. The Organization was unable to detect and correct the errors in a timely manner.

Questioned Costs

Not determinable

COMMUNITY ACTION PARTNERSHIP OF SUBURBAN HENNEPIN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended December 31, 2016

SECTION III – FEDERAL FINDINGS AND QUESTIONED COSTS (cont.)

Finding 2016-003: Material Weakness - Cost Principles - Indirect Costs (cont.)

Cause

In 2016, the Organization experienced unusually high turnover in the Finance department, including Director of Finance and Administration position. In addition, due to the rapid increase in grant funding in 2015, the Organization's proposed 2016 Indirect Cost Rate was significantly lower than the provisional rate issued by the cognizant agency. Concerned that the provisional rate would result in overcharging of federal grants once the proposed rate was finalized, Finance staff began applying the proposed rate which did not allow the organization to recover all of its indirect costs. Subsequently, Finance staff began using a modified cost allocation methodology that included using both the proposed indirect cost rate and direct allocation. As a result, the indirect cost rate was not consistently applied using the methodology approved by the cognizant agency.

Effect

Indirect costs may be charged to the CSBG program in excess of that which would be calculated if consistent application of the negotiated indirect cost rate was consistently applied under the methodology that was submitted and approved by the cognizant agency.

Recommendation

The Organization should review its policies and procedures to ensure consistent application of the negotiated indirect cost rate is applied, in accordance with the methodology submitted and approved by the cognizant agency. In instances where deviation is permissible, documentation should exist to support the alternative treatment. In addition, a review should be performed by someone other than the preparer who understands the requirements of the Uniform Guidance and OMB A-122, as applicable.

Management Response

Management acknowledges the finding. We have reviewed the internal controls and have put into place policies and procedures to address the deficiencies. For details on actions taken, refer to the Corrective Action Plan.

Finding 2016-004: Material Weakness - Internal Controls over Grant Accounting

Federal Program - Community Services Block Grant

Federal Agency - U.S. Department of Health and Human Services

Pass-Through Entity - Minnesota Department of Human Services

CFDA Number - 93.569

Federal Award Number - GRK%64931, GRK%114793, GRK%94746

Federal Award Year - December 31, 2016

Criteria

For federal awards authorized after December 26, 2014, Uniform Guidance in 2 CFR Part 200.303 states that "the non-Federal entity must: establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award."

COMMUNITY ACTION PARTNERSHIP OF SUBURBAN HENNEPIN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended December 31, 2016

SECTION III – FEDERAL FINDINGS AND QUESTIONED COSTS (cont.)

Finding 2016-004: Material Weakness - Internal Controls over Grant Accounting (cont.)

Condition/Context

During our testing of the direct and material compliance requirements over the major federal program, we noted instances where the Organization did not have the appropriate internal controls in place as required by Uniform Guidance. The following were identified:

- > Allowable Costs/Cost Principles - During the audit, it was noted that monthly reconciliations of expenditures charged to the grant were not completed or reviewed. The lack of reconciliations resulted in a significant amount of adjustments to the expenditures originally charged to the CSBG program; many of these adjustments were identified several months after year end. These costs were allowable under CSBG. However, they should have been reclassified to other funding sources based on the nature of the expenditures.
- > Cash Management - The preparation of the monthly requests for reimbursement were submitted based on expenditures that had not been reconciled. As a result, there were funds that were drawn down under the CSBG program that were subsequently moved to another federal or state funding source, causing an excess draw down of federal funds.
- > Reporting - Monthly reports were prepared and submitted timely. However, the information from the general ledger used to generate the reports was not based off of reliable financial records. As a result, after subsequent review, certain costs that had been reported were subsequently reclassified to other funding sources.
- > Period of Performance - As part of the financial audit, we noted the Organization recorded expenditures to the grant for an invoice that related to services for a future period. Although the costs discovered are allowable under Uniform Guidance, expenditures were recorded to the incorrect grant period.

The sample size was not statistically valid.

Questioned Costs

- > Allowable Costs/Cost Principles - Not determinable
- > Cash Management - \$30,016
- > Reporting - None noted
- > Period of Performance - \$15,000

Cause

In 2016, the Organization experienced unusually high turnover in the Finance department, including Director of Finance and Administration position. As a result, the Organization did not have an adequate system of internal controls in place to reconcile the various funding sources on a monthly basis to ensure that costs were being charged to the correct funding source based on the nature of the expense incurred.

Effect

Costs could be charged to the CSBG program in excess of that which would be allowable, subsequently reimbursed for and reported to the pass-through agency.

**COMMUNITY ACTION PARTNERSHIP
OF SUBURBAN HENNEPIN**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2016

SECTION III – FEDERAL FINDINGS AND QUESTIONED COSTS (cont.)

Finding 2016-004: Material Weakness - Internal Controls over Grant Accounting (cont.)

Recommendation

The Organization should review their policies and procedures to make certain that an adequate system of internal control is in place to ensure that all funding sources are reconciled monthly prior to the request for reimbursement and subsequent reporting to the federal agency. In addition, this review should be completed by an individual with adequate skills, knowledge, and experience to understand the nature of the cost being incurred. As part of the monthly reconciliation, the Organization should review expenditures to ensure they are charged to the period in which they are incurred.

Management Response

Management acknowledges the finding. We have reviewed the internal controls and have put into place policies and procedures to address the deficiencies. For details on actions taken, refer to the Corrective Action Plan.

COMMUNITY ACTION PARTNERSHIP OF SUBURBAN HENNEPIN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS For the Year Ended December 31, 2016

The previous audit of the Federal Award Programs was for the year ended December 31, 2015 and the findings noted during that audit and the Organization's corrective actions taken are as follows:

Finding 2015-001: Authorizing Services Prior to Completing Application Processing in eHEAT

Condition

Several instances were noted where the Organization did not consistently update eHEAT with accurate, complete application information in eHEAT before authorizing services.

Action Taken

The Organization has implemented a new management level position to increase oversight of Energy Assistance Program (EAP). The Energy Program Director is responsible for the day to day management of the program and will have the ability to more closely monitor staff and data accuracy. The Energy Program Director will randomly review individual applications and staff. The Director will work with individual staff to improve data accuracy, or if warranted, work with all EAP staff to address data accuracy concerns.

The Organization hired an Energy Related Repair (ERR) Coordinator. The ERR Coordinator is a full-time staff (1 FTE) focused only on ERR activities.

The Energy Program Director will review ERR events on a regular basis throughout the program year.

The Organization implemented a new application processing software system, which allows for electronic processing of EAP applications. The electronic processing of applications will increase data accuracy.



Corrective Action Plan

September 20, 2017

Community Action Partnership of Hennepin County (f/k/a Community Action Partnership of Suburban Hennepin) respectfully submits the following corrective action plan for the year ending December 31, 2016.

Independent Accounting Firm:

Baker Tilly Virchow Krause, LLP
225 South 6th Street, Suite 2300
Minneapolis, MN 55402

Audit Period:

December 31, 2016 and 2015

Financial Statement Audit Findings

Finding 2016-001: Material Weakness – Internal Control over Financial Reporting

Condition:

During the course of the audit, it was noted that reconciliations were not performed on a regular basis, including reconciliations related to grant accounting. In addition, management did not have a process in place to prepare a complete set of financial statement, including related notes to the financial statements and the schedule of expenditures of federal awards.

Cause:

In 2016, the Organization experienced unusually high turnover in the Finance department, including Director of Finance and Administration position. In addition, those in key positions within the Finance department lacked adequate technical skill and industry knowledge

Effect:

The lack of controls over the financial reporting process resulted in several adjusting journal entries that were material to the financial statements. Many of these adjusting entries were correction made to expenditures that had been previously recorded and charged to state and/or federal grants.

Management's Response:

To ensure controls are in place to properly record transactions, the Organization will:

1. Documentation standards, including review responsibilities, will be developed. The purpose of the document is to ensure all entries recorded in the general ledger and posted to grants are properly prepared, reviewed and approved, and supported by adequate documentation. General ledger transactions and individual grants will be reviewed monthly to ensure compliance with the standards.
2. A monthly financial close checklist will be implemented. This will ensure all financial and grant-related transactions are recorded in a timely manner.
3. The Executive Director will review all non-standard journal entries on a monthly basis.
4. To ensure all accounts are reconciled in a timely manner, a monthly general ledger account reconciliation checklist will be developed. The Executive Director will review the completed checklist on a monthly basis. In addition, the Executive Director will review key reconciliations on a monthly basis.
5. A grant reconciliation process will be implemented (refer to Finding 2016-004).
6. The Organization will enhance the financial package submitted to the Finance/Investment Oversight Committee by expanding reporting of key balance sheet items and control activities.
7. Continually evaluate the performance of key persons within the Finance Department.

Finding 2016-002: Material Weakness – Segregation of Duties*Condition:*

The Organization operates its accounting and reporting functions with a limited number of individuals, which precludes proper segregation of duties, specifically over the general ledger, and those individuals in key positions within the control structure did not demonstrate the adequate knowledge, skill and understanding.

Cause:

The size of the Organization's finance department does not allow for enough employees to adequately separate the various accounting functions.

Effect:

Errors in the accounting records may occur and may not be detected within a timely manner by employees in the normal course of performing their assigned functions.

Management's Response:

To ensure appropriate segregation of duties, the Organization will:

1. Identify functions/transactions where there is a high risk of material errors.

2. For the areas identified as high risk, the Organization will develop a control structure which will include segregation of duties where practical, or mitigating controls to reduce the risk to an acceptable level.
3. Test the control structure on a periodic basis and take corrective action when necessary.
4. Continually evaluate the performance of key persons within the Finance Department.

Single Audit Findings

Finding 2016-003: Material Weakness – Cost Principles – Indirect Costs

Federal Program – Community Services Block Grant

Federal Agency – U.S. Department of Health and Human Services

Pass-Through Entity – Minnesota Department of Human Services

CFDA Number – 93.569

Federal Award Number – GRK%64931, GRK%114793, GRK%94746

Federal Award Year – December 31, 2016

Condition/Context

During our testing, we noted the Organization did not consistently apply their negotiated indirect cost rate to the CSBG program as required by the Uniform Guidance and OMB A-122, as applicable in each of the three months tested. In addition, the methodology used to calculate indirect costs was not consistent with that submitted and approved by the cognizant agency. The sample was not statistically valid.

In addition, the Organization did not have in place a review process over the allocation of indirect costs to the CSBG program. The Organization was unable to detect and correct the errors in a timely manner.

Cause:

In 2016, the Organization experienced unusually high turnover in the Finance department, including Director of Finance and Administration position. In addition, due to the rapid increase in grant funding in 2015, the Organization's proposed 2016 Indirect Cost Rate was significantly lower than the provisional rate issued by the cognizant agency. Concerned that the provisional rate would result in overcharging of federal grants once the proposed rate was finalized, Finance staff began applying the proposed rate which did not allow the organization to recover all of its indirect costs. Subsequently, Finance staff began using a modified cost allocation methodology that included using both the proposed indirect cost rate and direct allocation. As a result, the indirect cost rate was not consistently applied using the methodology approved by the cognizant agency.

Effect:

Indirect costs may be charged to the CSBG program in excess of that which would be calculated if consistent application of the negotiated indirect cost rate was consistently applied under the methodology that was submitted and approved by the cognizant agency.

Management's Response

The Organization will review its policies and procedures to ensure consistent application of the negotiated indirect cost rate is applied, in accordance with the methodology submitted and approved by the cognizant agency. Once complete, the Organization will enlist its independent auditors to review the documentation to ensure it meets the requirements of the Uniform Guidance and OMB A-122, as applicable.

Finding 2016-004: Material Weakness – Internal Controls over Grant Reporting

Federal Program – Community Services Block Grant

Federal Agency – U.S. Department of Health and Human Services

Pass-Through Entity – Minnesota Department of Human Services

CFDA Number – 93.569

Federal Award Number – GRK%64931, GRK%114793, GRK%94746

Federal Award Year – December 31, 2016

Condition/Context:

During our testing of the direct and material compliance requirements over the major federal program, we noted instances where the Organization did not have the appropriate internal controls in place as required by Uniform Guidance. The following were identified:

- Allowable Costs/Cost Principles - During the audit, it was noted that monthly reconciliations of expenditures charged to the grant were not completed or reviewed. The lack of reconciliations resulted in a significant amount of adjustments to the expenditures originally charged to the CSBG program; many of these adjustments were identified several months after year end. These costs were allowable under CSBG. However, they should have been reclassified to other funding sources based on the nature of the expenditures.
- Cash Management - The preparation of the monthly requests for reimbursement were submitted based on expenditures that had not been reconciled. As a result, there were funds that were drawn down under the CSBG program that were subsequently moved to another federal or state funding source, causing an excess draw down of federal funds.
- Reporting - Monthly reports were prepared and submitted timely. However, the information from the general ledger used to generate the reports was not based off of reliable financial records. As a result, after subsequent review, certain costs that had been reported were subsequently reclassified to other funding sources.
- Period of Performance - As part of the financial audit, we noted the Organization recorded expenditures to the grant for an invoice that related to services for a future period. Although the costs discovered are allowable under Uniform Guidance, expenditures were recorded to the incorrect grant period.

Cause:

In 2016, the Organization experienced unusually high turnover in the Finance department, including Director of Finance and Administration position. As a result, the Organization did not have an adequate system of internal controls in place to reconcile the various funding sources on a monthly basis to ensure that costs were being charged to the correct funding source based on the nature of the expense incurred.

Effect:

Costs could be charged to the CSBG program in excess of that which would be allowable, subsequently reimbursed for and reported to the pass-through agency.

Management's Response

To ensure appropriate controls over grant accounting are in place, the Organization will implement the following:

1. The Organization will review its policies and procedures for reconciling funding sources prior to the request for reimbursement and subsequent reporting to the federal agency.
2. To ensure all grants are reconciled prior to request for reimbursement, a monthly reconciliation checklist will be developed for each grant and will be reviewed by a person with the appropriate skill level.

Sincerely,



Scott Zemke
Executive Director