Community Action Partnership of Hennepin County
Financial Statements

December 31, 2018 and 2017

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Community Action Partnership of Hennepin County
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Independent Auditor's Report

To the Board of Directors
Community Action Partnership of Hennepin County
St. Louis Park, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Community Action Partnership of Hennepin County (the "Organization"), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting polices used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects the financial position of Community Action Partnership of Hennepin County as of December 31, 2018 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 Year Financial Statements
The financial statements of the Organization for the year ended December 31, 2017, were audited by another auditor who expressed an unmodified opinion on those statements on August 27, 2018.

Emphasis of Matter
As discussed in Note 1 to the financial statements, in 2018, the Organization adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

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* (Uniform Guidance), 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 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 April 18, 2019 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to solely 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 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.

BerganKDV, Ltd.

St. Cloud, Minnesota
April 18, 2019

FINANCIAL STATEMENTS

Community Action Partnership of Hennepin County
Statements of Financial Position
As of December 31, 2018 and 2017

	2018	2017 (Restated)
Assets		
Current assets		
Cash and cash equivalents	$ 178,185	$ 280,578
Grants and contracts receivable	358,795	658,600
Prepaid expenses	78,850	66,884
Investments	108,830	114,918
Total current assets	724,660	1,120,980
Property and Equipment		
Furniture and fixtures	174,052	174,052
Accumulated depreciation	(121,695)	(104,255)
Property and equipment, net	52,357	69,797
Total assets	$ 777,017	$ 1,190,777
Liabilities and Net Assets		
Current liabilities		
Line of credit	$ 229,819	$ -
Accounts payable	86,635	112,690
Accrued expenses	113,226	147,601
Compensated absences payable	64,076	66,304
Grant advances	47,870	75,346
Total liabilities	541,626	401,941
Net assets		
Without donor restrictions		
Undesignated	46,991	385,641
Designated for future initiatives	108,830	114,918
Investment in property and equipment	52,357	69,797
Total without donor restrictions	208,178	570,356
With donor restrictions	27,213	218,480
Total net assets	235,391	788,836
Total liabilities and net assets	$ 777,017	$ 1,190,777

Community Action Partnership of Hennepin County
Statements of Activities
Years Ended December 31, 2018 and 2017

	2018			2017 (Restated)		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue						
Public support						
Government grants and contracts	$ 5,734,309	$ -	$ 5,734,309	$ 5,866,475	$ -	$ 5,866,475
Corporate/foundation grants	7,440	-	7,440	36,114	-	36,114
Other grants and contributions	908	-	908	39,643	60,000	99,643
Total public support	5,742,657	-	5,742,657	5,942,232	60,000	6,002,232
Program and other revenue						
Program service fees	7,276	-	7,276	28,195	-	28,195
Investment return, net	(4,998)	-	(4,998)	17,046	-	17,046
Total program and other revenue	2,278	-	2,278	45,241	-	45,241
Net assets released from restrictions	191,267	(191,267)	-	32,394	(32,394)	-
Total revenue	5,936,202	(191,267)	5,744,935	6,019,867	27,606	6,047,473
Expenses						
Program services	5,024,333	-	5,024,333	4,824,400	-	4,824,400
Management and general	1,274,047	-	1,274,047	1,527,528	-	1,527,528
Fundraising	-	-	-	6,037	-	6,037
Total expenses	6,298,380	-	6,298,380	6,357,965	-	6,357,965
Change in net assets before the Community Action of Minneapolis receivership	(362,178)	(191,267)	(553,445)	(338,098)	27,606	(310,492)
Community Action of Minneapolis receivership	-	-	-	200,000	150,448	350,448
Total change in net assets	(362,178)	(191,267)	(553,445)	(138,098)	178,054	39,956
Net Assets						
Beginning of year	570,356	218,480	788,836	708,454	40,426	748,880
End of year	$ 208,178	$ 27,213	$ 235,391	$ 570,356	$ 218,480	$ 788,836

See notes to financial statements.

Community Action Partnership of Hennepin County
Statement of Functional Expenses
Year Ended December 31, 2018

	Program Services						
	Housing	EAP	Community Services	Planning & Development	Total	Management and General	Total
Expenses							
Salaries and benefits	$ 843,072	$ 1,271,660	$ 284,248	$ 314,747	$ 2,713,727	$ 603,494	$ 3,317,221
Professional services	110,494	171,249	5,491	699	287,933	477,082	765,015
Travel and conferences	19,339	3,147	3,287	4,575	30,348	20,673	51,021
Rent	72,517	149,821	30,714	31,018	284,070	82,667	366,737
Office expense	18,634	44,572	9,916	5,719	78,841	19,339	98,180
Equipment	22,737	49,177	7,736	10,143	89,793	4,192	93,985
Outreach and promotion	52,266	252,584	101	97,710	402,661	2,902	405,563
Other costs	12,014	7,089	11,661	1,104	31,868	59,812	91,680
Direct client services	358,857	545,287	77,287	108,682	1,090,113	1,425	1,091,538
Total expenses before depreciation	1,509,930	2,494,586	430,441	574,397	5,009,354	1,271,586	6,280,940
Depreciation	3,045	9,134	804	1,996	14,979	2,461	17,440
Total expenses	$ 1,512,975	$ 2,503,720	$ 431,245	$ 576,393	$ 5,024,333	$ 1,274,047	$ 6,298,380

See notes to financial statements.

Community Action Partnership of Hennepin County
Statements of Cash Flows
Years Ended December 31, 2017 and 2018

	2018	2017 (Restated)
Cash Flows - Operating Activities		
Change in net assets	$ (553,445)	$ 39,956
Adjustments to reconcile change in net assets to net cash flows - operating activities		
Depreciation	17,440	22,446
Unrealized and realized loss (gain) on investments	6,615	(13,103)
Change in operating assets and liabilities		
Grants and contracts receivable	299,805	126,984
Prepaid expenses	(11,966)	17,681
Accounts payable	(26,055)	22,823
Accrued expenses	(34,375)	13,300
Compensated absences payable	(2,228)	5,375
Grant advances	(27,476)	(142,744)
Net cash flows - operating activities	(331,685)	92,718
Cash Flows - Investing Activities		
Additions to property and equipment	-	(16,087)
Investment purchases	(527)	(16,914)
Investment sales	-	14,895
Net cash flows - investing activities	(527)	(18,106)
Cash Flows - Financing Activities		
Net change in line of credit	229,819	-
Net change in cash and cash equivalents	(102,393)	74,612
Cash and Cash Equivalents		
Beginning of year	280,578	205,966
End of year	$ 178,185	$ 280,578
Supplemental Cash Flow Information		
Cash paid for interest	$ 5,981	$ -

See notes to financial statements.

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NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Community Action Partnership of Hennepin County (the "Organization") is incorporated under the Minnesota Nonprofit Corporation Act and is tax exempt under the federal tax laws. In March 2017, the Organization changed their name from Community Action Partnership of Suburban Hennepin.

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. As a result, the Organization received additional funds, which are recorded as Community Action of Minneapolis receivership revenue in the statements of activities. 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 number 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.

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 (U.S. GAAP) applicable to nonprofit organizations.

Use of Estimates

The preparation of the financial statements in conformity with U.S GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents

The Organization considers all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and cash equivalents consist of demand deposits and U.S. Government money market funds. Excluded from cash and cash equivalents are cash money market funds maintained for investment purposes.

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 there is no allowance for uncollectible grants and contracts receivable necessary at both December 31, 2018 and 2017.

Investments

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

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment
Property and equipment are stated at cost at the date of acquisition or fair market value at the date of 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. Estimated useful lives of property and equipment range from five to eight years.

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 revisionary interest in the property and equipment purchased with grant funds; their disposition, as well as the ownership of any proceeds and the assets are subject to the regulations of the funding source.

Compensated Absences Payable
Employees on 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, 2018 and 2017.

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.

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

Net Assets Without Donor Restrictions
Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for future initiatives for the year ended December 31, 2018 and 2017.

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

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Energy Assistance Payments
The organization has a grant with the State of Minnesota Department of Commerce for outreach, intake, eligibility and certification of LIHEAP-eligible participants. Client benefits for LIHEAP-eligible participants are subsequently paid directly by the State of Minnesota. For 2018 and 2017, client benefits in the amount of $11,719,761 and $9,688,030, respectively, paid by the state, are not included in the statements of activities.

Revenue Recognition
Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed, or the expenditures are incurred, respectively. The Organization receives substantially all of its grant and contract revenue from government. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

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 of the donation.

Functional Expenses
The costs of providing programs and services have been summarized on a functional basis in the statements of activities and by natural classification in the statement of functional expenses for 2018. Accordingly, certain costs have been allocated between program and supporting services benefited.

The Organization charges costs to various programs using various bases, such as number of users, according to its internal policy. Costs, which are common to more than one program, have been identified and have been charged to the programs based on metrics that benefit the programs.

Advertising Costs
The Organization's policy is to the expense advertising costs are they incurred. During 2018 and 2017, the Organization incurred advertising costs totaling $188,565 and $192,880, respectively.

Tax Status
The Organization has received notification that it qualifies as a tax-exempt organization under Section 501(c) (3) of the U.S. Internal Revenue Code and corresponding provisions of State law and accordingly, is not subject to federal or state income taxes. However, unrelated business income maybe subject to taxation. The Organization is not currently under examination by any taxing jurisdiction.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax Status (Continued)

Accounting standard require the Organization to evaluate positions taken by the Organization and recognize a tax liability (or asset) if the Organization has been an uncertain position that more likely than not would not be sustained upon examination by applicable tax authorities. Management has analyzed tax positions taken by the Organization, and has concluded that as of December 31, 2018 and 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

Recently Adopted Accounting Pronouncement

Presentation of Financial Statements of Not-For-Profit Entities
The Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities (Topic 958)*, in its 2018 financial statements. This guidance reduces the net asset classification from three to two: net assets with and without donor restrictions; expands disclosures about liquidity; and requires expenses to be reported by their function and natural classification. The ASU has been adopted retrospectively except for liquidity and the reporting of expenses by function and natural classification, which can be reported in the current period only. The adoption of this guidance did not have a material impact on the Organization's financial statements.

Recently Issued Accounting Pronouncements

Leases
In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The new guidance will require all leases to be recorded as assets and liabilities on the statement of financial position. This update would require capitalization of the "right to use" an asset and recognition of an obligation for future lease payments for most leases currently classified as operating leases. Other leases currently classified as capital leases will be referred to as financing leases and will continue to be recorded as assets and liabilities in a similar manner. This update is effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Organization is currently evaluating the impact this standard will have on its financial statements.

Revenue Recognition
In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This update will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard will affect entities that enter into contracts with customers and provides a five step process for determining when revenue should be recognized to match the transfer of goods or services. In August 2015, the FASB issued ASU No. 2015-14 which defers the effective date one year making it effective for annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Organization is currently evaluating the impact this standard will have on its financial statements.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Pronouncements (Continued)

Clarifying Guidance for Contributions Received and Contributions Made
In June 2018, the FASB issued ASU No. 2018-08, Not-For-Profit Entities (Topic 958) Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made. This update aims to standardize how grants and other contracts are classified as either an exchange transaction or a contribution. Classifying grants as either a contribution or exchange transaction is the first step in implementing revenue recognition. For most recipients, this update is effective for annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Organization is currently evaluating the impact this standard will have on its financial statements.

NOTE 2 – LIQUIDITY AND AVAILABILITY

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

	2018
Cash and cash equivalents	$ 150,972
Grants and contracts receivable	358,795
Investments	108,830
	$ 618,597

None of the financial assets listed above are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the statement of financial position. Cash and cash equivalents totaling $27,213 were excluded from the total above as those dollars have donor restrictions for specific purposes. The Organization's policy is to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, as part of its liquidity management, the Organization would invest cash in excess of daily requirements in various short-term investments, including certificates of deposit and short-term treasury instruments. In the event of an unanticipated liquidity need, the Organization could draw upon the $350,000 of available line of credit (Note 4).

NOTE 3 – FAIR VALUE OF INVESTMENTS

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.

NOTE 3 – FAIR VALUE OF INVESTMENTS (CONTINUED)

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 on 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, 2018 and 2017.

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.

Fair value of assets measured on recurring basis are as follows:

	December 31, 2018		
	Level 1	Level 2	Level 3
Mutal funds	$ 105,511	$ -	$ -
Money markets	3,319	-	-
Total investments	$ 108,830	$ -	$ -

	December 31, 2017		
	Level 1	Level 2	Level 3
Mutal funds	$ 112,435	$ -	$ -
Money markets	2,483	-	-
Total investments	$ 114,918	$ -	$ -

NOTE 4 – LINE OF CREDIT

The Organization has a $350,000 line of credit with an interest rate of 5%. The line of credit is secured by all of the assets of the Organization and matures July 1, 2019, at which time principal and interest is due. At December 31, 2018 there was a balance of $229,819 on the line of credit. At December 31, 2017, there was no balance on the line of credit.

NOTE 5 – DONOR RESTRICTED NET ASSETS

	2018	2017
National foreclosure mitigation counseling program	$ 8,032	$ 8,032
Low income residents of Minneapolis	14,181	150,448
Low and moderate income residents of Hennepin county	-	50,000
Aging in place home stabilization program	-	5,000
Homeownership counseling grant program	5,000	5,000
Total net assets with donor restrictions	$ 27,213	$ 218,480

	2018	2017
National foreclosure mitigation counseling program	$ -	$ 32,394
Low income residents of Minneapolis	136,267	-
Low and moderate income residents of Hennepin county	50,000	-
Aging in place home stabilization program	5,000	-
Total net assets released from restrictions	$ 191,267	$ 32,394

NOTE 6 – 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 vested at the time of employer contribution. The Organization's contributions to the Plan for 2018 and 2017 were $57,224 and $85,319, respectively.

NOTE 7 – OPERATING LEASES

The Organization leases office facilities and equipment under operating leases, the last of which expires in July 2020. See also Note 12. Rent expense for leases was $364,791 and $304,325 for 2018 and 2017, respectively.

NOTE 7 – OPERATING LEASES (CONTINUED)

Future minimum payments under these agreements are as follows:

2019	$ 388,575
2020	199,830
Total	$ 588,405

NOTE 8 - CONCENTRATIONS

Cash and Cash Equivalents

The Organization maintains cash balances at a local bank. The accounts at the institution 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, 2018 and 2017 was $233,143 and $251,561, respectively. This fund is not insured or guaranteed by the FDIC.

Revenue

Approximately 50% and 37% of the Organization's funding was provided by various grants from the Minnesota Department of Commerce for 2018 and 2017, respectively. An additional 45% and 44% of the Organization's funding was providing by various grants from the Minnesota Department of Human Services for 2018 and 2017, respectively.

Total government grants and contracts revenue include funds from the following state and federal programs:

	2018	2017
Community Service Block Grants	$ 1,932,336	$ 1,613,606
Minnesota Community Action Grants	569,857	1,123,104
Supplemental Nutrition Assistance Program	55,653	49,098
Energy Assistance Program	2,896,924	2,394,992
Homebuyer Education, Counseling , and Training	136,880	73,244
Supportive Service Veterans Families	-	229,885
Transitional Housing Program	15,732	42,913
Other	126,927	380,889
Total government grants and contracts	$ 5,734,309	$ 5,907,731

NOTE 9 – FISCAL AGENT AGREEMENTS

The Organization acted as a fiscal agent for Community Links. The Organization received $2,000 and disbursed $3,454 during 2018. The Organization received $2,140 and disbursed $3,448 during 2017. The Organization had a payable due to Community Links of $0 and $1,454 at December 31, 2018 and 2017, respectively. The arrangement concluded in 2018.

The Organization acted as a fiscal agent for Outdoors with Hero's, Inc. and Hennepin County Teen Parent Connection. These arrangements concluded in 2017.

NOTE 10 – CONTINGENCIES

Financial awards from federal, state, and local governments in the form of grants are subject to special audits. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise with audits since the liability, if any, cannot be determined at this time.

NOTE 11 – PRIOR PERIOD ADJUSTMENT

During 2018, it was discovered that $41,256 of government grants and contracts revenue was recognized in error during 2017. The 2017 amounts were restated to reduce government grants and contracts revenue by $41,256 and to record $41,256 as grant advances at December 31, 2017. This revenue was recognized in 2018 when the related expenses were incurred.

NOTE 12 – SUBSEQUENT EVENTS

On January 1, 2019, the Organization implemented a cost allocation plan that replaced the federally approved indirect cost rate used in 2018.

In February 2019, the Organization gave notice of its intention to vacate a portion of office facilities it leases under an operating lease agreement. Note 7 reflects the reduced future minimum payments related to the updated agreement.

On March 14, 2019, the Organization sub awarded seven entities $1,094,604 of federal Community Services Block Grant (CSBG) funding. All seven agreements have been signed as of the date of the audit report. The overall period of performance of these awards begins upon contract execution and ends on December 31, 2019.

On April 18, 2019, the Organization approved a contract for administrative services to be provided by a neighboring agency for a one-year term.

The Organization has evaluated subsequent events through April 18, 2019, which is the date that the financial statements were available to be issued.

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SUPPLEMENTARY INFORMATION

Community Action Partnership of Hennepin County
Schedule of Expenditure of Federal Awards
For the Year Ended December 31, 2018

Cluster Title/Federal Grantor/Program	Federal CFDA Number	Pass-Through Entity	Pass-Through Entity Identification Number	Provided to Subrecipients	Federal Expenditures
SNAP Cluster					
U.S. Department of Agriculture					
State Administration Matching Grants for the Supplemental Nutrition Assistance Program	10.561	MN Dept of Human Services	GRK%102144	$ -	$ 55,847
Total SNAP Cluster				-	55,847
Total U.S. Department of Agriculture				-	55,847
U.S. Department of Housing and Urban Development					
Housing Counseling Assistance Program	14.169	MN Homeownership Center	80662/FY2018-17	-	12,480
CDBG - Entitlement Grants Cluster					
U.S. Department of Housing and Urban Development					
Community Development Block Grants / Entitlements grants	14.218	Plymouth Housing and Redevelopment Authority	unknown	-	2,300
Community Development Block Grants / Entitlements grants	14.218	Hennepin County	unknown	-	25,769
Community Development Block Grants / Entitlements grants	14.218	City of Saint Louis Park	unknown	-	6,623
Community Development Block Grants / Entitlements grants	14.218	City of Minnetonka	unknown	-	477
Total CDBG - Entitlement Grants Cluster				-	35,169
Total U.S. Department of Housing and Urban Development				-	47,649
U.S. Department of Health and Human Services					
Low Income Home Energy Assistance	93.568	MN Dept of Commerce	Unknown	-	2,206,992
Low Income Home Energy Assistance	93.568	MN Dept of Commerce	Unknown	-	691,626
Low Income Home Energy Assistance - Direct Assistance	93.568	MN Dept of Commerce	Unknown	-	11,719,761
Total Low Income Home Energy Assistance				-	14,618,379
Community Services Block Grant	93.569	MN Dept of Human Services	GRK%121337	72,500	1,262,081
Community Services Block Grant	93.569	MN Dept of Human Services	GRK%127512	36,250	669,190
Total Community Services Block Grant				108,750	1,931,271
Total U.S. Department of Human Services				108,750	16,549,650
Total Expenditures of Federal Awards				$ 108,750	$16,653,146

See notes to schedule of expenditures of federal awards.

Community Action Partnership of Hennepin County
Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2018

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 Hennepin County (the "Organization") under programs of the federal government for year ended December 31, 2018. 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, which conform to accounting principles generally accepted in the United States of America. Such expenditures are recognized following 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* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3 – PASS THROUGH ENITITY IDENTIFICATION NUMBERS

Several 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.

NOTE 5 – ELIGBILITY DETERMINATIONS

The Organization assists the State of Minnesota with eligibility determinations for the LIHEAP program. Client benefits for LIHEAP eligible participants are subsequently paid directly by the State of Minnesota. For the year ended December 31, 2018, client benefits are in the amount of $11,719,761, were paid by the state. These amounts are considered federal awards to the Organization and are included in the schedule of expenditures of federal awards.

NOTE 6 – RECONCILATION TO THE STATEMENT OF ACTIVITIES

The Organization received government grants and contracts, including funds from the following.

	2018
Federal awards	$ 16,653,146
Less: direct assistance (see Note 5 of SEFA)	(11,719,761)
State awards	790,397
Other awards	10,527
Total government grants and contracts per statement of activity	$ 5,734,309

**Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditor's Report

To the Board of Directors
Community Action Partnership of Hennepin County
St. Louis Park, Minnesota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Community Action Partnership of Hennepin County as of and for the year ended December 31, 2018, and the related notes to financial statements, which collectively comprise the Organization's financial statements, and have issued our report thereon dated April 18, 2019.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002 to be material weaknesses.

Internal Control Over Financial Reporting (Continued)
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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2018-003 to be a significant deficiency.

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*.

Organization's Response 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 such opinion on them.

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.

BerganKDV, Ltd.

St. Cloud, Minnesota
April 18, 2019

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

Independent Auditor's Report

To the Board of Directors
Community Action Partnership of Hennepin County
St. Louis Park, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Community Action Partnership of Hennepin County's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2018. The Organization's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 each major federal program. However, our audit does not provide legal determination of the Organization's compliance.

Opinion on Each Major Federal Program
In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to on the previous page that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

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 on the previous page. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2018-004, that we consider to be a material weakness.

Organization's Response to Finding
The Organization's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no such opinion on it.

Purpose of Report
The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BerganKDV, Ltd.

St. Cloud, Minnesota
April 18, 2019

Community Action Partnership of Hennepin County
Schedule of Findings and Questioned Costs

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes, 2018-001, 2018-002
• Significant deficiency(ies) identified?	Yes, 2018-003
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major federal programs:	
• Material weakness(es) identified?	Yes, 2018-004
• Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)	Yes

Identification of Major Federal Programs

CFDA No.:	93.568
Name of Federal Program or Cluster	Low-Income Home Energy Assistance
CFDA No.:	93.569
Name of Federal Program or Cluster	Community Services Block Grant
Dollar threshold used to distinguish between type A and type B programs?	$750,000
Auditee qualified as low-risk auditee?	No

SECTION II – FINANCIAL STATEMENT FINDINGS

Material Weaknesses:

Audit Finding 2018-001 – Segregation of Duties (Repeat Finding 2017-003)

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 should possess the knowledge, skills and understanding of the transaction being reviewed.

Condition:
The Organization operated its accounting and reporting functions with a limited number of individuals, which precluded proper segregation of duties, specifically over the general ledger.

Cause:
The Organization experienced a high level of turnover in key management positions during 2018. In addition, certain key management changed internal control policies and procedures without going through the proper channels to obtain approval prior to implementing the changes. This resulted in inconsistent procedures and polices being followed throughout the year.

Effect or potential 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. In addition, we recommend any changes in policies and procedures be reviewed and approved by those charged with governance prior to being implemented and then clearly communicated to all those involved.

Views of responsible officials:
As of November 1, 2018, management believes there is now an appropriate segregation of duties in operations. We acknowledge the appropriate segregation was not in place for the majority of fiscal year 2018, but this finding should be adequately addressed going forward. This includes monthly reconciliations of accounts by finance staff and reviews by the Director of Finance. All transactions and documentation are reviewed and posted by someone other than the person making the entry. Requests for payments are approved by appropriate Directors and required documents are included with request before payment may be entered in the accounting system. As of January 2019, monthly updates are given to the Management Committee for review and approval as needed.

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Material Weaknesses (Continued):

Audit Finding 2018-002 – Ineffective Oversight and Internal Communication

Criteria:
Internal communication is the means by which information is disseminated throughout the Organization, flowing up, down, and across the entity. It enables personnel to receive a clear message from management and those charged with governance. Monitoring includes ongoing evaluations used to ascertain whether the components of internal control are present and functioning.

Condition:
The following conditions of ineffective oversight and internal communication were noted:
- Strategic roles filled by the Board were not conducted,
- Risk assessment process did not identify the lack of segregation of accounting issue,
- The Organization experienced cash flow issues,
- Lack of regular communication between the fiscal and program departments, and
- A second quality improvement plan (QIP) was issued by the Department of Human Services (DHS)

Cause:
Ineffective oversight of the Organization's financial reporting and internal control by those charged with governance. The Organization also experienced a high level of turnover in key management and staff positions during 2018.

Effect or potential effect:

Failure of the information and communication and monitoring components of internal control could have a negative impact on overall controls, procedures and internal efficiencies.

Recommendation:
While there are many ways to manage and mitigate risk, the Committee of Sponsoring Organization’s (COSO’s) internal control framework is a popular method because of its ability to be widely adopted by both large and small organizations. We recommend management review its current framework against the five components (in particular components 4 and 5) of the COSO framework to help strengthen governance.

1. Set the tone internally (control environment)
2. Provide a formal system to report concerns (risk assessment)
3. Remain vigilant and stay aware as to what is happening within the organization (control activities)
4. Focus on building relationships and open communication (information and communication)
5. Uphold fairness by enforcing and upholding policies (monitoring)

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Material Weaknesses (Continued):

Audit Finding 2018-002 – Ineffective Oversight and Internal Communication (Continued)

Views of responsible officials:
The Organization acknowledges the challenges in governance oversight during 2018. Effective November 29, 2018, the Board of Directors acting in response to a recommendation by the Minnesota Department of Human Services implemented a Management Committee that is responsible for the strategic direction setting of the Organization and other governing responsibilities, as well as the on-going management of the organization to ensure compliance with all operational requirements of day to day operations. The Management Committee currently monitors organization financial operations, including cash flow, reviews financial and programmatic reporting, internal controls development and operations, internal communications and communications and reporting with funding agencies.
The Management Committee has on its current work plan to conduct a new risk assessment and to modify the policies and procedures of the Organization.

Significant Deficiency:

Audit Finding 2018-003 – Charging Program Costs

Criteria:
Costs should be allocated to all programs on an equitable basis.

Condition:
The Organization did not follow the Organization's internal policy for charging rent, postage, printing, and travel/mileage costs during 2018.

Cause:
Due to the Organization experiencing a high level of turnover in key management and staff positions during 2018, certain individuals did not follow the prescribed methods for charging costs.

Effect or potential effect:
Errors in charging costs may occur and may not be detected within a timely manner by employees in the normal course of performing their assigned functions.

Recommendation:
We recommend following the approved plan or to update the plan to reflect the bases being used for charging program costs.

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Significant Deficiency: (Continued)

Audit Finding 2018-003 – Charging Program Costs (Continued)

Views of responsible officials:
Management acknowledges the finding. As of February 25, 2019, a permanent Director of Finance has been in place and is responsible for the management of oversight of the financial systems of the Organization, including the charging of expenses to programs. The finance department's policies and procedures are being followed and documented. For 2019, the Organization has gone to an approved direct cost allocation plan. Based on an approved methodology, all allowable costs will be allocated to programs. The Finance Policy manual will be updated and submitted for Management Committee approval in 2019.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weakness:

U.S. Department of Health and Human Services
Pass-Through State of Minnesota Department of Human Services
CFDA 93.569
Community Services Block Grant (CSBG)

Audit Finding 2018-004 – Allowable Costs/Cost Principles (Repeat Finding 2017-005)

As discussed in Audit Finding 2018-001, The Organization operated its accounting and reporting functions with a limited number of individuals, which precluded proper segregation of duties, specifically, over the general ledger.

Context:
During our testing of allowable costs/cost principles, we noted 4 of 63 disbursements tested (other than payroll) were initiated, reviewed and approved by the same employee. We also noted 1 of 60 timecards/payroll checks tested included hours that were not for the CSBG program. The samples were not statistically valid.

Questioned costs:
None