

Consolidated Financial Statements

Keystone Community Services and Subsidiary (Urban Business Adventures) Saint Paul, Minnesota

For the Years Ended
December 31, 2019 and 2018

Keystone Community Services
Table of Contents
December 31, 2019 and 2018

	<u>Page No.</u>
Independent Auditor's Report	3
Financial Statements	
Consolidated Statement of Financial Position	6
Consolidated Statement of Activities	7
Unconsolidated Statements of Functional Expenses	11
Consolidated Statement of Cash Flows	15
Notes to the Consolidated Financial Statements	16
Supplementary Information	
Schedule of Expenditures of Federal Awards	28
Notes to the Schedule of Expenditures of Federal Awards	29
Other Reports	
Independent Auditor's Report in Internal Controls over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	31
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Controls Over Compliance Required by the Uniform Guidance	33
Schedule of Findings and Questioned Costs	35
Corrective Action Plan	37

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Keystone Community Services
St. Paul, Minnesota

We have audited the accompanying consolidated financial statements of Keystone Community Services, which comprise the consolidated statements of financial position as of December 31, 2019 and 2018 and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Consolidated 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 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Keystone Community Services as of December 31, 2019 and 2018, and the changes in net assets and their cash flows.

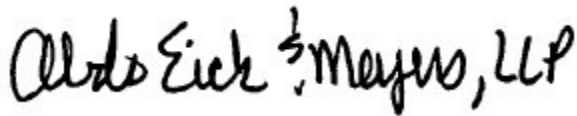
Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated 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 the purposes of additional analysis and are 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 taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2020, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
June 17, 2020

CONSOLIDATED FINANCIAL STATEMENTS

Keystone Community Services
Consolidated Statement of Financial Position
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 48,443	\$ 143,342
Accounts receivable, net of allowance for doubtful accounts of \$8,000 for 2019 and 2018	648,456	450,408
Grant receivable	55,077	78,970
Inventory	20,227	50,490
Prepaid expenses and other current assets	59,514	45,026
Total Current Assets	<u>831,717</u>	<u>768,236</u>
Noncurrent Assets		
Investments	1,553,983	1,331,214
Property and Equipment, Net	925,748	932,058
Total Noncurrent Assets	<u>2,479,731</u>	<u>2,263,272</u>
Total Assets	<u><u>\$ 3,311,448</u></u>	<u><u>\$ 3,031,508</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 126,052	\$ 114,613
Accrued payroll expenses	24,686	17,272
Accrued vacation	65,867	55,686
Deferred revenue	78,822	-
Notes payable - current	35,144	-
Total Current Liabilities	<u>330,571</u>	<u>187,571</u>
Noncurrent Liabilities		
Notes payable	303,841	-
Line of credit	94,503	79,503
Total Noncurrent Liabilities	<u>398,344</u>	<u>79,503</u>
Total Liabilities	<u>728,915</u>	<u>267,074</u>
Net Assets		
Without donor restriction	2,457,341	2,640,059
With donor restriction	125,192	124,375
Total Net Assets	<u>2,582,533</u>	<u>2,764,434</u>
Total Liabilities and Net Assets	<u><u>\$ 3,311,448</u></u>	<u><u>\$ 3,031,508</u></u>

See Independent Auditor's Report and Notes to the Consolidated Financial Statements.

Keystone Community Services
Consolidated Statement of Activities
For the Year Ended December 31, 2019

	Without Donor Restriction	With Donor Restriction	Total
Support and Revenue			
Contributions and grants	\$ 1,380,139	\$ 251,333	\$ 1,631,472
In-kind contributions	1,272,330	-	1,272,330
Greater Twin Cities United Way	346,075	-	346,075
Government contracts and grants	2,035,242	-	2,035,242
Total Support	<u>5,033,786</u>	<u>251,333</u>	<u>5,285,119</u>
Revenue			
Program service fees	62,715	-	62,715
Food sales	484,093	-	484,093
Tours sales	80,826	-	80,826
Express Bike sales			
Bike shop sales	297,744	-	297,744
Cost of good sold	(92,760)	-	(92,760)
Other revenue			
Investment income (loss), net	238,910	-	238,910
Miscellaneous revenue	15,094	-	15,094
Total Revenue	<u>1,086,622</u>	<u>-</u>	<u>1,086,622</u>
Net Assets Released From Restrictions	<u>250,516</u>	<u>(250,516)</u>	<u>-</u>
Total Support and Revenue	<u>6,370,924</u>	<u>817</u>	<u>6,371,741</u>

See Independent Auditor's Report and Notes to the Consolidated Financial Statements.

Keystone Community Services
Consolidated Statement of Activities (Continued)
For the Year Ended December 31, 2019

	Without Donor Restriction	With Donor Restriction	Total
Expenses			
Program Services			
Youth Services	\$ 707,038	\$ -	\$ 707,038
Senior Services	1,776,434	-	1,776,434
Basic Needs	2,179,748	-	2,179,748
Social Enterprise	100,144	-	100,144
Express Bike	334,117	-	334,117
Total Program Services	<u>5,097,481</u>	<u>-</u>	<u>5,097,481</u>
Supporting Services			
Management and general	823,658	-	823,658
Fundraising	307,685	-	307,685
Total Supporting Services	<u>1,131,343</u>	<u>-</u>	<u>1,131,343</u>
Total Expenses	<u>6,228,824</u>	<u>-</u>	<u>6,228,824</u>
Change In Net Assets	<u>142,100</u>	<u>817</u>	<u>142,917</u>
Net Assets, Beginning of the Year	2,640,059	124,375	2,764,434
Prior period adjustment	(324,818)	-	(324,818)
Net Assets, Beginning of Year as Restated	<u>2,315,241</u>	<u>124,375</u>	<u>2,439,616</u>
Net Assets, End of the Year	<u>\$ 2,457,341</u>	<u>\$ 125,192</u>	<u>\$ 2,582,533</u>

See Independent Auditor's Report and Notes to the Consolidated Financial Statements.

Keystone Community Services
Consolidated Statement of Activities
For the Year Ended December 31, 2018

	Without Donor Restriction	With Donor Restriction	Total
Support and Revenue			
Support			
Contributions and grants	\$ 1,367,954	\$ 124,375	\$ 1,492,329
In-kind contributions	331,445	-	331,445
Greater Twin Cities United Way	378,650	-	378,650
Government contracts and grants	2,199,542	-	2,199,542
Total Support	<u>4,277,591</u>	<u>124,375</u>	<u>4,401,966</u>
Revenue			
Program service fees	110,787	-	110,787
Food sales	179,691	-	179,691
Tours sales	158,758	-	158,758
Express Bike sales			
Bike shop sales	270,083	-	270,083
Cost of good sold	(68,938)	-	(68,938)
Other revenue			
Investment income (loss), net	(43,873)	-	(43,873)
Miscellaneous revenue	7,913	-	7,913
Total Revenue	<u>614,421</u>	<u>-</u>	<u>614,421</u>
Net Assets Released From Restrictions	<u>165,375</u>	<u>(165,375)</u>	<u>-</u>
Total Support and Revenue	<u>5,057,387</u>	<u>(41,000)</u>	<u>5,016,387</u>

See Independent Auditor's Report and Notes to the Consolidated Financial Statements.

Keystone Community Services
Consolidated Statement of Activities (Continued)
For the Year Ended December 31, 2018

	Without Donor Restriction	With Donor Restriction	Total
Expenses			
Program Services			
Youth Services	\$ 786,921	\$ -	\$ 786,921
Senior Services	1,915,054	-	1,915,054
Basic Needs	1,308,028	-	1,308,028
Express Bike	281,178	-	281,178
Total Program Services	<u>4,291,181</u>	<u>-</u>	<u>4,291,181</u>
Supporting Services			
Management and general	764,455	-	764,455
Fundraising	302,162	-	302,162
Total Supporting Services	<u>1,066,617</u>	<u>-</u>	<u>1,066,617</u>
Total Expenses	<u>5,357,798</u>	<u>-</u>	<u>5,357,798</u>
Change In Net Assets	(300,411)	(41,000)	(341,411)
Net Assets, Beginning of the Year	<u>2,940,470</u>	<u>165,375</u>	<u>3,105,845</u>
Net Assets, End of the Year	<u>\$ 2,640,059</u>	<u>\$ 124,375</u>	<u>\$ 2,764,434</u>

See Independent Auditor's Report and Notes to the Consolidated Financial Statements.

Keystone Community Services
Unconsolidated Keystone Statement of Functional Expenses
For the Year Ended December 31, 2019

	Program Services					Supporting Services			
	Youth Services	Basic Needs	Senior Services	Social Enterprise	Total Program	General & Administrative	Fundraising	Total Support	Total Expenses
Personnel Expenses									
Salaries	\$ 447,772	\$ 391,059	\$ 1,214,975	\$ 19,491	\$ 2,073,297	\$ 463,276	\$ 84,649	\$ 547,925	\$ 2,621,222
Payroll taxes	35,044	30,851	93,693	1,470	161,058	35,875	6,494	42,369	203,427
Employee benefits	53,001	66,434	156,925	3,358	279,718	72,588	18,043	90,631	370,349
Total Personnel Expenses	535,817	488,344	1,465,593	24,319	2,514,073	571,739	109,186	680,925	3,194,998
Expenses									
Professional fees/contracted services	16,328	7,580	22,641	8,055	54,604	78,986	84,883	163,869	218,473
Contracted services - tours	-	-	-	48,168	48,168	-	-	-	48,168
Supplies	35,053	4,357	17,062	3,867	60,339	41,074	38,834	79,908	140,247
Food except In-kind	22,034	158,655	97,235	8,069	285,993	-	-	-	285,993
In-kind donations	-	1,162,787	-	-	1,162,787	-	44,708	44,708	1,207,495
Client assistance	3,500	150,239	1,759	-	155,498	-	-	-	155,498
Transportation	21,045	14,636	25,521	322	61,524	179	17	196	61,720
Telephone	3,067	4,809	5,825	93	13,794	3,447	562	4,009	17,803
Occupancy	17,207	132,360	37,469	1,059	188,095	42,022	2,231	44,253	232,348
Equipment rental & maintenance	3,781	6,866	10,935	-	21,582	13,456	-	13,456	35,038
Postage & shipping	255	492	3,174	692	4,613	3,191	4,589	7,780	12,393
Outside printing	614	1,439	6,747	3,537	12,337	14,121	9,262	23,383	35,720
Recruitment	406	2,393	612	130	3,541	656	20	676	4,217
Conference & staff training	8,798	2,011	5,163	245	16,217	8,575	1,111	9,686	25,903
Organization dues & subscriptions	2,829	11,965	48,222	-	63,016	15,987	8,950	24,937	87,953
Miscellaneous expense	12,168	5,585	10,740	1,588	30,081	18,815	338	19,153	49,234
Total Expenses Before Depreciation	682,902	2,154,518	1,758,698	100,144	4,696,262	812,248	304,691	1,116,939	5,813,201
Depreciation	24,136	25,230	17,736	-	67,102	5,950	1,288	7,238	74,340
Total Expenses	<u>\$ 707,038</u>	<u>\$ 2,179,748</u>	<u>\$ 1,776,434</u>	<u>\$ 100,144</u>	<u>\$ 4,763,364</u>	<u>\$ 818,198</u>	<u>\$ 305,979</u>	<u>\$ 1,124,177</u>	<u>\$ 5,887,541</u>

See Independent Auditor's Report and Notes to the Consolidated Financial Statements.

Keystone Community Services
Unconsolidated UBA Statement of Functional Expenses
For the Year Ended December 31, 2019

	Program	Supporting Services			Total Expenses
	Express Bike	Management and General	Fundraising	Total Support	
Salaries/Benefits	\$ 184,915	\$ 3,022	\$ 944	\$ 3,966	\$ 188,881
Youth Apprenticeships	21,843	357	111	468	22,311
Bank/Credit Card Fees	6,773	111	34	145	6,918
Outside Personnel	2,593	42	13	55	2,648
Supplies	1,674	27	9	36	1,710
Postage	134	2	1	3	137
Occupancy Expense	15,646	256	80	336	15,982
Equipment Rental	671	11	3	14	685
Printing Expenses	143	2	1	3	146
Meeting Expenses	1,222	20	6	26	1,248
Education/Conferences	102	2	1	3	105
Interest Expense	4,882	80	25	105	4,987
Licenses	604	10	3	13	617
In-Kind Expenses	63,474	1,037	324	1,361	64,835
Internet/It Expense	3,749	61	19	80	3,829
Miscellaneous	303	5	2	7	310
Depreciation	25,389	415	130	545	25,934
Total Expenses	<u>\$ 334,117</u>	<u>\$ 5,460</u>	<u>\$ 1,706</u>	<u>\$ 7,166</u>	<u>\$ 341,283</u>

See Independent Auditor's Report and Notes to the Consolidated Financial Statements.

Keystone Community Services
Unconsolidated Keystone Statement of Functional Expenses
For the Year Ended December 31, 2018

	Program Services				Supporting Services			Total
	Youth Services	Basic Needs	Senior Services	Total Program	General & Administrative	Fundraising	Total Support	Expenses
Personnel Expenses								
Salaries	\$ 442,303	\$ 406,280	\$ 1,196,492	\$ 2,045,075	\$ 408,355	\$ 109,618	\$ 517,973	\$ 2,563,048
Payroll taxes	37,689	34,791	102,194	174,674	34,922	9,396	44,318	218,992
Employee benefits	76,007	77,309	153,863	307,179	63,412	18,485	81,897	389,076
Total Personnel Expenses	555,999	518,380	1,452,549	2,526,928	506,689	137,499	644,188	3,171,116
Expenses								
Professional fees /contracted services	44,896	13,434	40,386	98,716	109,752	44,099	153,851	252,567
Contracted services - tours	-	-	82,339	82,339	-	-	-	82,339
Supplies	37,651	14,085	37,350	89,086	35,700	35,481	71,181	160,267
Food except in-kind	25,168	153,653	142,678	321,499	26	-	26	321,525
In-kind donations	10,084	271,940	-	282,024	-	35,801	35,801	317,825
Client assistance	5,000	112,988	735	118,723	-	-	-	118,723
Transportation	22,413	16,043	27,131	65,587	192	40	232	65,819
Telephone	4,909	7,339	6,946	19,194	3,579	925	4,504	23,698
Occupancy	24,309	137,090	42,412	203,811	38,141	2,643	40,784	244,595
Equipment rental & maintenance	3,260	9,862	2,173	15,295	9,887	-	9,887	25,182
Postage & shipping	535	478	3,452	4,465	2,938	7,853	10,791	15,256
Outside printing	1,287	3,446	10,295	15,028	7,572	26,050	33,622	48,650
Recruitment	1,070	2,162	832	4,064	336	-	336	4,400
Conference & staff training	7,895	2,168	5,692	15,755	12,059	1,065	13,124	28,879
Organization dues & subscriptions	2,530	14,316	38,866	55,712	17,858	7,311	25,169	80,881
Miscellaneous expense	16,460	4,950	7,104	28,514	8,583	317	8,900	37,414
Total Expenses Before Depreciation	763,466	1,282,334	1,900,940	3,946,740	753,312	299,084	1,052,396	4,999,136
Depreciation	23,455	25,694	14,114	63,263	5,421	1,290	6,711	69,974
Total Expenses	<u>\$ 786,921</u>	<u>\$ 1,308,028</u>	<u>\$ 1,915,054</u>	<u>\$ 4,010,003</u>	<u>\$ 758,733</u>	<u>\$ 300,374</u>	<u>\$ 1,059,107</u>	<u>\$ 5,069,110</u>

See Independent Auditor's Report and Notes to the Consolidated Financial Statements.

Keystone Community Services
Unconsolidated UBA Statement of Functional Expenses
For the Year Ended December 31, 2018

	Program	Supporting Services			Total
	Express Bike	Management and General	Fundraising	Total Support	Expenses
Salaries/benefits	\$ 143,514	\$ 2,345	\$ 733	\$ 3,078	\$ 146,592
Youth apprenticeships	53,575	875	274	1,149	54,724
Bank/credit card fees	6,113	100	31	131	6,244
Outside personnel	451	8	2	10	461
Supplies	69,758	1,140	356	1,496	71,254
Telephone expense	590	10	3	13	603
Occupancy expense	22,112	361	113	474	22,586
Equipment rental	1,291	21	7	28	1,319
Printing & licenses	396	6	2	8	404
Meetings, education, & conferences	3,215	53	16	69	3,284
Interest expense	2,269	37	12	49	2,318
In-kind expenses	13,334	218	68	286	13,620
Internet/IT expense	7,123	117	37	154	7,277
Dues & subscriptions	440	7	2	9	449
Depreciation	25,935	424	132	556	26,491
Total Expenses by Function	350,116	5,722	1,788	7,510	357,626
Less Expenses Included with Revenues on the Statement of Activities: Shop Cost of Goods Sold	68,938	-	-	-	68,938
Total Expenses	<u>\$ 281,178</u>	<u>\$ 5,722</u>	<u>\$ 1,788</u>	<u>\$ 7,510</u>	<u>\$ 288,688</u>

See Independent Auditor's Report and Notes to the Consolidated Financial Statements.

Keystone Community Services
Consolidated Statement of Cash Flows
For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 142,917	\$ (341,411)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	100,274	96,465
Bad debt	9,060	5,054
Prior period restatement	(324,818)	-
Net realized and unrealized investment loss (gain)	(180,124)	43,873
Change in assets and liabilities:		
Accounts receivable	(207,108)	(50,333)
Grants receivable	23,893	6,731
Inventory	30,263	-
Prepaid expenses and other current assets	(14,488)	(2,073)
Accounts payable	11,439	(10,767)
Accrued payroll expenses	7,414	(25)
Accrued vacation	10,181	(1,373)
Deferred revenue	78,822	(27,095)
Cash Used by Operating Activities	<u>(312,275)</u>	<u>(280,954)</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(93,964)	(122,327)
Proceeds from sales of investments	11,165	1,447,943
Purchases of investments	(53,810)	(1,432,235)
Net Cash Used by Investing Activities	<u>(136,609)</u>	<u>(106,619)</u>
Cash Flows from Financing Activities		
Proceeds from note payable	349,818	-
Payments on note payable	(10,833)	-
Borrowing on line of credit	215,000	283,000
Repayment on line of credit	(200,000)	(245,526)
Net Cash Provided by Financing Activities	<u>353,985</u>	<u>37,474</u>
Change in Cash and Cash Equivalents	(94,899)	(350,099)
Cash and Cash Equivalents at Beginning of Year	<u>143,342</u>	<u>493,441</u>
Cash and Cash Equivalents at End of Year	<u>\$ 48,443</u>	<u>\$ 143,342</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for:		
Interest	<u>\$ 18,894</u>	<u>\$ 6,021</u>

See Independent Auditor's Report and Notes to the Consolidated Financial Statements.

Keystone Community Services
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

Note 1: Summary of Significant Accounting Policies

A. Organization and Purpose

Keystone Community Services and its subsidiary, Urban Business Adventures (collectively, the Organization), are not-for-profit organizations. Urban Business Adventures (UBA) is a separate not-for-profit organization organized solely to offer youth employment services to Saint Paul youth. UBA is governed by a separate Board of Directors, all of which are appointed by the Organization's Board of Directors.

The mission of the Organization is to strengthen the capacity of individuals and families to improve their quality of life. The Organization provides human services in the areas of basic needs, youth programs, and senior services in Ramsey County.

Programs

Keystone supports residents primarily in Saint Paul and Ramsey County, offering services at seven community locations in Saint Paul and Roseville. Program areas include:

- **Keystone Community Programs** are offered at two multi-service centers, West 7th Community Center and Merriam Park Community Center, and include programs that annually serve over 6,500 neighbors of all ages and backgrounds. Activities offered for the community include an annual community spaghetti dinner, family fun activities, Fare for All, tax assistance, and free legal clinics.
- **Keystone Basic Needs Programs** help over 26,000 Saint Paul and Roseville individuals and families meet their needs for emergency food support and other social services each year. Keystone operates three food shelves - Midway, Rice Street, and Roseville - as well as a roving Foodmobile and summer Free Farmer's Market produce distributions. We also offer crisis assistance, case management, and referrals.
- **Keystone Youth Development Programs** help over 350 Saint Paul youth succeed at school and in careers. We operate the Community Kids after-school program at West 7th Community Center for 75 youth in grades K-11, a tutoring program at McDonough Community Center that serves 40 children in grades K-5, our youth-directed social enterprise, Express Bike Shop (operated by UBA), and Keystone's Teen Tech Center.
- **Keystone Senior Programs** help 2,500 Saint Paul seniors remain healthy and independent. Keystone offers senior exercise and social programs at two community centers in Saint Paul: Merriam Park and West 7th. We also provide in-home care management, Meals on Wheels, homemaking, and home health aide support to help Saint Paul seniors live safely and independently in their own homes.

B. Principles of Consolidation

The consolidated financial statements include the accounts of Keystone Community Services (Keystone) and UBA because Keystone has both control and an economic interest in UBA. All material inter-organization transactions have been eliminated in consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as the Organization.

C. Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. For the year ended December 31, 2018, the Organization adopted ASU No. 2016-14, Presentation of Financial Statements of Not-For-Profit Entities, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about liquidity and availability of resources, expenses and investment return, and cash flows.

Keystone Community Services
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

Note 1: Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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

Net Assets Without Donor Restrictions

Those resources over which the Organization has discretionary control. Designated amounts represent those revenues that the Board of Directors has set aside for a particular purpose.

Net Assets With Donor Restrictions

Those resources subject to donor imposed restrictions, which are satisfied by actions of the Organization or passage of time, or are to be maintained permanently by the Organization.

D. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all investments purchased with a maturity of three months or less to be cash equivalents.

E. Receivables

Fee-for-service receivables consist primarily of noninterest-bearing amounts due for services performed. Management determines the allowance for uncollectable fee-for-service receivables based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Fee-for-service receivables are written off when deemed uncollectable. At December 31, 2019 and 2018, the allowance was \$8,000.

F. Promises to Give

The Organization records unconditional promises to give expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. Management determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. Management expects all pledges to be received; there is no allowance for uncollectible amounts as of December 31, 2019 and 2018.

G. Inventories

Inventories, consisting primarily of pedal bikes and bike parts, are stated at lower of cost or net realizable value, with cost determined on a first-in, first-out (FIFO) basis. This inventory is primarily used in the operations of UBA.

H. Investments

Investments are recorded at cost, or if donated, at fair value on the date of donation based upon quoted market prices, when available, or estimates of fair value. Thereafter, investments are reported at their fair values in the statement of financial position. Investment income or loss and unrealized gains or losses are reported in the statement of activities and consists of interest and dividend income and realized and unrealized capital gains and losses, less investment management fees.

Keystone Community Services
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

Note 1: Summary of Significant Accounting Policies (Continued)

I. Property and Equipment

Property and equipment over \$2,500 are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are current expenses.

J. Revenue Recognition

Contributions received are recorded as donor-restricted or non-donor-restricted support depending on the existence and nature of any restrictions. Contributions, including unconditional promises to give, are recognized in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Program fees, merchandise sales and investment income is recognized when it is earned.

K. Deferred Revenue

Deferred revenue consists of payments received in advanced that relate to tours taking place in a future period and are recognized as revenue in the period earned. All deferred revenue is classified as current and will be recognized over the next year. As of December 31, 2019 and 2018, deferred revenue was \$78,822 and \$0, respectively.

L. In-kind Contributions

The Organization reports gifts of non-cash assets as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Donated marketable securities are sold when received. These securities and other noncash donations are recorded as contributions at their estimated fair market values at the date of donation.

M. Donated Services

The Organization has a large and dedicated team of volunteers that perform a variety of tasks that assist the Organization with specific programs and supporting services. These services are not recognized in the financial statements since the criteria for recording the services were not met. Over 2,500 and 1,600 volunteers supported Keystone services in 2019 and 2018, respectively.

The Organization records donated professional services at the respective fair values of the services received.

N. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

O. Allocation of Functional Expenses

Salaries and related expenses are allocated based on job descriptions and management estimates. Expenses, other than salaries and related payroll expenses, that are not directly identifiable by program or support service, are allocated based on management estimates.

Keystone Community Services
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

Note 1: Summary of Significant Accounting Policies (Continued)

P. Advertising Costs

The Organization uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the years ending December 31, 2019 and 2018 was \$2,032 and \$1,762, respectively.

Q. Tax Status

Keystone Community Services and Urban Business Adventures are organized as Minnesota nonprofit corporations and are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Minnesota Statute 290.05.

Management has evaluated and determined that there are no uncertain tax positions as of December 31, 2019 and 2018. During the years ended December 31, 2019 and 2018, the Organization has not incurred any interest or penalties on its tax returns. The Organization's tax returns are subject to possible examination by the taxing authorities. For federal tax purposes the tax returns essentially remain open for possible examination for period of three years after the date on which those returns are filed.

Note 2: Property and Equipment

Property and equipment consist of the following at December 31:

	2019	2018
Equipment	\$ 406,844	\$ 360,440
Land and Buildings	580,000	580,000
Leasehold Improvements	581,175	533,615
	1,568,019	1,474,055
Less: Accumulated Depreciation	(642,271)	(541,997)
Property and Equipment, Net	<u>\$ 925,748</u>	<u>\$ 932,058</u>

Note 3: Fair Value Measurements

Fair value measurement accounting literature establishes a fair value hierarchy based on the priority of the inputs to the valuation methodologies used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets in an active market that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in inactive markets
- Inputs other than quoted prices that are observable for the asset or liability
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Keystone Community Services
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

Note 3: Fair Value Measurements (Continued)

Following is a description of the valuation methodologies used for assets measured at fair value:

Mutual Funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are registered with the 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.

Stocks and Fixed Income Bonds: Valued at the daily closing price of the underlying stocks and bonds. The stocks and bond funds held by the Organization are deemed to be actively traded.

Amounts Held in Trust: Valued at the present value of expected receipts for the duration of the trust where stated. Where the trust is perpetual, valuation is the Organization's proportionate share of the fair value of the trust investments as report by the trustee.

The Organization's investments reported at fair value in the accompanying statement of financial position consist of the following:

December 31, 2019	Level 1	Level 2	Level 3	Total
Investments:				
Common stock	\$ 705,915	\$ -	\$ -	\$ 705,915
Money market funds	334,049	-	-	334,049
Corporate bonds and notes	-	408,516	-	408,516
Mutual funds	-	105,503	-	105,503
Total Investments	<u>\$ 1,039,964</u>	<u>\$ 514,019</u>	<u>\$ -</u>	<u>\$ 1,553,983</u>

December 31, 2018	Level 1	Level 2		Total
Investments:				
Common stock	\$ 538,081	\$ -	\$ -	\$ 538,081
Money market funds	433,756	-	-	433,756
Certificates of deposit	-	220,997	-	220,997
Corporate bonds and notes	-	48,870	-	48,870
Government securities	-	89,509	-	89,509
Mutual funds	-	-	-	-
Total Investments	<u>\$ 971,837</u>	<u>\$ 359,376</u>	<u>\$ -</u>	<u>\$ 1,331,214</u>

Note 4: Unemployment Fund

The Organization has elected to opt out of participation in the Minnesota Unemployment Insurance Program. The Organization is self-insured for unemployment claims through Unemployment Services Trust (UST). Payments to UST are accumulated and used to pay future claims. An expense is recorded as claims are paid by UST. The Organization believes there is no significant liability for claims incurred during the fiscal year ending December 31, 2019.

Keystone Community Services
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

Note 5: Line of Credit

Keystone Community Services has a \$200,000 revolving line of credit with Associated Bank through February 18, 2019. The credit is secured by all assets of the Organization. Borrowings under the line bear interest at the bank's prime rate plus 1%, or a floor of 4.50%. The line of credit was renewed through February 18, 2022 at the bank's prime rate plus 1%, or a floor of 5.50%. As of December 31, 2019 and 2018, the rate was 5.50% and 4.50%, respectively. There was an outstanding balance of \$0 at December 31, 2019 and 2018.

UBA has a line of credit arrangement under which it may borrow up to \$250,000 through September 15, 2022, secured by all assets of the Organization. The line of credit carries a variable interest rate based on the bank index rate, with a minimum rate of 5%. As of December 31, 2019 and 2018, the rate was 5%. There was \$94,503 and \$79,503 borrowed on the line of credit at December 31, 2019 and 2018, respectively.

Note 6: Long-term Debt

The Organization obtained a note payable to U.S Bank National Association on September 20, 2019 for their pension liability. See Note 15 for further explanation. The note is due in monthly payments of \$3,360 including interest at 4.36%. The payment schedule reflects a 5 year amortization; all unpaid principal and accrued interest is payable on October 1, 2024 with an option to continue the note for another five year period with a new interest rate. The note is secured by a \$15,000 collateral deposit made by the Organization at the time of the loan.

Scheduled future principal payments due under the agreement are as follows:

<u>Years Ending December 31,</u>	
2020	\$ 26,631
2021	27,872
2022	29,129
2023	30,443
2024	<u>206,849</u>
Total	<u>\$ 320,924</u>

The Organization obtained two note payables to Center for Energy and Environment for a new lighting project. The first note was obtained on February 19, 2019 with monthly payments of \$533.35 including 0% interest. This note is scheduled to mature March 19, 2022. The second note payable was obtained on March 6, 2019 with monthly payments of \$156.08 including 0% interest. This note is scheduled to mature October 6, 2021. The payment schedule reflects a 3 year amortization. The notes are not secured by assets of the Organization.

Scheduled future principal payments due under the agreement are as follows:

<u>Years Ending December 31,</u>	
2020	\$ 8,513
2021	7,888
2022	<u>1,660</u>
Total	<u>\$ 18,061</u>

Keystone Community Services
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

Note 7: Restricted Net Assets

The Organization had the following donor-restricted net assets at December 31, 2019 and 2018:

	2019	2018
Youth Program	\$ 40,000	\$ 27,500
Seniors - Case Management	35,000	4,688
Food Shelf and Basic Needs	25,192	62,187
Teen Tutoring Employment	25,000	-
Family Success Fund	-	15,000
Express Bike	-	15,000
	<hr/>	<hr/>
Total Donor Restricted Net Assets	<u>\$ 125,192</u>	<u>\$ 124,375</u>

Net assets were released from restrictions as follows during the years ended December 31, 2019 and 2018:

	2019	2018
Youth Program	\$ 90,833	\$ 20,000
Food Shelf and Basic Needs	64,995	44,687
Seniors - Case Management	39,688	4,688
Teen Tutoring Employment	25,000	10,000
Family Success Fund	15,000	-
Express Bike	15,000	-
Timing - Operational	-	65,000
Seniors	-	11,000
Social Enterprise - Tours	-	5,000
Community Kids	-	5,000
	<hr/>	<hr/>
Total Releases - Restricted Net Assets	<u>\$ 250,516</u>	<u>\$ 165,375</u>

Note 8: Distributions from Endowment

The Organization receives annual distributions from three endowments. These endowments are managed by different foundations and have distributed earnings from the endowments to the Organization every year since the endowments were created. The amount to be distributed from a fund is 5.5% of the fund's average market value over the last 16 calendar quarters but not less than 4.5% of the fund's current market value nor more than 6.25% of the current market value, less administrative fees. A spending policy factor is used to convert current market value into 16-quarter average market value.

Keystone Community Services
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

Note 8: Distributions from Endowment (Continued)

Endowment fund balances and related distributed earnings for the year ended December 31 are as follows:

	Balance	
	2019	2018
St. Paul Foundation	\$ 226,560	\$ 206,649
Oneida Education Center Fund	97,010	88,467
Minnesota Community Foundation	41,223	37,596
Total	<u>\$ 364,793</u>	<u>\$ 332,712</u>
	Distributed Earnings	
	2019	2018
St. Paul Foundation	\$ 8,599	\$ 8,411
Oneida Education Center Fund	3,681	3,601
Minnesota Community Foundation	1,564	1,530
Total Earnings	<u>\$ 13,844</u>	<u>\$ 13,542</u>

Note 9: In-Kind Contributions

In-kind contributions consist of food, bikes, and other products donated by individuals, schools, civic groups, businesses, and churches. The food is used for the Organization's food shelves. The food is valued based on pounds received and an estimate of cost per pound. A pound of food was valued at an estimate of \$1.73 for the years ended December 31, 2019 and 2018. There is a 10% spoilage factor for food donated that is not usable. The bikes are used for the Organization's Youth Development Program, Express Bike Shop.

For the years ended December 31, 2019 and 2018, the following made up total in-kind contributions:

	2019	2018
Food		
689,740 and 167,171 pounds, respectively at \$1.73/pound, less 10% spoilage	\$ 1,162,787	\$ 260,285
Bikes	64,835	13,620
Other	44,708	57,540
Total	<u>\$ 1,272,330</u>	<u>\$ 331,445</u>

Keystone Community Services
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

Note 10: Lease Income

The Organization leases its property to various organizations and programs. The total lease income for the year ended December 31, 2019 and 2018 was \$35,050 and \$33,738.

As of December 31, 2019, future minimum lease payments to be received of the leases are as follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2020	\$ 24,030
2021	18,773
2022	19,148
Total	<u>\$ 61,951</u>

Note 11: Lease Expense

The Organization leases building space, vehicles, and office equipment under various operating leases, expiring at various dates through 2023. Future minimum lease payments are as follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2020	\$ 75,604
2021	83,190
2022	4,866
2023	874
Total	<u>\$ 164,534</u>

Total lease expenses for the year ended December 31, 2019 and 2018 were \$93,499 and \$103,983, respectively

Note 12: Credit Risk

The Organization maintains cash balances with banks insured by the Federal Deposit Insurance Corporation (FDIC). These deposits may, from time to time, exceed the balances insured by the FDIC.

Note 13: Facilities

The building used by the Organization for its community and administrative service programs is located at 2000 St. Anthony Avenue, St. Paul, Minnesota. The facility was transferred to the City of St. Paul, reserving to the Organization the free and exclusive occupancy, management, control, use and maintenance, in perpetuity, at a cost of \$1. The building had an approximate cost of \$522,000 at the time of transfer.

Keystone Community Services
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

Note 14: Liquidity and Availability of Financial Assets

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 sheet date, comprise the following:

	2019	2018
Cash and Cash Equivalents	\$ 48,443	\$ 143,342
Accounts Receivable	648,456	529,378
Investments	1,553,983	1,331,214
Total Liquid Financial Assets	<u>2,250,882</u>	<u>2,003,934</u>
Less: net assets with donor restrictions	<u>(125,192)</u>	<u>(124,375)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,125,690</u>	<u>\$ 1,879,559</u>

As part of liquidity management, the organization structures its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

Note 15: Prior Period Adjustment

Prior to 2019, the Organization participated in a multiemployer defined benefit pension plan with 16 other agencies called the Twin Cities Nonprofit Partners Pension Plan. Of the approximately 1,060 participants, 5.3% were Keystone's employees, and the plan froze benefit accruals starting on December 31, 2004. In September 2019, the agencies voted to shut down the plan. As a result, the obligations to the participants needed to be funded. In order to fulfill this obligation, U.S. Bank was chosen as the banker for a group loan to fulfill the annuities required to satisfy the obligation to participants. The Organization has elected to participate in the group loan with their portion totaling \$324,818. Throughout this process, it was discovered that the pension obligation had not been recorded on the Organization's books resulting in a prior period adjustment equal to the loan amount.

The Organization adjusted the prior period net assets to correct their pension liability. Net assets without donor restrictions have been adjusted to the following:

Net Assets as of December 31, 2018	\$ 2,764,434
Prior Period Adjustment	<u>(324,818)</u>
Total Net Assets As of December 31, 2018	2,439,616
Net Income	<u>142,917</u>
Total Net Assets as of December 31, 2019	<u>\$ 2,582,533</u>

Keystone Community Services
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

Note 16: New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09) as a new Topic, Accounting Standards Codification *Topic 606*. The amendments are intended to provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices and improve disclosure requirements. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers: Deferral of the Effective Date*, which deferred the effective date of ASU 2014-09 by one year. This ASU is effective for annual reporting periods beginning after December 15, 2021, and shall be applied using either a full retrospective or modified retrospective approach. Early adoption is permitted. The new guidance is effective for the Organization for the year ended December 31, 2021. The Organization adopted the new standard early effective January 1, 2019 using the modified retrospective approach.

In March 2016, the FASB issued ASU No. 2016-02, *Leases*, as a new topic, Accounting Standards Codification 842. The objective of ASU No. 2016-02 is to increase transparency and comparability among organizations by reorganizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. ASU No. 2016-02 is effective for annual reporting periods beginning after December 15, 2019, and shall be applied using either a full retrospective or modified retrospective approach. Early adoption is permitted. The new guidance is effective for the Organization for the year ended December 31, 2020. The Organization is currently evaluating the impact on the results of operations, financial condition and cash flows and has not determined the impact on its consolidated financial statements at this time.

Note 17: Subsequent Events

In preparing the financial statements, the Organization has evaluated events and transactions for the potential recognition or disclosure through June 17, 2020, the date the financial statements were available to be issued.

In December 2019, a novel strain of coronavirus (COVID-19) surfaced. The spread of COVID-19 around the world in the first quarter of 2020 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economics and, as such, the Organization is unable to determine if it will have a material impact to its operations.

In April, 2020, the Organization entered into a promissory note agreement with Old National Bank in the amount of \$499,000 pursuant to the Paycheck Protection Program (PPP) created by the Coronavirus Aid, Relief, and Economic security Act (CARES Act) and governed by the Small Business Administration (SBA). The note accrues interest at 1 percent per annum, requires monthly payments of \$28,059 beginning November 2020 and is scheduled to mature April 2022. Up to 100 percent of the loan is forgivable when used to pay payroll and other specified costs within eight weeks of receiving the funding.

SUPPLEMENTARY INFORMATION

Keystone Community Services
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019

Federal Grantor/Program Title Pass-Through Grantor/Pass-Through Entity Identifying Number	Federal Domestic Assistance Number	Pass-Through Identification Number	Pass- Through Federal Expenditures
<i>United States Department of Agriculture:</i>			
Passed-Through Second Harvest Heartland: Emergency Food Assistance Program (Food Commodities)	10.569	A1531	\$ 888,620
<i>United States Department of Education:</i>			
Passed-Through the Minnesota Department of Education: Twenty-First Century Community Learning Centers	84.287	S287C170023; S287C190023	<u>257,191</u>
Total Federal Expenditures			<u><u>\$ 1,145,811</u></u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

Keystone Community Services
Notes to the Schedule of Expenditures of Federal Awards
December 31, 2019

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Organization under programs of the federal government for the year ended December 31, 2019. The information in this schedule is presented in accordance with the requirement of the Uniform Guidance, and *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of 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 for Expenditures

Expenditures reported on this schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3: Pass-Through Entity Identifying Numbers

Pass-through entity identifying numbers are presented where available.

Note 4: Subrecipients

No federal expenditures presented in this schedule were provided to subrecipients.

Note 5: Indirect Cost Rate

During the year ended December 31, 2019, the Organization did not elect to use the 10% de minimis indirect cost rate.

OTHER REPORTS

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

Board of Directors
Keystone Community Services
Saint Paul, Minnesota

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 consolidated financial statements of Keystone Community Services (the Organization), a Minnesota not-for-profit corporation, which comprise the statement of financial position as of December 31, 2019, and the related statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated June 17, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated 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 consolidated 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 consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

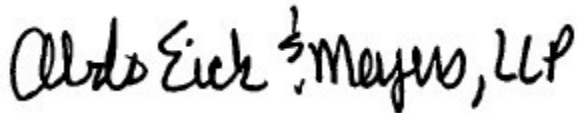
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did identify one deficiency in internal control that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free of 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*.

Purpose of this Report

This 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.



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
June 17, 2020



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

Board of Directors
Keystone Community Services
Saint Paul, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Keystone Community Services' (the Organization), a Minnesota not-for-profit corporation, 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, 2019. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the 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 *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 a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization did not comply, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control over Compliance

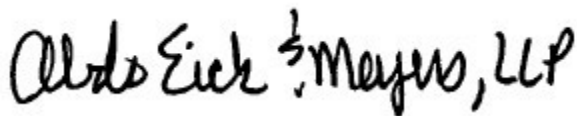
Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified deficiencies in internal control over compliance that we consider to be a material weakness and significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding 2019-001 to be a material weakness and as findings 2019-002 and 2019-003 to be significant deficiencies.

The Organization's response to the internal control over compliance findings 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 compliance and, accordingly, we express no opinion on the response.

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.



ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
June 17, 2020

Keystone Community Services
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2019

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	None Reported
Significant deficiencies identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	Yes
Significant deficiencies identified not considered to be material weaknesses	Yes
Type of auditor's report issued on compliance for major programs:	Modified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the Uniform Guidance?	Yes

Identification of Major Programs:

	Federal CFDA Number
Emergency Food Assistance Program	10.569
Dollar threshold used to distinguish between Type A and Type B Programs:	\$ 750,000
Auditee qualified as low-risk auditee pursuant to the Uniform Guidance	No

Section II - Findings - Financial Statement Audit

A significant deficiency relating to the Organization's internal controls is reported in the SAS 115 letter. Finding 2019-001 is reported as a significant deficiency.

2019-001 Significant Deficiency in Internal Controls over Financial Reporting

Condition:

During our audit, adjustments were needed to adjust accounts to correct balances at year end. Significant accounts affected include the in-kind expenses and contributions accounts.

Criteria:

Management should have a procedure in place to verify the trial balance is complete with all in-kind expenses and contributions properly recorded.

Cause:

The Organization did not record all TEFAP from Second Harvest for in-kind food. Also, the Organization did not record the correct amount of in-kind food spoilage.

Effect:

In-kind expense and contributions were understated by \$827,694. The audit firm noted the misstatements and presented adjusting journal entries to correct during the audit.

Recommendation:

We recommend the Organization review and update its procedures related to in-kind contributions and expenses, to ensure all activity is properly recorded.

Keystone Community Services
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2019

Keystone Community Services
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended December 31, 2019

Section III - Findings and Questioned Costs - Major Federal Award Programs Audit

A significant deficiency relating to the Organization's compliance with the Uniform Guidance is reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and Reporting on Internal Control over Compliance Required by the Uniform Guidance. Finding 2019-001 is reported as a material weakness. Findings 2019-002 and 2019-003 are reported as significant deficiencies.

2019-001 Material Weakness in Internal Controls over Compliance and Financial Reporting

Condition:

The Organization did not track all of its federal expenditures in the aggregate.

Criteria:

Uniform Guidance requires proper tracking of federal expenditures to determine whether the Organization meets or exceeds the Single Audit threshold requirement.

Cause:

During our audit procedures, we noted that the Organization would not know to have a Single Audit performed if they had not received a letter from Second Harvest Heartland notifying the Organization that the \$750,000 threshold had been exceeded.

Effect:

The Organization could have been required to have a Single Audit performed but not realize it.

Recommendation:

We recommend that the Organization track all federal expenditures in the aggregate each year to identify whether the \$750,000 threshold for a Single Audit has been met or exceeded.

2019-002 Significant Deficiency in Internal Controls over Compliance

Condition:

During our audit procedures, we noted that a significant number of Income Eligibility Verification (IEV) forms could not be located.

Criteria:

Uniform Guidance requires that the Organization certify that households are eligible to receive USDA Foods for household consumption by applying income eligibility criteria.

Cause:

The Organization did not file the IEV forms in an organized way, making it difficult to locate specific forms. Some forms could have been missed when individuals came in to get food.

Effect:

The Organization could have provided food to non-eligible households.

Recommendation:

We recommend that the Organization implement devices to allow for electronic signatures on the IEV forms and connect these electronic forms to each individual within the Organization's database.

2019-003 Significant Deficiency in Internal Controls over Compliance

Condition:

During our audit procedures, we noted that the Organization did not maintain records of the distribution and inventory of USDA Foods.

Criteria:

Uniform Guidance requires that the Organization maintain accurate and complete records with respect to the distribution and inventory of USDA Foods

Cause:

The Organization did not realize the requirement around maintaining records of the distribution and inventory of USDA Foods.

Effect:

The condition could result in the improper distribution or loss of USDA Foods.

Recommendation:

We recommend that the Organization performs an inventory count of USDA Foods at least annually.

Other Issues

The Summary Schedule of Prior Audit Findings is not required because there were no prior year audit findings required to be reported in accordance with 2 CFR 200.516(a) of the Uniform Guidance.

See the following page for the Corrective Action Plan.



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651.645.0349 TEL
651.645.8057 FAX

CORRECTIVE ACTION PLAN

June 17, 2020

U.S. Department of Agriculture
Passed-through Second Harvest Heartland

Keystone Community Services respectfully submits the following corrective action plan for the year ended December 31, 2019.

Name and address of independent public accounting firm:

Abdo, Eick & Meyers, LLP
5201 Eden Avenue, Suite 250
Edina, MN 55436

Audit period: January 1, 2019 - December 31, 2019

The findings from the December 31, 2019 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Findings- Internal Controls over Financial Statements

2019-001 - Audit Adjustments

Recommendation:

We recommend the Organization review and update its procedures related to in-kind contributions and expenses, to ensure all activity is properly recorded.

Planned Action:

Management has acknowledged the deficiencies and will put procedures in place to better track in-kind food from Second Harvest.

Findings- Compliance and Internal Controls over Compliance

U.S. Department of Agriculture: Emergency Food Assistance Program (Food
Commodities) – CFDA 10.569

2019-001 – Material Weakness in Internal Controls over Compliance and Financial Reporting

Recommendation:

We recommend that the Organization track all federal expenditures in the aggregate

each year to identify whether the \$750,000 threshold for a Single Audit has been met or exceeded.

Planned Action

Keystone Community Services believes that this has been corrected in the 2020 fiscal year with the implementation of a process to calculate the total federal expenditures each year.

2019-002 – Noncompliance and Significant Deficiency in Internal Controls over Compliance

Recommendation:

We recommend that the Organization implement devices to allow for electronic signatures on the IEV forms and connect these electronic forms to each individual within the Organization's database.

Planned Action

Keystone Community Services will correct this in the 2020 fiscal year by installing signature pads so that the IEV forms can be signed and stored electronically.

2019-003 - Noncompliance and Significant Deficiency in Internal Controls over Compliance

Recommendation:

We recommend that the Organization performs an inventory count of USDA Foods at least annually.

Planned Action

Keystone Community Services will correct this in the 2020 fiscal year by implementing a quarterly inventory count.

If Second Harvest Heartland has questions regarding this plan, please call Mary McKeown, President and CEO, at 651-603-6644.

Sincerely,

A handwritten signature in black ink, reading "Mary S. McKeown" with a stylized flourish at the end.

Mary S. McKeown
President/CEO