

Consolidated Financial Statements

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

For the Years Ended
December 31, 2020 and 2019

Keystone Community Services
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December 31, 2020 and 2019

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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, 2020 and 2019 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, 2020 and 2019, and the changes in net assets and their cash flows.

Other Matters

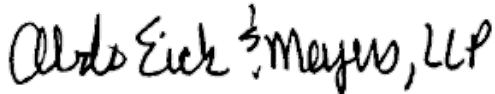
Supplementary Information in Relation to the Consolidated Financial Statements as a Whole

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 16, 2021, 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 16, 2021

CONSOLIDATED FINANCIAL STATEMENTS

Keystone Community Services
Consolidated Statement of Financial Position
December 31, 2020 and 2019

	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,526,152	\$ 48,443
Accounts receivable, net of allowance for doubtful accounts of \$8,000 for 2020 and 2019	305,513	648,456
Grant receivable	142,500	55,077
Pledge receivable	52,000	-
Inventory	22,965	20,227
Prepaid expenses	60,912	59,514
Total Current Assets	2,110,042	831,717
Noncurrent Assets		
Investments	1,670,508	1,553,983
Grants receivable, noncurrent	20,000	-
Pledge receivable, noncurrent	35,000	-
Property and Equipment, Net	2,982,771	925,748
Total Noncurrent Assets	4,708,279	2,479,731
Total Assets	\$ 6,818,321	\$ 3,311,448
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 198,924	\$ 126,052
Accrued payroll expenses	11,069	24,686
Accrued vacation	100,129	65,867
Security deposit	5,500	-
Deferred revenue	-	78,822
Notes payable - current	35,760	35,144
Total Current Liabilities	351,382	330,571
Noncurrent Liabilities		
Notes payable	1,693,081	303,841
Line of credit	-	94,503
Total Noncurrent Liabilities	1,693,081	398,344
Total Liabilities	2,044,463	728,915
Net Assets		
Without donor restriction	4,408,377	2,457,341
With donor restriction	365,481	125,192
Total Net Assets	4,773,858	2,582,533
Total Liabilities and Net Assets	\$ 6,818,321	\$ 3,311,448

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, 2020

	Without Donor Restriction	With Donor Restriction	Total
Support and Revenue			
Support			
Contributions and grants	\$ 3,008,092	\$ 453,113	\$ 3,461,205
In-kind contributions	2,558,385	-	2,558,385
Greater Twin Cities United Way	236,000	-	236,000
Government contracts and grants	2,168,284	-	2,168,284
Paycheck Protection Program grant	499,000	-	499,000
Total Support	8,469,761	453,113	8,922,874
Revenue			
Program service fees	71,828	-	71,828
Food sales	433,984	-	433,984
Meal distribution	70,005	-	70,005
Express Bike sales			
Bike shop sales	291,334	-	291,334
Cost of good sold	(75,486)	-	(75,486)
Investment income (loss), net	130,100	-	130,100
Miscellaneous revenue	16,296	-	16,296
Total Revenue	938,061	-	938,061
Net Assets Released From Restrictions	212,824	(212,824)	-
Total Support and Revenue	\$ 9,620,646	\$ 240,289	\$ 9,860,935

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, 2020

	Without Donor Restriction	With Donor Restriction	Total
Expenses			
Program Services			
Youth Services	\$ 610,510	\$ -	\$ 610,510
Senior Services	1,832,345	-	1,832,345
Basic Needs	3,365,668	-	3,365,668
Social Enterprise	40,420	-	40,420
Express Bike	332,062	-	332,062
Total Program Services	<u>6,181,005</u>	<u>-</u>	<u>6,181,005</u>
Supporting Services			
Management and general	782,390	-	782,390
Fundraising	706,215	-	706,215
Total Supporting Services	<u>1,488,605</u>	<u>-</u>	<u>1,488,605</u>
Total Expenses	<u>7,669,610</u>	<u>-</u>	<u>7,669,610</u>
Change In Net Assets	<u>1,951,036</u>	<u>240,289</u>	<u>2,191,325</u>
Net Assets, Beginning of the Year	2,457,341	125,192	2,582,533
Net Assets, End of the Year	<u>\$ 4,408,377</u>	<u>\$ 365,481</u>	<u>\$ 4,773,858</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			
Support			
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)
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	142,100	817	142,917
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
Unconsolidated Keystone Statement of Functional Expenses
For the Year Ended December 31, 2020

	Program Services					Supporting Services			Total Expenses
	Youth Services	Basic Needs	Senior Services	Social Enterprise	Total Program	General & Administrative	Fundraising	Total Support Services	
Personnel Expenses									
Salaries	\$ 370,208	\$ 347,700	\$ 1,217,350	\$ 10,654	\$ 1,945,912	\$ 493,421	\$ 131,791	\$ 625,212	\$ 2,571,124
Payroll taxes	30,141	28,520	99,453	1,676	159,790	40,244	10,820	51,064	210,854
Employee benefits	40,488	36,852	130,346	3,582	211,268	55,234	14,130	69,364	280,632
Total Personnel Expenses	440,837	413,072	1,447,149	15,912	2,316,970	588,899	156,741	745,640	3,062,610
Expenses									
Professional fees/contracted services	31,816	4,565	20,196	2,237	58,814	39,620	425,934	465,554	524,368
Contracted services - tours	-	-	-	12,397	12,397	-	-	-	12,397
Supplies	37,135	16,532	8,839	2,898	65,404	37,064	14,363	51,427	116,831
Food except In-kind	9,705	123,915	127,094	49	260,763	-	-	-	260,763
In-kind donations	-	2,452,646	-	-	2,452,646	-	52,669	52,669	2,505,315
Client assistance	1,500	111,603	2,107	-	115,210	-	-	-	115,210
Transportation	18,128	22,809	5,831	100	46,868	994	188	1,182	48,050
Telephone	3,674	5,337	11,542	361	20,914	3,457	967	4,424	25,338
Occupancy	16,343	145,944	44,198	1,324	207,809	42,384	2,689	45,073	252,882
Equipment rental & maintenance	3,691	7,254	7,413	431	18,789	13,020	-	13,020	31,809
Postage & shipping	308	408	3,725	408	4,849	1,934	6,306	8,240	13,089
Outside printing	228	3,761	543	2,203	6,735	1,650	22,116	23,766	30,501
Recruitment	75	2,043	110	-	2,228	470	-	470	2,698
Conference & staff training	(165)	910	2,506	-	3,251	2,329	2,483	4,812	8,063
Organization dues & subscriptions	3,080	9,991	61,057	-	74,128	8,394	15,191	23,585	97,713
Bad debt	-	-	69,364	-	69,364	-	-	-	69,364
Miscellaneous	20,398	8,337	3,191	2,100	34,026	30,963	3,574	34,537	68,563
Total Expenses Before Depreciation	586,753	3,329,127	1,814,865	40,420	5,771,165	771,178	703,221	1,474,399	7,245,564
Depreciation	23,757	36,541	17,480	-	77,778	5,789	1,295	7,084	84,862
Total Expenses	\$ 610,510	\$ 3,365,668	\$ 1,832,345	\$ 40,420	\$ 5,848,943	\$ 776,967	\$ 704,516	\$ 1,481,483	\$ 7,330,426

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			Total Expenses
	Youth Services	Basic Needs	Senior Services	Social Enterprise	Total Program	General & Administrative	Fundraising	Total Support Services	
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	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, 2020

	Program	Supporting Services			Total Expenses
	Express Bike	Management and General	Fundraising	Total Support Services	
Personnel Expenses					
Salaries	\$ 172,794	\$ 2,824	\$ 882	\$ 3,706	\$ 176,500
Payroll taxes	16,567	271	85	356	16,923
Employee benefits	13,219	216	68	284	13,503
Total Personnel Expenses	202,580	3,311	1,035	4,346	206,926
Expenses					
Youth apprenticeships	98	2	1	3	101
Professional fees	127	2	1	3	130
Bank & credit card fees	10,923	179	56	235	11,158
Marketing & advertising	177	3	1	4	181
Outside personnel	-	-	-	-	-
Supplies	979	16	5	21	1,000
Postage	21	-	-	-	21
Occupancy	24,618	402	126	528	25,146
Equipment rental	1,744	29	9	38	1,782
Printing	98	2	1	3	101
Meetings	108	2	1	3	111
Education & conferences	866	14	4	18	884
Interest	4,133	68	21	89	4,222
Licenses	109	2	1	3	112
In-kind	51,956	849	265	1,114	53,070
Internet & IT	937	15	5	20	957
Miscellaneous	6,196	96	32	128	6,324
Total Expenses Before Depreciation	305,670	4,992	1,564	6,556	312,226
Depreciation	26,392	431	135	566	26,958
Total Expenses	\$ 332,062	\$ 5,423	\$ 1,699	\$ 7,122	\$ 339,184

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 Services	
Personnel Expenses					
Salaries	\$ 157,349	\$ 2,571	\$ 804	\$ 3,375	\$ 160,724
Payroll taxes	15,525	254	79	333	15,858
Employee benefits	12,041	197	61	258	12,299
Total Personnel Expenses	184,915	3,022	944	3,966	188,881
Expenses					
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	15,646	256	80	336	15,982
Equipment rental	671	11	3	14	685
Printing & licenses	143	2	1	3	146
Meetings	1,222	20	6	26	1,248
Education & conferences	102	2	1	3	105
Interest	4,882	80	25	105	4,987
Licenses	604	10	3	13	617
In-kind	63,474	1,037	324	1,361	64,835
Internet & IT	3,749	61	19	80	3,829
Miscellaneous	303	5	2	7	310
Total Expenses Before Depreciation	308,728	5,045	1,576	6,621	315,349
Depreciation	25,389	415	130	545	25,934
Total Expenses	\$ 334,117	\$ 5,460	\$ 1,706	\$ 7,166	\$ 341,283

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, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	\$ 2,191,325	\$ 142,917
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	111,820	100,274
Bad debt	69,364	9,060
Prior period restatement	-	(324,818)
Net realized and unrealized investment gain	(92,783)	(180,124)
Change in assets and liabilities:		
Accounts receivable	273,579	(207,108)
Grants receivable	(107,423)	23,893
Pledge receivable	(87,000)	-
Inventory	(2,738)	30,263
Prepaid expenses and other current assets	(1,398)	(14,488)
Accounts payable	72,872	11,439
Accrued payroll expenses	(13,617)	7,414
Accrued vacation	34,262	10,181
Security deposit	5,500	-
Deferred revenue	(78,822)	78,822
Cash Used by Operating Activities	2,374,941	(312,275)
Cash Flows from Investing Activities		
Purchases of property and equipment	(2,168,843)	(93,964)
Proceeds from sales of investments	4,891	11,165
Purchases of investments	(28,633)	(53,810)
Net Cash Used by Investing Activities	(2,192,585)	(136,609)
Cash Flows from Financing Activities		
Proceeds from note payable	1,425,000	349,818
Payments on note payable	(35,144)	(10,833)
Borrowing on line of credit	-	215,000
Repayment on line of credit	(94,503)	(200,000)
Net Cash Provided by Financing Activities	1,295,353	353,985
Change in Cash and Cash Equivalents	1,477,709	(94,899)
Cash and Cash Equivalents at Beginning of Year	48,443	143,342
Cash and Cash Equivalents at End of Year	\$ 1,526,152	\$ 48,443
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for:		
Interest	\$ 22,092	\$ 18,894

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

Keystone Community Services
Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

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 six community locations in Saint Paul. 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 29,470 Saint Paul and Ramsey County individuals and families meet their needs for emergency food support and other social services each year. Keystone operates two food shelves - Midway and Rice Street as well as a roving Foodmobile and summer Free Farmer's Market produce distributions. In 2020 we added a free grocery delivery program and drive thru food distribution events to support residents during the Covid-19 pandemic. We also offer crisis assistance, case management, and referrals.
- **Keystone Youth Development Programs** help over 230 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 Best Buy Teen Tech Center.
- **Keystone Senior Programs** help 2,255 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 and health advocacy support to help Ramsey County 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.

Keystone Community Services
Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

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. Accounts Receivable

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, 2020 and 2019, the allowance was \$8,000.

F. Pledges and Grants Receivable

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 and grants to be collected; there is no allowance for uncollectable amounts as of December 31, 2020 and 2019.

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, 2020 and 2019

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, 2020 and 2019, deferred revenue was \$0 and \$78,822, 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 2,000 and 2,500 volunteers supported Keystone services in 2020 and 2019, 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 of employee headcount and square footage.

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, 2020 and 2019 was \$3,199 and \$2,032, respectively.

Keystone Community Services
Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

Note 1: Summary of Significant Accounting Policies (Continued)

Q. Tax Status

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

R. Reclassifications

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

S. Subsequent Events

In preparing the financial statements, the Organization has evaluated events and transactions for the potential recognition or disclosure through June 16, 2021, the date the financial statements were available to be issued.

Note 2: Property and Equipment

Property and equipment consist of the following at December 31:

	2020	2019
Equipment	\$ 662,578	\$ 406,844
Land and Buildings	2,493,110	580,000
Leasehold Improvements	581,175	581,175
Total Property and Equipment	3,736,863	1,568,019
Less: Accumulated Depreciation	(754,092)	(642,271)
Property and Equipment, Net	\$ 2,982,771	\$ 925,748

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, 2020 and 2019

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.

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

December 31, 2020	Level 1	Level 2	Level 3	Total
Investments:				
Common stock	\$ 848,743	\$ -	\$ -	\$ 848,743
Money market funds	342,716	-	-	342,716
Corporate bonds and notes	-	363,481	-	363,481
Mutual funds	115,568	-	-	115,568
Total Investments	\$ 1,307,027	\$ 363,481	\$ -	\$ 1,670,508

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	\$ 1,145,467	\$ 408,516	\$ -	\$ 1,553,983

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, 2020.

Note 5: Line of Credit

Keystone Community Services has a \$200,000 revolving line of credit with Associated Bank through February 18, 2022. The credit is secured by all assets of the Organization. Borrowings under the line bear interest at the bank's prime rate plus 1.75%, or a floor of 5.50%. There was an outstanding balance of \$0 at December 31, 2020 and 2019.

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, 2020 and 2019, the rate was 5%. There was \$0 and \$94,503 borrowed on the line of credit at December 31, 2020 and 2019, respectively.

Keystone Community Services
Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

Note 6: Notes Payable

The Organization obtained a note payable to U.S Bank National Association on September 20, 2019 for their pension liability. 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 note is due in monthly payments of \$3,360 including interest at 4.36%. The payment schedule reflects a 4-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:

Years Ending December 31,	Amount
2021	\$ 27,872
2022	29,129
2023	30,443
2024	206,849
Total	\$ 294,293

The Organization obtained two notes payable 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:

Years Ending December 31,	Amount
2021	\$ 7,888
2022	1,660
Total	\$ 9,548

The Organization obtained a business loan for \$1,425,000, payable to Sunrise Bank for the purchase of a building on December 28, 2020. No principle payments are due until maturity, but interest is payable every month and is charged at a rate of 3.75%. This loan is scheduled to mature on December 28, 2022 at which time the full principle amount and any interest is due.

Keystone Community Services
Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

Note 7: Restricted Net Assets

The Organization had the following donor-restricted net assets at December 31, 2020 and 2019:

	2020	2019
Food Shelf and Basic Needs	\$ 111,213	\$ 25,192
Seniors - Case Management	102,268	35,000
Pledges Receivable - Time Restricted	87,000	-
Youth Program	65,000	40,000
Teen Tutoring Employment	-	25,000
	\$ 365,481	\$ 125,192

Net assets were released from restrictions as follows during the years ended December 31, 2020 and 2019:

	2020	2019
Youth Program	\$ 115,000	\$ 90,833
Food Shelf and Basic Needs	37,824	64,995
Seniors - Case Management	35,000	39,688
Teen Tutoring Employment	25,000	25,000
Family Success Fund	-	15,000
Express Bike	-	15,000
	\$ 212,824	\$ 250,516

Note 8: Distributions from Community Endowments

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, 2020 and 2019

Note 8: Distributions from Endowment (Continued)

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

	Balance	
	2020	2019
St. Paul Foundation	\$ 233,076	\$ 225,560
Oneida Education Center Fund	99,801	97,010
Minnesota Community Foundation	42,402	41,223
 Total Endowments	 \$ 375,279	 \$ 363,793
	Distributed Earnings	
	2020	2019
St. Paul Foundation	\$ 8,671	\$ 8,599
Oneida Education Center Fund	3,713	3,681
Minnesota Community Foundation	1,578	1,564
 Total Distributions Received	 \$ 13,962	 \$ 13,844

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 \$1.67 and \$1.73 for the years ended December 31, 2020 and 2019, respectively. 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. Bikes are valued at the donors stated value or best estimate of value by bike shop employees at the time they are received.

For the years ended December 31, 2020 and 2019, the Organization had the following in-kind contributions:

	2020	2019
Food		
1,599,295 and 689,740 pounds, respectively at		
\$1.67/pound and \$1.73/pound, respectively, less 10% spoilage	\$ 2,474,997	\$ 1,162,787
Bikes	53,070	64,835
Other	30,318	44,708
 Total	 \$ 2,558,385	 \$ 1,272,330

Keystone Community Services
Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

Note 10: Lease Income

The Organization leases its property to various organizations and programs. The total lease income for the year ended December 31, 2020 and 2019 was \$64,454 and \$35,050.

As of December 31, 2020, future minimum lease payments to be received of the leases are as follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2021	\$ 29,941
2022	24,776
2023	<u>5,628</u>
Total	<u>\$ 60,345</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>
2021	\$ 89,816
2022	13,146
2023	<u>874</u>
Total	<u>\$ 103,836</u>

Total lease expenses for the year ended December 31, 2020 and 2019 were \$113,729 and \$93,499, 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.

Note 14: COVID-19

In December 2019, a novel strain of coronavirus (COVID-19) surfaced. The spread of COVID-19 around the world during 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 economies and, as such, the Organization is unable to determine if it will have a material impact to its operations.

Keystone Community Services
Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

Note 15: 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:

	2020	2019
Cash and Cash Equivalents	\$ 1,526,152	\$ 143,342
Accounts Receivable	305,513	648,456
Grant Receivable	162,500	55,077
Pledge Receivable	87,000	-
Investments	1,670,508	1,331,214
Total Financial Assets	3,751,673	2,178,089
Less Financial Assets Unavailable for Current Year Spending due to:		
Net assets with donor restrictions	(202,268)	(125,192)
Grants receivable, noncurrent	(20,000)	-
Pledge receivable, noncurrent	(35,000)	-
Total Financial Assets Unavailable for Current Year Spending	(257,268)	(125,192)
Financial assets available to meet cash needs for general expenditures within one year	\$ 3,494,405	\$ 2,052,897

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 16: Upcoming Accounting Pronouncements

In September 2020, the FASB issued ASU No. 2020-07 Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets, which is intended to improve the transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind, for not-for-profit organizations. This ASU requires not-for-profit organizations to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. In addition to separate presentation on the statement of activities, this amendment requires enhanced disclosures around each category of contributed nonfinancial assets for donor-imposed restrictions, valuation techniques, description of programs or activities in which the assets were used, and if monetized a policy about monetizing rather than utilizing the asset(s). The amendments in this ASU should be applied on a retrospective basis and are effective for annual reporting periods beginning after June 15, 2021. Early adoption is permitted. The Organization is currently evaluating the impact this standard will have on its financial statements.

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, 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 in fiscal year 2022. The Organization is currently evaluating the impact of the results of operations, financial condition and cash flows and has not determined the impact on its consolidated financial statements at this time.

SUPPLEMENTARY INFORMATION

Keystone Community Services
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020

Federal Grantor/Program Title Pass-Through Grantor/Pass-Through Entity Identifying Number	Federal Domestic Assistance Number	Pass-Through Identification Number	Federal Expenditures
United States Department of Agriculture:			
Food Distribution Cluster:			
Passed-Through Hunger Solutions Minnesota: Emergency Food Assistance Program (Administrative Costs)	10.568	None noted	\$ 45,000
Passed-Through Second Harvest Heartland: Emergency Food Assistance Program (Food Commodities)	10.569	GRK%144570	<u>616,210</u>
<i>Total United States Department of Agriculture:</i>			<u>661,210</u>
United States Department of the Treasury:			
Passed-Through Hunger Solutions Minnesota: Coronavirus Relief Fund	21.019	None noted	82,330
Passed-Through Ramsey County: Coronavirus Relief Fund	21.019	FASD COVID19 -0027; WFS-CARES-051	82,134
Passed-Through the City of Saint Paul: Coronavirus Relief Fund	21.019	None noted	8,150
Passed-Through Hennepin County: Coronavirus Relief Fund	21.019	None noted	<u>5,755</u>
<i>Total United States Department of the Treasury:</i>			<u>178,369</u>
United States Department of Education:			
Passed-Through the Minnesota Department of Education: Twenty-First Century Community Learning Centers	84.287	S287C190023	<u>224,483</u>
United States Department of Health and Human Services:			
Passed-Through UnitedHealth Group: Provider Relief Fund	93.498	None noted	33,308
Passed-Through the Minnesota Department of Health: Assistance Programs for Chronic Disease Prevention and Control	93.945	None noted	<u>1,500</u>
<i>Total United States Department of Health and Human Services:</i>			<u>34,808</u>
United States Department of Homeland Security:			
Passed-Through United Way: Emergency Food and Shelter National Board Program	97.024	LRO503200019	<u>12,500</u>
Total Federal Expenditures			<u><u>\$ 1,111,370</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, 2020

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, 2020. 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, 2020, 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, 2020, 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 16, 2021.

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.

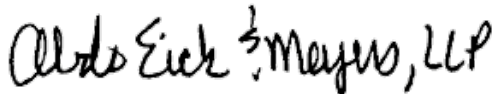
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 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 16, 2021



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, 2020. 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, 2020.

Report on Internal Control over Compliance

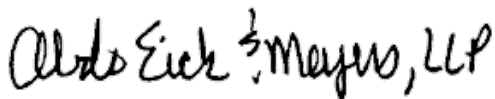
Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance 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 a deficiency in internal control over compliance that we consider to be a significant deficiency.

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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding 2020-002 to be a significant deficiency.

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 16, 2021

Keystone Community Services
 Schedule of Findings and Questioned Costs
 For the Year Ended December 31, 2020

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses	Yes
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) of the Uniform Guidance?	Yes

Identification of Major Programs:

	Federal CFDA Number
Emergency Food Assistance Program (Administrative Costs)	10.568
Emergency Food Assistance Program (Food Commodities)	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 material weakness relating to the Organization's internal controls is reported in the SAS 115 letter. Finding 2020-001 is reported as a material weakness.

2020-001 Material Weakness 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 included net assets with donor restrictions and accounts receivable.

Criteria:

Management should have a procedure in place to verify the trial balance is complete with all accounts properly recorded.

Cause:

As a result of Cashe's inability to run past reports and DHS's inability to confirm outstanding balances, accounts receivable needed to be adjusted to agree to identified subsequent documentation relating to 2020 activity. Due to new multi-year pledges receivables in the current years as part of the new capital campaign, net asset with donor restrictions need to be increased to reflect these pledge receivables.

Effect:

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 net assets with donor restrictions and accounts receivable to ensure all activity is properly recorded.

Keystone Community Services
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended December 31, 2020

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 2020-002 is reported as a significant deficiency.

2020-002 Noncompliance and Significant Deficiency in Internal Controls over Compliance

Condition:

During our audit procedures, we noted that some 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 install signature pads during the period as planned due to other changes required at the food shelf associated with the COVID-19 pandemic, so they could not easily identify missing forms throughout the year. 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 review and update their procedures to ensure all required IEV forms are completed.

Other Issues

See the following page for the Summary Schedule of Prior Audit Findings.

See the following page for the Corrective Action Plan.

Keystone Community Services
Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2020

DEPARTMENT OF AGRICULTURE

FINDING 2019-001: Significant Deficiency in Internal Controls over Financial Reporting

Condition: This finding noted that adjustments were needed to adjust accounts to correct balances at year end. Significant accounts affected included the in-kind expenses and contributions accounts.

Recommendation: The auditor recommended that the Organization review and update its procedures related to in-kind contributions and expenses, to ensure all activity is properly recorded.

Current Status: The Organization updated its procedures related to in-kind contributions and expenses to work to ensure all activity was properly recorded. A similar finding was noted in the 2020 audit. However, the misstatements were less significant than in 2019.

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

Condition: This finding noted that the Organization did not track all of its federal expenditures in the aggregate.

Recommendation: The auditor recommended 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.

Current Status: The recommendation was adopted during 2020 and no similar findings were noted in the 2020 audit.

FINDING 2019-002: Significant Deficiency in Internal Controls over Compliance

Condition: This finding noted that a significant number of Income Eligibility Verification (IEV) forms could not be located.

Recommendation: The auditor recommended 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.

Current Status: The Organization did not implement signature pads during 2020 due to other changes they needed to make at the food shelf during the year associated with the COVID-19 pandemic. The Organization was able to significantly reduce the number of missing IEV forms compared to the prior year by organizing the forms in a way that made it easier to locate those selected for testing.

FINDING 2019-003: Significant Deficiency in Internal Controls over Compliance

Condition: This finding noted that the Organization did not maintain records of the distribution and inventory of USDA Foods.

Recommendation: The auditor recommended that the Organization performs an inventory count of USDA Foods at least annually.

Current Status: The recommendation was adopted during 2020 and no similar findings were noted in the 2020 audit.



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651.645.8057 FAX

CORRECTIVE ACTION PLAN

June 16, 2021

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, 2020.

Name and address of independent public accounting firm:
Abdo, Eick & Meyers, LLP
5201 Eden Avenue, Suite 250
Edina, MN 55436
Audit period: January 1, 2020 - December 31, 2020

The findings from the December 31, 2020 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 Reporting

2020-001 - Material Weakness in Internal Controls over Financial Reporting (Audit Adjustments)

Recommendation:

We recommend the Organization review and update its procedures related to net assets with donor restrictions and accounts receivable to ensure all activity is properly recorded.

Planned Action:

Management has acknowledged the deficiencies. We have developed new procedures for accounting for multi-year pledges and are working diligently with our vendor to improve the year end reporting for waiver accounts receivable.

Findings - Compliance and Internal Controls over Compliance

U.S. Department of Agriculture: Emergency Food Assistance Program (Administrative Costs) – CFDA 10.568
U.S. Department of Agriculture: Emergency Food Assistance Program (Food Commodities) – CFDA 10.569

2020-002 - Noncompliance and Significant Deficiency in Internal Controls over Compliance

Recommendation:

We recommend that the Organization review and update their procedures to ensure all required IEV forms are completed.

Planned Action

Keystone Community Services will correct this in the 2021 fiscal year by ensuring forms are updated for repeat clients and stored appropriately.

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

Sincerely,

Mary McKeown
President/CEO