Valley Outreach

Financial Statements with
Independent Auditor's Report

September 30, 2022

Valley Outreach
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SCHUTZ CPA, LTD.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Valley Outreach

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Valley Outreach (a nonprofit organization), which comprise the statement of financial position as of September 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Valley Outreach as of September 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Valley Outreach and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Valley Outreach's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Valley Outreach's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Valley Outreach's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2023, on our consideration of Valley Outreach's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Valley Outreach's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Valley Outreach's internal control over financial reporting and compliance.

Schutz CPA, Ltd.

January 11, 2023

Valley Outreach
Statement of Financial Position
September 30, 2022

Assets	
Current Assets	
Cash and Cash Equivalents	$ 891,212
Cash Restricted for Operating Reserve	59,516
Cash Restricted for Capital Reserve	114,806
Certificates of Deposit	77,031
Accounts Receivable	15,800
Inventory - Food	4,927
Inventory - Clothing	45,965
Prepaid Expenses	61,111
Total Current Assets	1,270,368
Property and Equipment	
Land	463,822
Building and Improvements	1,697,482
Furniture and Fixtures	22,208
Equipment	160,714
Vehicles	33,771
Accumulated Depreciation	(560,288)
Net Property and Equipment	1,817,709
Other Assets	
Cash Restricted for Tenant Security Deposits	6,185
Cash Restricted for UST Unemployment Fund	33,409
Cash Restricted for Operating Reserve	241,885
Cash Restricted for Capital Reserve	23,047
Certificates of Deposit	235,068
Investments	153,006
Total Other Assets	692,600
Total Assets	$3,780,677
Liabilities	
Current Liabilities	
Accounts Payable	40,098
Accrued Payroll	18,036
Accrued Vacation	30,841
Accrued Expenses	16,364
Deferred Revenue	72,624
Tenant Security Deposits	6,185
Total Current Liabilities	184,148
Total Liabilities	184,148
Net Assets	
Without Donor Restriction	3,368,508
With Donor Restriction	228,021
Total Net Assets	3,596,529
Total Liabilities and Net Assets	$3,780,677

See accompanying notes to financial statements.

Valley Outreach
Statement of Activities
Year Ended September 30, 2022

	Without Donor Restriction	With Donor Restriction	Total
Support and Revenue			
Grants and Contributions	$ 1,683,024	$ 129,361	$ 1,812,385
In-Kind Donations - Food	1,530,550		1,530,550
In-Kind Donations - Clothing	1,098,500		1,098,500
Program Income	1,679		1,679
Other Income	416		416
Investment Losses	(43,947)		(43,947)
Subtotal Support and Revenue	4,270,222	129,361	4,399,583
Released from Restrictions	39,936	(39,936)	
Special Events	235,217		235,217
Less Special Events Direct Expenses	(33,831)		(33,831)
Net Special Events	201,386		201,386
Rental Income	81,104		81,104
Less Rental Expenses	(60,032)		(60,032)
Net Rental Income	21,072		21,072
Total Support and Revenue	4,532,616	89,425	4,622,041
Expenses			
Program Services	4,179,386		4,179,386
Management and General	375,804		375,804
Fundraising	133,900		133,900
Total Expenses	4,689,090		4,689,090
Change in Net Assets	(156,474)	89,425	(67,049)
Net Assets - Beginning of Year	3,524,982	138,596	3,663,578
Net Assets - End of Year	$ 3,368,508	$ 228,021	$ 3,596,529

See accompanying notes to financial statements.

Valley Outreach
Statement of Functional Expenses
Year Ended September 30, 2022

	Program Services	Management and General	Fundraising	Expenses Before Rental/ Special Event	Special Event Expenses	Rental Expenses	Total Expenses
Client Assistance - Goods	$3,012,697			$ 3,012,697			$3,012,697
Client Asssistance - Financial	61,444			61,444			61,444
Salaries	756,490	$ 39,142	$ 61,598	857,230	$ 1,102	$ 4,085	862,417
Contracted Services	42,422	118,950	32,295	193,667			193,667
Employee Benefits	73,462	5,483	5,982	84,927			84,927
Payroll Taxes	57,412	2,545	4,687	64,644	86	307	65,037
Advertising and Marketing					4,405		4,405
Bank and Credit Card Fees	121	5,384	587	6,092	1,650		7,742
Comferences and Meetings	344	1,900	313	2,557			2,557
Depreciation	78,740	6,726	4,216	89,682		13,642	103,324
Dues and Subscriptions	5,353	33,435	884	39,672			39,672
Insurance	8,934	4,467		13,401		6,421	19,822
Meals and Entertainment	24	3,007		3,031	19,676		22,707
Miscellaneous	709	1,345	175	2,229			2,229
Office Equipment	10,919	14,799	712	26,430			26,430
Office Expense	5,128	9,409		14,537			14,537
Postage	12	819	6,362	7,193	380		7,573
Printing and Publications	8,743	654	14,826	24,223			24,223
Professional Services	506	45,618		46,124	1,500		47,624
Property Tax						17,674	17,674
Rent Expense		4,490		4,490			4,490
Repair and Maintenance	7,875	41,339		49,214		5,146	54,360
Supplies	16,327	5,802	133	22,262	5,032	43	27,337
Telephone and Communications	1,948	21,060		23,008			23,008
Travel	632	331		963			963
Utilities	21,099	1,802	1,130	24,031		12,714	36,745
Vehicle Expense	7,943			7,943			7,943
Volunteer and Staff Recognitions	102	7,297		7,399			7,399
Total Expenses	$4,179,386	$ 375,804	$ 133,900	$ 4,689,090	$ 33,831	$60,032	$4,782,953

Valley Outreach
Statement of Cash Flows
Year Ended September 30, 2022

Cash Flows from (to) Operating Activities	
Change in Net Assets	$ (67,049)
Adjustments to Reconcile:	
Depreciation	103,324
Loss on Investments	43,947
Noncash Change in Inventory	21,942
(Increase) Decrease in Operating Assets:	
Accounts Receivable	16,618
Prepaid Expenses	(13,427)
Increase (Decrease) in Operating Liabilities:	
Accounts Payable	6,903
Accrued Payroll	(5,668)
Accrued Vacation	5,517
Accrued Expenses	16,363
Deferred Revenue	14,320
Net Cash from Operating Activities	142,790
Cash Flows (to) Investing Activities	
Purchase of Fixed Assets	(39,610)
Purchases of Investments	(96,615)
Net Cash (to) Investing Activities	(136,225)
Net Increase in Cash and Cash Equivalents	6,565
Cash and Cash Equivalents, Beginning of Year	1,363,495
Cash and Cash Equivalents, End of Year	$1,370,060

Note 1: Nature of the Organization

Valley Outreach is a community supported and privately funded non-profit whose mission is to help people move their lives forward through basic needs services and personalized support. Clients are offered, free of charge, a range of support including food, clothing, resource navigation and case management. The target demographic is those within 200% of the federal poverty level or those in crisis.

Note 2: Summary of Significant Accounting Policies

Financial Statement Presentation: The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Cash, Cash Equivalents, and Restricted Cash: The Organization considers all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Restricted cash includes cash and highly liquid financial instruments restricted for tenant security deposits, UST unemployment fund, operating, and capital reserves.

Certificates of Deposit: Certificates of deposit are recorded at cost plus accrued interest, which approximates fair market value.

Accounts Receivable: The Organization records unconditional promises to give that are 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 against the allowance account when deemed uncollectable. At September 30, 2022, all amounts were considered fully collectible and an allowance account was not deemed necessary.

Inventory: Inventories are stated at lower of cost, determined using the average cost method, or market, based on average value per pound for food and average value per item for clothing.

Property and Equipment: Property and equipment additions of $2,500 are carried at cost, or if donated, at fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 5 to 39 years. When assets are sold or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any resulting gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expenses as incurred.

Investments: The Organization records investments at their fair value in the statement of financial position. Net investment income/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external investment expenses.

Deferred Revenue: Deferred revenue consists of special event revenues received prior to the event date.

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

> *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for both operating capital reserves.

Note 2: Summary of Significant Accounting Policies (Continued)

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, the stipulated purpose for which the resource was restricted has been fulfilled, or both.

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the donor restrictions are satisfied in the reporting period in which the support is recognized.

Revenue and Revenue Recognition:

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

Revenue is recognized when earned. Program fees and rental income are deferred to the applicable period in which related services are performed.

Special event revenue is recorded equal to the fair value of direct benefits to the donors and contributions income for the excess received when the event takes place.

In-kind contributions of donated goods, which include food and clothing are recorded as unrestricted support by the Organization at the estimated fair value on the date of donation.

In-kind contributions of services provided by volunteers, contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles.

Functional Allocation of Expenses: The costs of programs and supporting services activities have been summarized on a functional basis and natural classifications in the statement of functional expenses. Expenses have been allocated among program and supporting service classifications on the basis of direct expenses and based on the best estimates of the Organization's management. These expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include compensation and benefits, which are allocated on the basis of time and effort, as well as depreciation and occupancy which are allocated on a square footage basis.

Advertising Expenses: Advertising costs are expensed as they are incurred.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include allocation of expenses to the various functional expense categories and the value of in-kind donations.

Income Taxes: The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

Note 2: Summary of Significant Accounting Policies (Continued)

Financial Instruments and Credit Risk: The Organization manages concentration risk by placing financial assets with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits. To date, the Organization has not experienced losses in any of its accounts. Credit risk associated with grants receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from foundations supportive of the Organization's mission.

Recent Accounting Guidance: During fiscal year ending September 30, 2022, the Organization adopted Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets.* The new guidance requires nonprofit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. The standard also increases disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets a nonprofit has received. Adoption of this standard did not have a significant impact on the financial statements.

Note 3: Liquidity and Availability

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

Fiscal assets at September 30, 2022	$1,850,965
Less amounts unavailable for general expenditures within one year due to:	
Donor restrictions	(228,021)
Restricted cash	(478,848)
Total financial assets available to meet cash needs for general expenditures within one year at September 30, 2022	$1,144,096

As part of the Organization's liquidity management plan both an operating reserve and a capital reserve were established. In addition, a long-term non-endowed fund was established at a local community foundation. Although, the Organization does not intend to spend from these reserves, amounts could be made available if necessary.

In October 2016, the Board approved the establishment of a board designated fund as an operating reserve. The purpose of the operating reserve is to build and maintain an adequate level of unrestricted net assets to support the Organization's day-to-day operations in the event of unforeseen shortfalls. The reserve may also be used for one-time, nonrecurring expenses that will build long-term capacity, such as staff development, research and development, or investment in infrastructure. The target minimum operating reserve is $450,000 and will be calculated each year after approval of the annual budget. At September 30, 2022, the operating reserve was $509,516 with $301,402 in money market accounts and $208,115 held as certificates of deposit. Of the $509,516 the amount available for current use is $59,516, if needed.

In October 2017, the Board approved the establishment of a board designated fund as a capital reserve. The purpose of the capital reserve is to support the Organization's capital needs and obligations accompanying building ownership. The target minimum capital reserve is $50,000 and capital needs will be reviewed annually by the Facilities Subcommittee. At September 30, 2022, the capital reserve was at $241,837 with $137,853 in money market funds and $103,984 held in certificates of deposit. Of the $241,837 the amount available for current use is $191,837, if needed.

Note 4: Investments

The Organization established a long-term, non-endowed fund with the St. Croix Valley Foundation (SCVF) during the fiscal year ending September 30, 2016. SCVF has sole discretion as to the investment and reinvestment of the assets of the fund. The fund is to be administered in accordance with the Minnesota and Wisconsin Uniform Prudent Management of Institutional Funds Acts. The income of the fund, as determined to be 5% of the average past sixteen quarters' fund balance, can be distributed annually or be added all or in part back into the fund. However, upon request of three-fourths of the directors of Valley Outreach, the Foundation may authorize distributions in excess of the income of the fund. As of September 30, 2022, the spendable amount from the fund was $3,285.

Note 5: Fair Value Measurements and Disclosures

Investments are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. These include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset. In these situations, inputs are developed using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the assessment of the quality, risk, or liquidity profile of the asset.

Investments are held in a pooled fund at a community foundation and are under control of the community foundation individual assets specific to the Organization are not specifically identifiable on an open market, as such, the investments are classified within Level 2.

Fair value of assets measured on a recurring basis at September 30, 2022 are as follows:

Investment In:	Level 1	Level 2	Level 3	Total
St. Croix Valley Foundation	$ 0	$153,006	$ 0	$153,006

Note 6: UST Unemployment Fund

The Organization started an unemployment fund with an unemployment management company during the fiscal year ended September 30, 2018. The Organization has determined that the contributions to the fund are a restricted cash asset of the Organization, as upon severance the fund returns the account balance. Any unemployment claims are paid from this fund; there were no claims paid in the current fiscal year. As of September 30, 2022, the balance was $33,409.

Note 7: Net Assets With Donor Restrictions

Net assets with donor restrictions consist of grants and contributions designated for future use by the Food Shelf/ Client Financial Assistance Fund programs and amounts held in the St. Croix Valley Foundation Fund. At September 30, 2022, net assets with donor restrictions consisted of the following:

Food Shelf/Client Financial Assistance Fund	$ 15,800
Collaboration on Mobilization	62,500
St. Croix Valley Foundation Fund	149,721
Total Net Assets With Donor Restrictions	$228,021

Note 8: Donated Goods and Services

The Organization received donated goods which include food and clothing. Donated amounts are recorded in financial statements as unrestricted support by the Organization at the estimated fair value on the date of donation. Food donations are valued at a per pound amount of $2.15, net of spoilage. Clothing items are valued on a per item basis at an average of $5.17 per item. In determining the price per pound and average per item amounts, the Organization performs studies and uses price testing and the consumer price index.

The average value of one pound of donated food and per item value of donated clothing will vary from year-to-year based on the mix of product items donated. As part of determining the price, the Organization analyses and reviews the results to determine the accuracy and understand the key components of the valuations and the year-to-year changes.

The Organization received 746,968 pounds of food in fiscal year 2022 at an estimated fair value of $1,530,550.

The Organization received a total of 212,476 clothing items in fiscal year 2022 at an estimated fair value of $1,098,500.

Contributed services are recognized for those services that improve or enhance property and equipment or for those that require specialized skills. Many other volunteer service hours, for which no value has been assigned, benefitted the Organization but have not been recognized in the financial statements since they do not meet the requirements for recognition. During the year ended September 30, 2022, the Organization benefitted from approximately 484 individuals who volunteered approximately 21,787 hours helping the Organization.

Note 9: Special Events

The Organization participated in two special events during the year to raise awareness about its activities and fundraise. Special events consisted of the following:

	Feed the Valley	Carnelian Cares	Total
Revenue	$203,579	$31,638	$235,217
Direct Expenses	(26,329)	(7,502)	(33,831)
Net Special Event Revenue	$177,250	$24,136	201,386

Note 10: Rental Income

The Organization leased a portion of its building to three tenants under operating leases for office space during the year ended September 30, 2022. The terms of those leases call for base monthly payments of $910 through October 31, 2022, monthly payments of $1,975 through October 31, 2023, and monthly payments of $1,400 through October 31, 2023. In addition, the leases call for common area maintenance fees and prorated tax reimbursements.

Security deposits of $6,185 are considered restricted cash and are not held in a separate bank account.

Note 11: Operating Leases

The Organization has leases for two copiers that are recorded as operating leases. Both leases are month-to-month leases, and require a sixty-day notice to cancel. The Organization is required to pay a minimum of $129 per month on one lease and $50 per month on the other.

The Organization has a lease for a parking lot space with a neighbouring business. The lease is on a month-to-month basis and requires a thirty-day notice to cancel. The Organization is required to pay $345 per month.

Note 12: Retirement Plan

During the fiscal year ending September 30, 2016, the Organization adopted a SIMPLE retirement plan covering all employees who have received at least $5,000 in compensation during any two prior years. Employees are eligible for employer contributions once they begin contributing to the plan. The Organization matches up to 3% of their gross pay. Employer contributions are immediately vested.

Employer matching contributions to the plan were $22,379 for the year ended September 30, 2022.

Note 13: Cash Flow

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statements of financial position to the sum of the corresponding amounts within the statements of cash flows:

Cash and Cash Equivalents	$ 891,212
Restricted Cash – Current Assets:	
Cash Restricted for Operating Reserve	59,516
Cash Restricted for Capital Reserve	114,806
Restricted Cash – Other Assets:	
Cash Restricted for Tenant Security Deposits	6,185
Cash Restricted for UST Unemployment Fund	33,409
Cash Restricted for Operating Reserve	241,885
Cash Restricted for Capital Reserve	23,047
Cash and Cash Equivalents, End of Year	$1,370,060

Noncash contributions of food and clothing of $2,629,050 were received during the year and noncash distributions of food and clothing were $2,928,497.

Note 14: Subsequent Events

The Organization has evaluated subsequent events through January 11, 2023, which was the date the financial statements were available to be issued.

Supplementary Information

Valley Outreach
Schedule of Expenditures of Federal Awards
September 30, 2022

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Agriculture		
The Emergency Food Assistance Program	10.569	
Noncash food donations pass through from:		
Minnesota Department of Human Services		
Through Second Harvest Heartland		$ 820,000
Pass through from :		
Hunger Solutions		21,786
Total Emergency Food Assistance Program		841,786
Total Expenditures of Federal Awards		$ 841,786

Notes to the Schedule of Expenditures of Federal Awards
September 30, 2022

Note 1: The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by the Valley Outreach. The Organization's reporting entity is defined in Note 1 to the basic financial statements.

Note 2: The schedule is prepared in accordance with accounting principles generally accepted in the United States of America.

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

To the Board of Directors of
Valley Outreach

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Valley Outreach (a nonprofit organization), which comprise the statement of financial position as of September 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 11, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Valley Outreach's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Valley Outreach's internal control. Accordingly, we do not express an opinion on the effectiveness of Valley Outreach's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2022-001 and 2022-002 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Valley Outreach's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Valley Outreach's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Valley Outreach's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Valley Outreach's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Schutz CPA, Ltd.

January 11, 2023

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

To the Board of Directors of
Valley Outreach

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Valley Outreach's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on Valley Outreach's major federal program for the year ended September 30, 2022. Valley Outreach's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Valley Outreach complied, 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 program for the year ended September 30, 2022.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Valley Outreach and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of Valley Outreach's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Valley Outreach's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Valley Outreach's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Valley Outreach's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Valley Outreach's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Valley Outreach's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Valley Outreach's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Schutz CPA, Ltd.

January 11, 2023

Valley Outreach
Schedule of Findings and Questioned Costs
Year Ended September 30, 2022

A Summary of Auditor's Results

Financial Statements

1	Type of auditor's report issued?	Unmodified
2	Internal control over financial reporting:	
	a Material weakness identified?	No
	b Significant deficiency identified?	Yes (2022-001 and 002)
3	Noncompliance material to the financial statements noted?	No

Federal Awards

1	Internal control over financial reporting:	
	a Material weakness identified?	No
	b Significant deficiency identified?	Yes (2022-002)
2	Type of auditor's report issued on compliance for the major federal program?	Unmodified
3	Any audit findings disclosed that are required to be reported in accordance with 2CFR2000.516(a)?	No
4	Identification of the major federal program	
5	Dollar threshold used to distinguish between Type A and Type B Programs	$750,000
6	Auditee qualifies as low-risk auditee?	No

CFDA	Name of Federal Program or Cluster
10.569	The Emergency Food Assistance Program

B Financial Statement Findings

Significant Deficiency

2021-001 Annual Financial Reporting Under Generally Accepted Accounting Principles (GAAP)

Criteria : The Organization is responsible for establishing and maintaining internal control and for the fair presentation of the balance sheet, statement of operations and member's equity, statement of cash flows, supplementary information, and disclosures in the financial statements, in conformity with U.S. generally accepted accounting principles (GAAP).

Condition: The potential exists that a misstatement of the annual financial statements could occur and not be prevented or detected by the Organization's internal control.

Effect: The Organization engages the audit firm to prepare drafts of its annual financial statements and related footnote disclosures in accordance with GAAP based on information and trial balances provided by the Organization.

Cause: The Organization does not have the expertise to prepare GAAP financial statements.

Recommendation: The Organization should consider contracting with an outside accounting firm to discuss annual financial statements with disclosures.

Management response: The Organization realizes there is a lack of accounting experience, and has made a cost benefit decision to internally review financial statements prepared by the audit firm.

Valley Outreach
Schedule of Findings and Questioned Costs
Year Ended September 30, 2022

Significant Deficiency

2021-002 Lack of Segregation of Duties

Criteria: A system of internal control proposes separation of duties such that no individual has access to more than one phase of a transaction. The three separate phases are physical access to assets, approval of the transaction, and maintaining the related accounting records.

Condition : With a small office staff, the Organization does not have the personnel to provide adequate separation of duties.

Effect: Lack of separation of duties could result in a financial statement misstatement caused by error or fraud that would not be detected or prevented and corrected by the Organization.

Cause: The Organization has limited staff availability.

Recommendation: The Organization should continue to evaluate its staffing in order to segregate incompatible duties whenever possible. Also, the Organization could consider outsourcing accounting functions to an outside accounting firm.

Management response: The Organization will continue to utilize Board members to provide a level of monitoring to the financial operations.

C	Federal Award Findings and Questioned Costs	None
D	Other Issues	
1	Does the auditor have substantial doubt as to the auditee's ability to continue as a going concern?	No
2	Does the audit report show audit issues (i.e. material non-compliance, non-material non-compliance, questioned costs, material weaknesses, significant deficiencies, management letter comment, excess revenue or excess reserve) related to grants/contracts with funding agencies that require audits to be in accordance with the US Forest Service	No
3	Was a management letter or other document conveying audit comments issued as a result of this audit?	No
4	Name and signature of audit partner	Jennifer Schutz Jennifer A. Schutz, CPA
5	Date of report	January 11, 2023

Valley Outreach
Summary Schedule of Prior Year Findings
Year Ended September 30, 2022

Finding:

The Organization operated in a similar fashion in 2021 although it did not undergo an audit performed under Uniform Guidance.

Schedule of Reportable Conditions of Non-Compliance
Year Ended September 30, 2022

Finding:

None