

WACOSA
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2020 AND 2019



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**WACOSA
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INDEPENDENT AUDITORS' REPORT

Board of Directors
WACOSA
Waite Park, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of WACOSA, which comprise the statements of financial position as of December 31, 2020 and 2019, and the related 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 Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WACOSA as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.


Report on Supplementary Information

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of vocational business activities 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. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2021, on our consideration of WACOSA'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 result of that testing, and not to provide an opinion on the effectiveness of WACOSA'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 WACOSA 's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

St. Cloud, Minnesota
June 18, 2021

WACOSA
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019

ASSETS	2020	2019
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,483,469	\$ 634,547
Investments	3,417,894	3,395,661
Accounts Receivable - Program	314,354	1,168,146
Accounts Receivable - Vocational	68,972	115,062
Accounts Receivable - Electrolux	-	2,824
Contributions Receivable	-	3,600
Other Receivable	767	1,235
Inventory	103,750	101,697
Prepaid Expenses	52,191	70,453
Total Current Assets	5,441,397	5,493,225
 PROPERTY AND EQUIPMENT		
Land	569,281	569,281
Leasehold Improvements	29,600	29,600
Building	5,767,966	5,767,966
Equipment	1,313,693	1,259,886
Vehicles	1,665,651	1,585,126
Construction in Process	10,859	10,859
Total Property and Equipment	9,357,050	9,222,718
Less: Accumulated Depreciation	4,343,575	3,936,349
Net Property and Equipment	5,013,475	5,286,369
Total Assets	\$ 10,454,872	\$ 10,779,594

See accompanying Notes to Financial Statements.

WACOSA
STATEMENTS OF FINANCIAL POSITION (CONTINUED)
DECEMBER 31, 2020 AND 2019

	2020	2019
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Maturities of Notes Payable	\$ 69,951	\$ 67,320
Current Maturities of Capital Lease Payable	40,665	39,596
Accounts Payable	311,141	138,239
Accounts Payable - Electrolux	-	897
Accrued Expenses	47,243	61,341
Salaries and Related Benefits Payable	179,448	279,177
Accrued Vacation	273,488	283,470
Total Current Liabilities	921,936	870,040
LONG-TERM DEBT		
Notes Payable, Net of Current Maturities and Unamortized Finance Fees	933,667	1,001,767
Capital Lease Payable, Net of Current Maturities	30,929	69,962
Total Long-Term Debt	964,596	1,071,729
Total Liabilities	1,886,532	1,941,769
NET ASSETS		
Nets Assets Without Donor Restriction:		
Undesignated	3,013,275	3,770,255
Designated	4,836,382	4,663,087
Total Net Assets Without Donor Restriction	7,849,657	8,433,342
Net Assets With Donor Restriction	718,683	404,483
Total Net Assets	8,568,340	8,837,825
Total Liabilities and Net Assets	\$ 10,454,872	\$ 10,779,594

See accompanying Notes to Financial Statements.

WACOSA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2020

	Without Donor Restriction	With Donor Restriction	Total
	<u> </u>	<u> </u>	<u> </u>
REVENUES AND SUPPORT			
Support:			
Program Services	\$ 2,541,939	\$ -	\$ 2,541,939
Contributions	1,682,641	314,200	1,996,841
Total Support	<u>4,224,580</u>	<u>314,200</u>	<u>4,538,780</u>
Revenue:			
Vocational Business Activities	1,036,901	-	1,036,901
Investment Income	52,048	-	52,048
Gain on Debt Forgiveness	1,247,679	-	1,247,679
Other Income	6,286	-	6,286
Subtotal Revenues and Support	<u>6,567,494</u>	<u>314,200</u>	<u>6,881,694</u>
Net Assets Released from Restrictions	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues and Support	6,567,494	314,200	6,881,694
EXPENSES			
Program Expenses:			
General Program and Transportation	4,668,044	-	4,668,044
Vocational Business Activities	1,195,068	-	1,195,068
Management and General	1,205,492	-	1,205,492
Fundraising	82,575	-	82,575
Total Expenses	<u>7,151,179</u>	<u>-</u>	<u>7,151,179</u>
CHANGE IN NET ASSETS	(583,685)	314,200	(269,485)
Net Assets - Beginning of Year	<u>8,433,342</u>	<u>404,483</u>	<u>8,837,825</u>
NET ASSETS - END OF YEAR	<u>\$ 7,849,657</u>	<u>\$ 718,683</u>	<u>\$ 8,568,340</u>

See accompanying Notes to Financial Statements.

WACOSA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
REVENUES AND SUPPORT			
Support:			
Program Services	\$ 7,062,068	\$ -	\$ 7,062,068
Contributions	283,468	213,331	496,799
Total Support	<u>7,345,536</u>	<u>213,331</u>	<u>7,558,867</u>
Revenue:			
Vocational Business Activities	1,864,548	-	1,864,548
Investment Income	91,333	-	91,333
Loss on Sale of Property and Equipment	(16,595)	-	(16,595)
Other Income	9,650	-	9,650
Net Vocational Revenue	<u>9,294,472</u>	<u>213,331</u>	<u>9,507,803</u>
Net Assets Released from Restrictions	<u>119,487</u>	<u>(119,487)</u>	<u>-</u>
Total Revenues and Support	9,413,959	93,844	9,507,803
EXPENSES			
Program Expenses:			
General Program and Transportation	5,749,006	-	5,749,006
Vocational Business Activities	1,918,969	-	1,918,969
Management and General	1,283,222	-	1,283,222
Fundraising	82,411	-	82,411
Total Expenses	<u>9,033,608</u>	<u>-</u>	<u>9,033,608</u>
CHANGE IN NET ASSETS	380,351	93,844	474,195
Net Assets - Beginning of Year	<u>8,052,991</u>	<u>310,639</u>	<u>8,363,630</u>
NET ASSETS - END OF YEAR	<u>\$ 8,433,342</u>	<u>\$ 404,483</u>	<u>\$ 8,837,825</u>

See accompanying Notes to Financial Statements.

WACOSA
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2020

	Program				Total
	General Program and Transportation	Vocational Business Activities	Management and General	Fundraising	
Salaries	\$ 2,923,634	\$ 734,330	\$ 656,971	\$ 57,630	\$ 4,372,565
Benefits	1,063,317	176,784	201,868	15,735	1,457,704
Staff Travel and Mileage	4,779	-	567	-	5,346
Supplies	34,086	14,374	12,396	-	60,856
Minor Equipment and Repairs	31,597	6,268	16,036	-	53,901
Rent	32,937	2,403	-	-	35,340
Telephone	29,233	2,260	18,389	-	49,882
Utilities	63,256	52,079	8,326	-	123,661
Repairs and Maintenance	17,996	18,686	2,712	-	39,394
Snow Removal	5,864	5,182	831	-	11,877
Insurance	43,256	18,114	647	-	62,017
Interest Expense	-	27,634	14,216	-	41,850
Vehicle Interest Expense	-	3,594	-	-	3,594
Public Relations	-	4,416	12,764	9,209	26,389
Advertising	73	9,029	976	1	10,079
Client Transportation	37,268	-	-	-	37,268
Vehicle Fuel	48,126	4,585	-	-	52,711
Vehicle Maintenance	66,625	5,565	-	-	72,190
Vehicle Insurance	33,531	2,262	-	-	35,793
Vehicle Licenses	720	-	72	-	792
Vehicle Lease	5,847	-	-	-	5,847
Professional Services	-	1,718	128,100	-	129,818
Postage	15	-	8,398	-	8,413
Dues and Licensing	12,005	2,689	5,729	-	20,423
Board	-	-	360	-	360
Subscriptions	459	-	149	-	608
Miscellaneous	-	7,653	13,421	-	21,074
Total Operating Expenses	<u>4,454,624</u>	<u>1,099,625</u>	<u>1,102,928</u>	<u>82,575</u>	<u>6,739,752</u>
Depreciation	<u>213,420</u>	<u>95,443</u>	<u>102,564</u>	<u>-</u>	<u>411,427</u>
Total Functional Expenses	<u><u>\$ 4,668,044</u></u>	<u><u>\$ 1,195,068</u></u>	<u><u>\$ 1,205,492</u></u>	<u><u>\$ 82,575</u></u>	<u><u>\$ 7,151,179</u></u>

See accompanying Notes to Financial Statements.

WACOSA
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019

	Program				Total
	General Program and Transportation	Vocational Business Activities	Management and General	Fundraising	
Salaries	\$ 3,822,736	\$ 1,308,666	\$ 720,670	\$ 60,476	\$ 5,912,548
Benefits	988,229	225,349	174,503	12,842	1,400,923
Staff Travel and Mileage	16,127	327	3,792	622	20,868
Supplies	45,628	29,851	17,257	-	92,736
Minor Equipment and Repairs	15,363	7,300	22,394	-	45,057
Rent	29,028	8,972	-	-	38,000
Telephone	16,818	959	10,493	-	28,270
Utilities	83,587	69,447	10,911	-	163,945
Repairs and Maintenance	22,558	21,820	3,331	-	47,709
Snow Removal	15,434	17,686	2,853	-	35,973
Insurance	37,968	16,420	595	-	54,983
Interest Expense	-	48,864	-	-	48,864
Public Relations	-	6,359	32,653	8,467	47,479
Advertising	254	25,981	379	4	26,618
Client Transportation	180,688	-	-	-	180,688
Vehicle Fuel	111,638	8,733	-	-	120,371
Vehicle Maintenance	105,178	7,041	-	-	112,219
Vehicle Insurance	34,919	2,149	-	-	37,068
Vehicle Licenses	170	-	-	-	170
Vehicle Lease	6,207	-	-	-	6,207
Professional Services	-	1,320	151,328	-	152,648
Postage	-	209	9,439	-	9,648
Dues and Licensing	13,905	4,165	4,434	-	22,504
Board	-	-	2,574	-	2,574
Subscriptions	825	-	-	-	825
Miscellaneous	-	9,170	5,317	-	14,487
Total Operating Expenses	<u>5,547,260</u>	<u>1,820,788</u>	<u>1,172,923</u>	<u>82,411</u>	<u>8,623,382</u>
Depreciation	<u>201,746</u>	<u>98,181</u>	<u>110,299</u>	<u>-</u>	<u>410,226</u>
Total Functional Expenses	<u>\$ 5,749,006</u>	<u>\$ 1,918,969</u>	<u>\$ 1,283,222</u>	<u>\$ 82,411</u>	<u>\$ 9,033,608</u>

See accompanying Notes to Financial Statements.

WACOSA
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Support and Revenue	\$ 6,509,977	\$ 9,202,064
Interest and Dividends Received	50,040	53,729
Cash Paid to Suppliers and Employees	(6,633,497)	(8,884,292)
Interest Paid	(38,593)	(45,809)
Net Cash Provided (Used) by Operating Activities	(112,073)	325,692
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(138,533)	(240,959)
Change in Funds Held in Money Market	(2,027)	(6,060)
Purchase of Investments	(1,903,721)	(1,431,409)
Proceeds from Sale of Investments	1,872,066	1,366,549
Net Cash Used by Investing Activities	(172,215)	(311,879)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Paycheck Protection Program Loan	1,239,900	-
Payment of Capital Lease Payable	(37,964)	(39,478)
Repayment of Notes Payable	(68,726)	(63,592)
Net Cash Provided (Used) by Financing Activities	1,133,210	(103,070)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	848,922	(89,257)
Cash and Cash Equivalents - Beginning of Year	634,547	723,804
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,483,469	\$ 634,547
Non-Cash Transactions		
Payroll Protection Loan Program Forgiveness	1,239,900	-
Total Noncash Transactions	\$ 1,239,900	\$ -

See accompanying Notes to Financial Statements.

WACOSA
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
RECONCILIATION OF CHANGE IN NET ASSETS TO		
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Change in Net Assets	\$ (269,485)	\$ 474,195
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided (Used) by Operating Activities:		
Depreciation	411,427	410,226
Amortization	3,257	3,258
Net Unrealized Gain on Investments	(10,941)	(25,315)
Loss on Sale or Disposal of Property and Equipment	-	16,595
Realized (Gain) Loss on Investments	10,960	(6,229)
Investment Expenses	11,430	11,130
Paycheck Protection Program Loan Forgiveness	(1,239,900)	-
(Increase) Decrease in:		
Accounts Receivable - Program	853,792	(590,530)
Accounts Receivable - Vocational	46,090	49,737
Accounts Receivable - Electrolux	2,824	291,391
Other Receivable	4,068	1,211
Inventory	(2,053)	58,350
Prepaid Expenses	18,262	(29,572)
Increase (Decrease) in:		
Accounts Payable	172,902	(33,231)
Accounts Payable - Electrolux	(897)	(322,316)
Accrued Expenses	(14,098)	(14,312)
Salaries and Related Benefits Payable and Accrued Vacation	(109,711)	31,104
Net Cash Provided (Used) by Operating Activities	\$ (112,073)	\$ 325,692

See accompanying Notes to Financial Statements.

WACOSA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

WACOSA (the Organization) was formed as a nonprofit organization that is a work-oriented, day-training habilitation and rehabilitation facility whose mission is to provide people challenged by disabilities with the opportunity to work and live in their community within Central Minnesota. Major support sources include medical assistance, various county assistance, and contract revenue from area businesses that provide clients with work-oriented projects.

Basis of Presentation

Net assets and revenues, gains and losses are classified based on donor-imposed 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, those net assets detailed out in Note 9.

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 specific by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and released from restrictions when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

WACOSA reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as Net Assets Released from Restrictions.

Use of 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. Estimates also affect the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

WACOSA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Investments

The Organization records investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair value in the statement of financial position. Unrealized gains and losses are included in the change in net assets on the statements of activities.

Accounts Receivable

The Organization provides an allowance for uncollectible accounts based on the allowance method using management's judgment. Accounts receivable are unsecured. Payment for services is required upon receipt of an invoice. All self-pay accounts are analyzed for collectability based on the months past due and payment history. An allowance is estimated for these accounts based on the historical experience of the Organization. Accounts that are determined to be uncollectible are written off at that time. An allowance for bad debts of \$3,106 and \$3,106 was recorded for the years ended December 31, 2020 and 2019, respectively.

Program Receivables

Receivables generated from consumer services are recorded at net realizable value. These receivables include services payable by Medical Assurances, Department of Employment and Economic Development, counties, school districts, and privately paying consumers.

Vocational Receivables

Receivables generated by business activities for work performed by consumers serviced are recorded at net realizable value. These receivables occur in the normal course of business as work is performed by consumers, and invoiced accordingly.

Contributions Receivable

The Organization records contributions in accordance with applicable accounting standards, which require unconditional promises to give (pledges) be recorded as receivables and revenues and requires the Organization to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. All contributions receivable are collectible within one year.

WACOSA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

Inventory consists of product on hand for a customer the Organization does contract work with. The Organization also has donated inventory on hand at the end of the year. The ending inventory value is based on an average of three months of sales.

Property and Equipment

The Organization has established a policy in which purchases of property and equipment with a cost in excess of \$1,000 are capitalized. Property and equipment purchases not capitalized are expensed. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as net assets without donor restriction unless the donor has restricted the donated asset to a specific purpose. All property and equipment are recorded at cost and are being depreciated over their estimated useful lives using the straight-line method at rates based on the following estimated useful lives:

Building and Improvements	10 to 40 Years
Equipment	3 to 10 Years
Vehicles	5 Years

Long-Lived Assets

The Organization evaluates its long-lived assets for impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. In such circumstances, the Organization evaluates the recoverability of long-lived assets by measuring the carrying amount of the assets against the estimated undiscounted future cash flows associated with such assets. At the time such evaluations indicate that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values. As of December 31, 2020 and 2019, management believes that the carrying amounts of its long-lived assets have not been impaired.

Revenue and Support

Revenue is recognized as the performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and the Organization does not believe they are required to provide additional goods or services to the client.

The Organization has performance obligations that are satisfied at a point in time or over time. Community Contract, Private Pay Program Services, Production and Shred income performance obligations are based on underlying contracts and are satisfied on the day of the services performed. ThriftWorks! income performance obligations are satisfied at the point of sale. Total program service revenue were \$1,036,901 and \$1,864,548 for the years ended December 31, 2020 and 2019, respectively.

WACOSA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Support (Continued)

The Organization receives its support primarily from the state of Minnesota through Medical Assistance and from participating counties and cities with federal, state, and local funds. The Organization receives donated goods from the community to use within the ThriftWorks! store which are later sold to the general public. The Organization recognizes the sales of these donated items as Vocational Business Activity Revenue. The receipt of inventory is recorded in Contributions. The Organization also receives in-kind storage space for inventory of the ThriftWorks! store.

A portion of the Organization's revenue is derived from cost reimbursable federal and state service agreements, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific service agreement provisions. The Organization received service agreements of approximately \$1,150,000 and \$3,350,000 that have not been recognized at December 31, 2020 and 2019, respectively because qualifying expenditures have not yet been incurred.

All contributions are considered to be without donor restrictions unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as with donor restrictions.

Advertising

Advertising costs are charged to operations when incurred. Advertising expenses were \$10,079 and \$26,618 for the years ended December 31, 2020 and 2019, respectively.

Fair Value of Financial Instruments

The Organization categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine 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 in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, face value upon maturity, or discounted cash flows.

WACOSA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments (Continued)

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

Subsequent to initial recognition, the Organization may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and corresponding state tax codes and, therefore, the financial statements do not include a provision for income taxes. Contributions to the Organization qualify as a charitable tax deduction by the contributor.

The Organization files as a tax-exempt organization, should that status be challenged in the future, all years since inception would be subject to review by the Internal Revenue Service.

Paycheck Protection Program Loan

In April 2020, the Organization applied for and was awarded a paycheck protection program loan. The loan was awarded on April 5, 2020 in the amount of \$1,239,900 at a fixed rate of 1.00% per annum. On November 23, 2020, the SBA processed the Organization's PPP Loan forgiveness application and notified National Bank of Commerce the PPP Loan qualified for full forgiveness. Loan proceeds were received by the bank from the SBA on this date. Therefore, the Organization was legally released from the debt, which is included in revenue during the year ended December 31, 2020.

The SBA may review funding eligibility and usage of funds for compliance with program requirements based on dollar thresholds and other factors. The amount of liability, if any, from potential noncompliance cannot be determined with certainty; however, management is of the opinion that any review will not have a material adverse impact on the Company's financial position.

WACOSA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 2 RISKS AND UNCERTAINTIES

During 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Organization, COVID-19 may impact various parts of its 2021 operations and financial results, including restrictions on the organization by the governor, additional costs to the Organization, investment performance and potential loss of revenue due to reduction in certain revenue streams. Management believes the Organization is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events occurred subsequent to year-end and are still developing.

NOTE 3 CONCENTRATIONS

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash, investments, and accounts receivable.

At times, cash may be in excess of the Federal Deposit Insurance Corporation insurance limit. With regard to investments, the Organization invests primarily in high-grade marketable securities, thereby limiting credit risk.

Revenues from Medical Assistance represented 30.0% and 64.0% of total revenue for the years ended December 31, 2020 and 2019, respectively. Revenues from grants and contributions from 2 donors represented 31.3% of total revenue for the year ended December 31, 2020.

Accounts receivable for Medical Assistance represented 82.9% and 85.2% of Program Accounts Receivable for the years ended December 31, 2020 and 2019, respectively.

Receivables from one customer represented 10.4% and 10.2% of Vocational Accounts Receivable for the years ended December 31, 2020 and 2019, respectively.

NOTE 4 INVESTMENTS

Investments, other than Money Markets which are stated at cost which approximates fair value, are stated at fair value and consist primarily of mutual funds, governmental funds, fixed income, and money market funds as follows:

	December 31, 2020		December 31, 2019	
	Cost	Fair Value	Cost	Fair Value
Mutual Funds	\$ 49,995	\$ 63,904	\$ 49,386	\$ 62,281
Fixed Income	2,553,229	2,545,165	2,520,863	2,497,371
Money Markets	808,825	808,825	836,009	836,009
Total	\$ 3,412,049	\$ 3,417,894	\$ 3,406,258	\$ 3,395,661

WACOSA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 4 INVESTMENTS (CONTINUED)

Investment income is summarized as follows for the years ended December 31:

	2020	2019
Interest and Dividends	\$ 63,497	\$ 70,919
Realized Gain (Loss)	(10,960)	6,229
Unrealized Gain (Loss)	10,941	25,315
Investment Fees	(11,430)	(11,130)
Total	<u>\$ 52,048</u>	<u>\$ 91,333</u>

NOTE 5 FAIR VALUE MEASUREMENTS

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Organization measures fair value refer to Note 1 – Summary of Significant Accounting Policies.

The following table presents the fair value hierarchy for the balances of the assets and liabilities of the Organization measured at fair value on a recurring basis as of December 31, 2020 and 2019:

	Level 1	Level 2	Level 3	2020 Total
Assets:				
Mutual Funds	\$ 63,904	\$ -	\$ -	\$ 63,904
Fixed Income	2,545,165	-	-	2,545,165
Total	<u>\$ 2,609,069</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,609,069</u>
				2019
	Level 1	Level 2	Level 3	Total
Assets:				
Mutual Funds	\$ 62,281	\$ -	\$ -	\$ 62,281
Fixed Income	2,497,371	-	-	2,497,371
Total	<u>\$ 2,559,652</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,559,652</u>

Unrealized changes in fair value for investments and realized gains and losses from sales are recorded in investment income in the statements of activities.

WACOSA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 6 LONG-TERM DEBT

Amortization of finance costs is included in interest expense and was \$3,257 and \$3,258 the years ended December 31, 2020 and 2019, respectively.

Unamortized finance fees are netted against the debt balance and amounted to \$5,430 and \$8,687 at December 31, 2020 and 2019, respectively. These fees create an effective interest rate of 3.95% for this mortgage.

<u>Description</u>	<u>2020</u>	<u>2019</u>
Note Payable, Bremer Bank, N.A., 3.63% Interest; Monthly Principal and Interest Payments of \$8,826; Maturity September 2022; Secured by Buildings	\$ 1,009,048	\$ 1,077,774
Less: Current Maturities and	69,951	67,320
Less: Unamortized Finance Fees	<u>5,430</u>	<u>8,687</u>
Total Long-Term Notes Payable	<u>\$ 933,667</u>	<u>\$ 1,001,767</u>

Maturity requirements by year on long-term debt are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2021	\$ 69,951
2022	939,097
Total	<u>\$ 1,009,048</u>

NOTE 7 OPERATING LEASES

The Organization is currently leasing a facility in Sauk Centre, which expires August 2024. Lease expense for the years ended December 31, 2020 and 2019 amounted to \$35,340 and \$31,508, respectively.

Future minimum lease payments on this lease are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2021	\$ 32,544
2022	32,544
2023	32,544
2024	21,696
Total	<u>\$ 119,328</u>

WACOSA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 8 CAPITAL LEASE

The Organization has capital leases for vehicles. The gross cost of the vehicles under the capital lease as of December 31, 2020 and 2019 was \$130,250 and \$130,176, and the corresponding accumulated depreciation was \$104,435 and \$78,399, respectively. Capital lease payable is as follows:

<u>Description</u>	<u>2020</u>	<u>2019</u>
Capital Lease Payable; dated August 31, 2018; due August 31, 2023; interest rate 3.63%; monthly payments of \$1,205 include principal and interest.	\$ 71,594	\$ 109,558
Less: Current Maturities	<u>40,665</u>	<u>39,596</u>
Long-Term Capital Lease - Net of Current Maturities	<u>\$ 30,929</u>	<u>\$ 69,962</u>

Future capital lease payments including interest are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2021	\$ 40,665
2022	13,572
2023	<u>20,511</u>
Total Minimum Lease Payments	74,748
Less: Amount Representing Interest	<u>3,154</u>
Net Capital Lease Payments	<u>\$ 71,594</u>

NOTE 9 RETIREMENT PLAN

Regular full-time employees and part-time employees that have worked at least one hour are eligible to enroll in WACOSA's retirement savings plan.

WACOSA has a 401(k) plan with an elective employer match. Employees must have worked at WACOSA for one year and at least 1,000 hours in the year to be eligible. A 2.5% and 2% match was elected during the years ended December 31, 2020 and 2019, respectively. Total employer contributions and expenses incurred for fees during the years ended December 31, 2020 and 2019 were \$75,755 and \$66,617, respectively.

WACOSA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 10 NET ASSETS

The Organization's board of directors has designated a portion of its net assets without donor restriction. Designated amounts consist of the following:

Replenishment of Property and Equipment

The replenishment of property and equipment reserve exists to fund future capital expenditures and replacement of existing property and equipment. Total amounts designated at December 31, 2020 and 2019 were \$4,370,725 and \$3,953,314, respectively, which approximates accumulated depreciation.

Unemployment

The designated unemployment reserve exists to cover payment for potential future unemployment claims since the Organization is self-insured. The reserve approximates expected unemployment on a statistical basis. Total amounts designated at December 31, 2020 and 2019 were \$465,657 and \$709,773, respectively.

Net assets with donor restrictions were as follows for the years ended December 31:

	2020	2019
Net Assets with Donor Restrictions:		
Programs	\$ 12,906	\$ 150
Projects	675,527	404,333
Held in Perpetuity	30,250	-
Total Net Assets with Donor Restrictions	\$ 718,683	\$ 404,483

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose as follows for the years ended December 31:

	2020	2019
Satisfaction of Purpose Restrictions:		
Programs	\$ -	\$ 18,263
Projects	-	101,224
Total Net Assets Released from Donor Restrictions	\$ -	\$ 119,487

NOTE 11 CONTINGENCIES

Self-Insured Health Plan

The Organization has self-insured its employee health plan. It has contracted with administrative service company to supervise and administer the program and act as its representative.

The company insures for excessive or unexpected claims and is liable for claims not to exceed \$40,000 per employee per plan year. Estimated future claims for medical services incurred during the year are estimated by management and recorded as liabilities of \$43,559 and \$57,657 at December 31, 2020 and 2019, respectively.

WACOSA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 12 LIQUIDITY AND AVAILABILITY

The Organization strives to maintain liquid financial assets sufficient to cover four months of general operating expenditures. Financial assets in excess of daily cash requirements are invested in certificates of deposits, money market funds, and other short-term investments.

The following table reflects the Organization's financial assets as of December 31, 2020 and 2019, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations. Board-designated reserves are intended to protect the Organization, continue operations into the future, and create staff assurance of unemployment benefits. In the event that need arises to utilize the board-designated reserves for liquidity purposes, the reserves could be drawn upon through board resolution. Amounts not available to meet general expenditures within one year also may include net assets with donor restrictions.

<u>Description</u>	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents	\$ 1,483,469	\$ 634,547
Investments	3,417,894	3,395,661
Accounts Receivable	<u>384,093</u>	<u>1,290,867</u>
Total Financial Assets	5,285,456	5,321,075
Net Assets Without Donor Restriction - Designated	(4,597,023)	(4,663,087)
Net Assets With Donor Restriction	<u>(718,683)</u>	<u>(404,483)</u>
Financial Assets Available to Meet Cash Needs Expenditures Within One Year	<u>\$ (30,250)</u>	<u>\$ 253,505</u>

NOTE 13 FUNCTIONALIZED EXPENSES

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, and amortization, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other, which are allocated on the basis of estimate of time, effort, and percentage of total revenues under the category of which the expenditures are coded.

WACOSA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 14 PROGRAM REVENUE

Program revenue is earned at a point in time. The Organizations Program Revenue consist of the following for the years ended December 31:

	2020	2019
Vocational Business Activities:		
Community Contract	\$ 265,158	\$ 686,102
Production	271,066	478,751
Shred	197,050	302,766
ThriftWorks!	303,627	396,929
Vocational Business Activities	1,036,901	1,864,548
Private Pay Program Services	128,392	196,927
Total Program Revenue	\$ 1,165,293	\$ 2,061,475

NOTE 15 SUBSEQUENT EVENT

In January 2021, the Organization applied for and was awarded a paycheck protection program second draw loan. The loan was awarded on January 26, 2021 in the amount of \$1,204,974 at a fixed rate of 1.00% per annum. The Organization acknowledges and agrees that Borrower shall submit an application to the Lender for forgiveness of the loan pursuant to the requirements of the CARES Act and the Interim Final Rule. The Organization also further acknowledges and agrees that any portion of the loan not forgiven shall be due and payable on or before a date that is two (2) years from the date of this Note (the "Maturity Date"), and such unforgiven principal and interest balance of the loan shall be paid pursuant to the payment terms of the note.

On March 10, 2021, the Organization applied for and was awarded a line of credit in the amount of \$1,000,000 with a variable interest rate per annum. At June 18, 2021 \$0- has been drawn upon the line of credit.

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through June 18, 2021, the date the financial statements were available to be issued.

WACOSA
SCHEDULE OF VOCATIONAL BUSINESS ACTIVITIES
YEAR ENDED DECEMBER 31, 2020
(SEE INDEPENDENT AUDITORS' REPORT)
(UNAUDITED)

	Community Contract	Production	Shred	ThriftWorks!	Totals
Salaries	\$ 186,268	\$ 185,506	\$ 121,028	\$ 241,528	\$ 734,330
Benefits	38,822	61,536	19,034	57,392	176,784
Supplies	2,338	4,889	3,624	3,523	14,374
Minor Equipment and Repairs	319	3,426	1,596	927	6,268
Rent	-	2,403	-	-	2,403
Telephone	923	-	-	1,337	2,260
Utilities	-	27,505	8,395	16,179	52,079
Repairs and Maintenance	-	9,463	2,819	6,404	18,686
Snow Removal	-	2,729	838	1,615	5,182
Insurance	4,373	4,996	5,561	3,184	18,114
Interest Expense	-	-	-	27,634	27,634
Vehicle Lease Interest	-	-	-	3,594	3,594
Public Relations	-	-	631	3,785	4,416
Advertising	2	279	2,720	6,028	9,029
Vehicle Fuel	-	2,793	1,792	-	4,585
Vehicle Maintenance	-	4,008	1,557	-	5,565
Vehicle Insurance	-	1,478	784	-	2,262
Professional Services	-	-	1,718	-	1,718
Dues and Licensing	381	251	1,781	276	2,689
Miscellaneous	-	-	-	7,653	7,653
Total Operating Expenses	<u>233,426</u>	<u>311,262</u>	<u>173,878</u>	<u>381,059</u>	<u>1,099,625</u>
Depreciation	<u>1,195</u>	<u>49,109</u>	<u>15,260</u>	<u>29,879</u>	<u>95,443</u>
Total Functional Expenses	<u>\$ 234,621</u>	<u>\$ 360,371</u>	<u>\$ 189,138</u>	<u>\$ 410,938</u>	<u>\$ 1,195,068</u>



INDEPENDENT AUDITORS' 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
WACOSA
St. Cloud, 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 financial statements of WACOSA, which comprise the statement of financial position as of December 31, 2020, 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 June 18, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered WACOSA'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 the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of WACOSA's internal control.

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

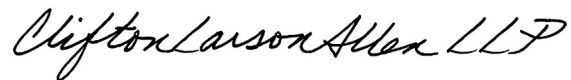
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether WACOSA'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*.

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 WACOSA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering WACOSA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

St. Cloud, Minnesota
June 18, 2021

