

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
Year Ended June 30, 2023**

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
AND SUBSIDIARIES**

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June 30, 2023**

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INDEPENDENT AUDITOR’S REPORT

To the Board of Directors of
Arrowhead Economic Opportunity Agency

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Arrowhead Economic Opportunity Agency and subsidiaries, which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, based on our audit and the report of the other auditors, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Arrowhead Economic Opportunity Agency and subsidiaries as of June 30, 2023, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of the Ivy Manor Limited Partnership, a subsidiary, which statements reflect total assets of \$6,637,869, as of December 31, 2022, and total support and revenues of \$236,570, for the year then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it related to the amounts included for the Ivy Manor Limited Partnership, is based solely on the report of the other auditors.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 the Organization 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 opinion. The financial statements of the Ivy Manor Limited Partnership were not audited in accordance with *Government Auditing Standards*.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for 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 consolidated 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 GAAS 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 consolidated financial statements.

In performing an audit in accordance with GAAS 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 consolidated 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 consolidated financial statements.
- 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 the Organization'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 consolidated financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization'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 consolidated financial statements as a whole. The 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 consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated 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 December 22, 2023 on our consideration of Arrowhead Economic Opportunity Agency and subsidiaries' 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 Arrowhead Economic Opportunity Agency and subsidiaries' 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 Arrowhead Economic Opportunity Agency and subsidiaries internal control over financial reporting and compliance.

Walker, Miray & Helne, LLC

Virginia, Minnesota
December 22, 2023

FINANCIAL STATEMENTS

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2023**

ASSETS

CURRENT ASSETS

Cash	\$ 10,096,537
Grants receivable	5,097,892
Other receivables	1,045,867
Inventory	437,616
Prepaid expense	362,687
Other current assets	<u>33,345</u>
TOTAL CURRENT ASSETS	<u>17,073,944</u>

LOANS RECEIVABLE	1,751,549
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PROPERTY AND EQUIPMENT (NET)	15,677,031
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RIGHT-OF-USE ASSETS - OPERATING LEASES	160,754
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DEFERRED COMPENSATION INVESTMENT	<u>58,930</u>
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TOTAL ASSETS	<u>\$ 34,722,208</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 1,946,622
Accrued paid leave	1,471,543
Unearned revenue	1,723,513
Current portion, operating lease liabilities	66,367
Current portion, long-term debt	<u>33,984</u>
TOTAL CURRENT LIABILITIES	<u>5,242,029</u>

LONG-TERM LIABILITIES

Deferred revenue - loans	1,751,549
Deferred compensation	58,930
Operating lease liabilities, net of current portion	73,587
Long-term debt, net of current portion	<u>3,392,520</u>
TOTAL LONG-TERM LIABILITIES	<u>5,276,586</u>

TOTAL LIABILITIES	<u>10,518,615</u>
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NET ASSETS

Without donor restrictions	
Controlling interest	
Undesignated	2,601,361
Designated for programs	17,328,814
Non-controlling interest	
Undesignated	4,014,801
With donor restrictions	<u>258,617</u>
TOTAL NET ASSETS	<u>24,203,593</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 34,722,208</u>
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The accompanying notes are an integral part of these financial statements.

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2023**

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES			
Federal grants			
Direct	\$ 5,252,824	\$ -	\$ 5,252,824
Flow through	16,371,435	-	16,371,435
State grants	14,710,179	-	14,710,179
Program income and other	9,425,084	32,043	9,457,127
In-kind contributions	1,289,148	-	1,289,148
Net assets released from restrictions	27,390	(27,390)	-
TOTAL SUPPORT AND REVENUES	47,076,060	4,653	47,080,713
EXPENSES			
Program services	35,028,400	-	35,028,400
Supporting services			
Management and general	8,086,372	-	8,086,372
Fundraising	29,681	-	29,681
TOTAL EXPENSES	43,144,453	-	43,144,453
CHANGE IN NET ASSETS	3,931,607	4,653	3,936,260
NET ASSETS AT BEGINNING OF YEAR	20,013,369	253,964	20,267,333
NET ASSETS AT END OF YEAR	\$ 23,944,976	\$ 258,617	\$ 24,203,593

The accompanying notes are an integral part of these financial statements.

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2023**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel				
Salaries and wages	\$ 12,587,910	\$ 3,850,401	\$ -	\$ 16,438,311
Pension	423,576	192,794	-	616,370
Other benefits	3,156,146	1,237,918	-	4,394,064
Payroll taxes	993,462	312,824	-	1,306,286
Professional services	428,659	275,085	-	703,744
Advertising	51,831	323,131	-	374,962
Office expenses	604,349	504,906	4,200	1,113,455
Information technology	315,008	145,087	-	460,095
Occupancy	1,425,394	337,033	-	1,762,427
Travel	1,584,178	113,818	75	1,698,071
Conferences and meetings	167,004	8,390	-	175,394
Insurance	458,650	8,934	-	467,584
Repairs and maintenance	2,710,402	46,957	600	2,757,959
Client services	7,391,397	93,074	21,811	7,506,282
Interest expense	11,963	11,354	-	23,317
Miscellaneous	1,503,085	356,133	2,995	1,862,213
Depreciation and amortization	<u>1,215,386</u>	<u>268,533</u>	<u>-</u>	<u>1,483,919</u>
TOTAL EXPENSES	<u>\$ 35,028,400</u>	<u>\$ 8,086,372</u>	<u>\$ 29,681</u>	<u>\$ 43,144,453</u>

The accompanying notes are an integral part of these financial statements.

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
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**CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended June 30, 2023**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in consolidated net assets	\$ 3,936,260
Adjustments to reconcile change in consolidated net assets to net cash provided by operating activities:	
Depreciation	1,476,563
Amortization	7,356
Reduction in carrying amount of right-of-use assets	119,938
Change in operating lease liabilities	(140,738)
(Increase) decrease in:	
Grants receivable	(497,272)
Other receivables	(63,056)
Inventory	(45,029)
Prepaid expense	(101,792)
Other current assets	39,719
Increase (decrease) in:	
Accounts payable	530,846
Accrued paid leave	(17,015)
Unearned revenue	<u>(482,932)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>4,762,848</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	<u>(4,351,893)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Repayments of long-term debt	<u>(36,964)</u>
NET CHANGE IN CASH	373,991
CASH AT BEGINNING OF YEAR	<u>9,722,546</u>
CASH AT END OF YEAR	<u>\$ 10,096,537</u>
 SUPPLEMENTAL DISCLOSURES	
Interest paid	<u>\$ 23,189</u>

The accompanying notes are an integral part of these financial statements.

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Arrowhead Economic Opportunity Agency and its subsidiaries significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows.

Nature of Activities

Arrowhead Economic Opportunity Agency receives and administers various federal, state and county grants throughout the Arrowhead Region of Minnesota, with the purpose of attacking the causes of poverty and unemployment with maximum participation of low-income residents.

AEOA Eveleth Limited Partnership, a Minnesota limited partnership, was formed for the purpose of providing affordable housing and acquiring, rehabilitating, and operating a rental housing complex located in Eveleth, Minnesota utilizing housing tax credits.

The AEOA Foyer Limited Partnership, a Minnesota partnership, was formed to construct property for the purpose of providing housing for area homeless youth.

The Ivy Manor Limited Partnership, a Minnesota limited partnership, was formed for the purpose of providing affordable housing and acquiring, rehabilitating, and operating a rental housing complex located in Virginia, Minnesota utilizing housing tax credits.

Basis of Consolidation

The consolidated financial statements include the accounts and activities of Arrowhead Economic Opportunity Agency, AEOA Eveleth Limited Partnership (the Eveleth Partnership), AEOA Foyer Limited Partnership (the Foyer Partnership), and Ivy Manor Limited Partnership (Ivy Manor Partnership) collectively referred to herein as the "Agency".

Arrowhead Economic Opportunity Agency owns 100% interest and exercises control in the Eveleth Partnership which owns and operates a rental housing complex.

AEOA owns a .01% general partner interest and 99.99% limited interest in the Foyer Partnership which owns and operates the youth foyer property.

AEOA also owns a .01% general partner interest and exercises control in the Ivy Manor Partnership which owns and operates a rental housing complex.

All significant intercompany accounts and transactions have been eliminated.

Basis of Accounting and Presentation

The financial statements of Arrowhead Economic Opportunity Agency have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles, and reflect all significant receivables, payables, and other liabilities.

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of Net Assets

The Agency reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for specific programs.

Net assets with donor restrictions are subject to donor-imposed or other legal 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, such as those that the donor stipulates that resources be maintained in perpetuity.

Fund Accounting

The accounts of the Agency are maintained in accordance with the principles of fund accounting. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund; however, in the accompanying financial statements, the funds have been combined.

Cash

For the purpose of the statement of cash flows, cash is defined as cash on hand, demand deposits, savings, and short-term investments purchased with a maturity of three months or less.

Use of Estimates

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

Grants and Other Receivables

Grants and other receivables consist of grant funds and other funding source receivables. The Agency determines the allowance for doubtful accounts by identifying troubled accounts, considering the grantor or other funding source's financial condition and current economic conditions, and using historical experience applied to an aging of grants and other receivables. The Agency believes all grants receivable will be fully collected.

Property and Equipment

Property and equipment purchased by the Agency in excess of \$5,000 are capitalized and depreciated over their useful lives. Property and equipment are valued at cost or if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method. Total depreciation expense for the year ended June 30, 2023 was \$1,476,563.

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The property and equipment acquired with grant award funds is owned by Arrowhead Economic Opportunity Agency while used in the programs for which they were purchased or in other future authorized programs. However, the various funding sources have a reversionary interest in the property and equipment purchased with grant funds. The disposition of this property and equipment, as well as the ownership of any proceeds therefrom, is subject to funding source regulations.

Inventory

Inventory is comprised of Arrowhead Transit Program parts and central supplies, Weatherization Program supplies, Senior Dining Program supplies, and the Internal Service Fund fuel and supplies, and is stated at the lower of cost (first-in, first-out) or market. Inventory also includes houses and lots purchased by the Agency for rehabilitation and resale. The houses and lots are valued at the lower of specific acquisition and carrying costs or market. All other purchases of materials and supplies are charged to expense at the time of purchase.

Loans Receivable

The Agency provides deferred and low-interest loans to eligible participants in its Housing programs. The loans are evidenced by signed agreements, have varying due dates, and are stated at the unpaid principal balances.

Leases

Effective July 1, 2022, the Organization classifies leases as either operating or finance leases at the commencement date of the lease. A lease is classified as a finance lease if any of the five criteria are met: (1) ownership transfers at the end of the lease term, (2) there is an option to purchase the underlying assets and the lessee is reasonably certain to exercise the option, (3) the term of the lease is for a major part of the remaining economic life of the underlying assets, (4) the present value of the sum of the lease payments and any residual value guaranteed by the lessee equals or exceeds substantially all of the fair value of the underlying assets or (5) the underlying assets are of such a specialized nature that they are expected to have no alternative use to the lessor at the end of the lease term. Leases that do not meet any of the five criteria above for a finance lease are classified as operating leases.

The Organization recognizes a right-of-use (ROU) asset and lease liability for each operating and finance lease with a term greater than 12 months at the time of lease inception. The Organization does not record a ROU asset or lease liability for leases with an initial term of 12 months or less but continues to record rent expense on a straight-line basis over the lease term. Options to extend or terminate at the sole discretion of the Organization are included in the determination of lease term when they are reasonably certain to be exercised. The lease liability represents the present value of future lease payments over the lease term. The Organization has elected the practical expedient that allows for private companies to utilize the risk-free rate based on asset class.

Prior to July 1, 2022, the Organization accounted for its leases as either operating or capital leases. Assets and liabilities for operating leases were not recorded and rent expense was recorded within operations on a straight-line basis over the term of the lease.

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Compensation Investment

The deferred compensation account investments are valued using market quotations or prices obtained from independent pricing sources.

Revenue Recognition

Contributions and Grants

Contributions are considered conditional or unconditional, depending on the nature and existence of any donor or grantor conditions. A contribution contains a condition when both of the following are present:

- An explicit identifying of a barrier, that is more trivial, that must be overcome before the revenue can be earned and recognized
- An implicit right of return of assets transferred or a right of release of a donor or grantor's obligation to transfer assets promised, if the condition is not met

Conditional contributions are recognized when the barrier(s) to entitlement are overcome. Unconditional contributions are recognized as revenue when received. Unconditional contributions or conditional contributions in which the conditions have been substantially met or explicitly waived by the donor are recorded as support with or without donor restrictions, depending on the existence and nature of any donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized.

Grants are either recorded as contributions or exchange transactions based on criteria contained in the grant award:

- Grant awards that are contributions are evaluated for conditions and recognized as revenue when conditions in the award are satisfied. Unconditional awards are recognized as revenue when the award is received. Amounts received in which conditions have not been met are reflected as grant funds received in advance.
- Grant awards that are exchange transactions are those in which the resource provider or grantor receives a commensurate value in exchange for goods or services transferred. Revenue is recognized when control of the promised goods or services is transferred to the customer (grantor) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Amounts received in excess of recognized revenue are reflected as a contract liability.

Program Income

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 over time is recognized based on the service period of the contract. The Organization measures the performance obligation from these particular services

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

from the beginning of the performance period to the completion of services provided. 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.

Program income is earned as a direct result of the activities funded under a grant and is recognized as revenue over time, in the year services are provided. Program income must be used for the purposes and under the conditions of the Federal award.

Affordable Housing

The Organization participates in a program funded through Minnesota Housing Finance Agency (MHFA) to assist homeowners in the purchase of a home when there is an existing affordability gap. The gap financing is required to be paid back to the Organization, and this expected revenue is deferred until payment occurs. Minnesota Urban and Rural Homesteading (MURL) program income reflects the price determined by the original contract between the Organization and the homeowner and is annualized based on 25% of the homeowner's income.

The Organization sells prebuilt and pre-purchased homes to clients. Revenue is recognized at a point in time, when the home closing takes place. The price of the home depends on the cost of the supplies or specifications of the house as well as comparable houses in the area.

Rental Income

Rental income is recognized as revenue in the year rental space is provided.

Donated Services

The Agency receives a significant amount of donated services from unpaid volunteers who assist in its grant programs. No amounts have been recognized in the statement of activities because the criteria for recognition have not been satisfied.

Income Taxes

Arrowhead Economic Opportunity Agency is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and similar Minnesota laws. The Agency has also been classified as an entity that is not a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for the year ended June 30, 2023.

Advertising

The Agency uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the year ended June 30, 2023 was \$374,962. This amount was funded, in portion, by grants specifically for this purpose.

Cost Allocation

Joint costs are allocated to benefiting programs using various allocation methods, depending on the type of joint cost being allocated. Joint costs are those costs incurred for the common benefit of all the Agency's programs, which cannot be readily identified with a final cost objective. Cost allocation methods are as follows:

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Personnel

Agency administrative and financial personnel (executive director, assistant director, fiscal director, financial assistants, etc.) record the time they spend working on specific programs and general agency matters on their time sheets. The time specifically identifiable to a particular program is charged to that program. The time spent on general agency matters is charged to the Community Service Block Grant or the Minnesota Community Action Grant.

Space Cost

Space cost is allocated to benefiting programs based on the square footage of space occupied by program personnel. The space costs for administrative and financial personnel are allocated to benefiting programs based on the activity reports of the administrative and financial personnel.

Other Joint Costs

Other joint costs are charged to agency programs based on the amounts used by each program and other appropriate methodology.

Functional Expense Allocation

The Agency allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support services are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases. Allocation methods comply with the requirements and limitations of the underlying grants.

Change in Accounting Policy

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). The objective of ASU No. 2016-02 is to increase transparency and comparability among organizations by recognizing right-of-use (ROU) lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. The Organization adopted this guidance as of July 1, 2022, using the modified retrospective approach where the cumulative catch-up adjustment is recorded at the date of adoption. The Organization has elected the package of practical expedients permitted by ASC Topic 842. Accordingly, the Organization did not reassess at adoption (a) whether the contract contains a lease under Topic 842, (b) whether classification of the operating lease would be different in accordance with Topic 842, or (c) initial direct costs for existing leases. The Organization also elected the practical expedients (1) to discount the lease liability using the risk-free rate, (2) to use hindsight for assessing the lease term and impairment of the ROU asset, and (3) to not separate lease and non-lease components. As a result of the adoption of the new lease accounting standard, the Organization's statement of financial position was impacted by the recognition of its ROU assets and lease liabilities of \$280,692 at July 1, 2022. There was no significant impact on the statement of activities, functional expenses, or cash flows as a result of the adoption.

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023**

NOTE 2 - INVENTORY

A summary of inventory is as follows:

Transit parts and supplies	\$ 319,421
Weatherization supplies	44,842
Senior Dining supplies	35,292
Internal Service Fund fuel and supplies	<u>38,061</u>
	<u>\$ 437,616</u>

NOTE 3 - PROPERTY AND EQUIPMENT

A summary of property and equipment is as follows:

Land	\$ 113,399
Construction in progress	433,398
Buildings and improvements	24,608,635
Vehicles	13,576,478
Equipment	<u>2,386,675</u>
Total	41,118,585
Accumulated depreciation	<u>(25,441,554)</u>
	<u>\$ 15,677,031</u>

NOTE 4 - DEFERRED COMPENSATION

Arrowhead Economic Opportunity Agency, Inc. entered into an investment contract with Mutual of America Life Insurance Company who maintains an account for the Organization whereby deferred compensation contributions are invested as follows:

1. The Mutual of America Interest Accumulation Fund represents the portion of the account invested in the Insurance Company's general account. Under the group annuity insurance contract that supports this product, participants may ordinarily direct permitted withdrawal or transfers of all or a portion of their account balance at contract value within reasonable timeframes. Contract value represents deposits made to the contract, plus earnings at guaranteed crediting rates, less withdrawals and fees. Contract value is also often referred to as "book value". The contract is effected directly between the plan sponsor (or their trustee) and Mutual of America Life Insurance Company. The repayment of principal and interest credited to participants is a financial obligation of Mutual of America Life Insurance Company.

The concept of a value other than contract value does not apply to this insurance company issued general account even upon a discontinuance of the

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023**

NOTE 4 - DEFERRED COMPENSATION (CONTINUED)

contract in which case contract value would be paid no later than 60 days from the date the sponsor provides notice to discontinue. This contract's operation is different than many other group annuity products in the market by virtue of the fact that a fair value adjustment does not apply upon a discontinuance. There are not any specific securities in the general account that back the liabilities of this annuity contract and it would be inappropriate to look to the market value of the securities within the insurer's general account to determine a fair value. The Plan owns a promise to pay interest at crediting rates which are announced in advance and guaranteed for a specified period of time as outlined in the group annuity contract. This product is not a traditional GIC and therefore there are not any known cash flows that could be discounted. As a result, the fair value amount shown is equal to the contract value.

There are not any events that allow the issuer to terminate the contract and which require the plan sponsor to settle at an amount different than contract value.

When establishing interest crediting rates for this product, Mutual of America Life Insurance Company considers many factors. The minimum crediting rate under the contract is at least equal to the minimum rate required by applicable state law or will be set pursuant to the NAIC standard non-forfeiture law which cannot be less than 1.00%.

Average Yield Earned by Plan	1.00%
Average Yield Credited To Participants	1.00%

- Forty other investment choices represent the portion of the account invested in the underlying funds of the Pooled Separate Account No. 2.

Funds (such as separate accounts) that have more than one investor are referred to as pooled or commingled investment vehicles. An investor's interest in such investment vehicles is expressed as an accumulation unit with a value per unit that is the result of the accumulated fair values of the underlying investments.

Separate Account No. 2 investments consist solely of investments in mutual funds registered with the Securities and Exchange Commission and are carried at the net asset value at which the mutual fund shares are actively traded. Mutual of America determines accumulation values for the funds as of the close of business on each valuation day (generally at the close of the New York stock exchange). The value of the participant portion of Mutual of America's Separate Account is determined by multiplying the number of accumulation units credited in each fund of the Separate Account by the accumulation unit value of that fund at the end of the valuation day.

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023**

NOTE 5 - FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.
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Level 2	Inputs to the valuation methodology include: <ul style="list-style-type: none"> ▪ quoted prices for similar assets or liabilities in active markets; ▪ quoted prices for identical or similar assets or liabilities in inactive markets; ▪ inputs other than quoted prices that are observable for the asset or liability; ▪ inputs that are derived principally from or corroborated by observable market data by correlation or other means.
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If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.
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The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

See Note 4 for a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2023.

The following tables set forth by level, within the fair value hierarchy, the Agency's assets at fair value as of June 30, 2023:

	Assets at Fair Value as of June 30, 2023			
	Level 1	Level 2	Level 3	Total
Investment Contract with Mutual of America Life Insurance Company General Account Mutual of America Interest Accumulation	\$ -	\$ -	\$ 12,818	\$ 12,818
Pooled Separate Account No. 2 Mutual Funds	-	46,112	-	46,112
Total Assets at Fair Value	\$ -	\$ 46,112	\$ 12,818	\$ 58,930

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023**

NOTE 5 - FAIR VALUE MEASUREMENTS (CONTINUED)

Level 3 Gains and Losses

The following table sets forth a summary of changes in the fair value of the Agency's Level 3 assets for the years ended June 30, 2023:

	<u>Level 3 Assets</u>
	<u>Mutual of America</u> <u>Interest Accumulation</u>
Balance, beginning of year	\$ 11,520
Purchases	30,783
Contributions	1,509
Interest credited	365
Distributions	<u>(31,359)</u>
Balance, end of year	<u>\$ 12,818</u>

The Agency's policy is to recognize transfers into and out of Level 3 as of the date of the event or change in circumstances that caused the transfer, usually for allocation changes.

The following table represents the Agency's Level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments as of June 30, 2023, and the significant unobservable inputs and the ranges of values for those inputs.

Instrument	Fair Value as of 6/30/23	Principal Valuation Technique	Inputs	Unobservable	Range of Significant Input Values
Interest Accumulation	\$ 12,818	Fair Value = Contract Value	Earnings at Guaranteed Crediting Rate	Unobservable	Gross Guaranteed Crediting Rate must be greater than or equal to the contractual minimum crediting rate

NOTE 6 - UNEARNED REVENUE

The Agency records grant awards as unearned revenue until related services are performed, at which time they are recognized as revenue. A summary of the unearned revenue follows:

Food Shelf	\$ 367,931
Faim West Central	1,100
Wells Fargo YW STEM	2,112
Tech Connect Project	9,822
Blandin Adult Scholarship	35,737
Enbridge YouthBuild Workshop	392
Blandin Clean Energy	50,000
Partners in Caring	1,664
Child Tax Credit	6,271

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023**

NOTE 6 - UNEARNED REVENUE (CONTINUED)

MN Adult Basic Education	\$	72,274
Small Cities Two Harbors		28,106
Small Cities Lake County/Finland		800
Lake County HRA Home Energy Improvement		114,182
Arrowhead Transit		499,802
Transit Chisago/Isanti Operating		191,706
Commissioner's Reserve		10,000
Business Energy Retrofit 2022		2,924
MHFA HECAT		112
SELF TLT		72,243
Aging in Place		135,323
Child Care & Adult Care Food Program		8,847
Child Care & Adult Care Food Program EOCRCP		14,340
Fluoride Varnish		12,640
RSVP St. Louis County		4,513
Hearth Connection		1,361
Hearth Connection LT Homeless Project		13,389
Itasca County Connect		9,930
Essentia Agreements		802
Power of Produce		6,604
Hunger Solutions		4,467
Rutabaga Miscellaneous Projects		1,255
Hibbing Shelter Capital		32,771
Ivy Manor Limited Partnership		<u>10,093</u>
Unearned revenue, end of year		<u>\$1,723,513</u>

NOTE 7 - LOANS RECEIVABLE AND DEFERRED REVENUE - LOANS

Arrowhead Economic Opportunity Agency has received funds from various sources to process and disburse loans to eligible participants as determined by the grants. In accordance with grant agreements, loans are expensed to the grant award when disbursed. The Agency records the loans receivable as an asset and deferred revenue - loans as a liability on the balance sheet. Any loan repayments are recorded as revenue in the period received and corresponding entries are made to reduce the asset and liability. Interest payments are recorded as revenue in the period received. The funds received from the loan repayments are used to make other loans to eligible participants.

The loans receivable balances and the programs they relate to at June 30, 2023 are as follows:

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023**

NOTE 7 - LOANS RECEIVABLE AND DEFERRED REVENUE – LOANS (CONTINUED)

Arrowhead Economic Opportunity Agency received a Community Development Block Grant to make low interest loans to eligible low and moderate income persons for housing rehabilitation in St. Louis County (Fund 1180).	\$ 806,931
Arrowhead Economic Opportunity Agency contracted with the City of Gilbert to administer low interest loans to individuals and businesses for housing and commercial rehabilitation in the City of Gilbert (Fund 4000).	16,015
Arrowhead Economic Opportunity Agency received a grant from the State of Minnesota Department of Energy and Economic Development Community Development Division to make low interest loans for housing rehabilitation to eligible recipients in single family dwellings in Northern St. Louis County (Fund 4300).	61,593
Arrowhead Economic Opportunity Agency received a grant from the Lake County Housing and Redevelopment Authority to make low interest loans for housing rehabilitation to eligible recipients in single family dwellings in Lake County (Funds 4350 and 4352).	13,729
Arrowhead Economic Opportunity Agency is administering a program for the Minnesota Housing Finance Agency to provide interim construction/rehabilitation loans, grants and deferred loans for single family residential properties of low and moderate income persons and families (Fund 4620).	62,405
Arrowhead Economic Opportunity Agency received a grant from the Greater Minnesota Housing Fund to make low interest loans for housing rehabilitation to single family dwellings owned by low and moderate income households in the St. Louis, Lake, and Cook counties (Fund 4630).	15,000
Arrowhead Economic Opportunity Agency is administering a loan program for the Minnesota Housing Finance Agency to provide aid in the financing of the acquisition, construction and/or rehabilitation of dwelling units for persons of low and moderate income (Fund 4680).	15,000

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023**

NOTE 7 - LOANS RECEIVABLE AND DEFERRED REVENUE – LOANS (CONTINUED)

Arrowhead Economic Opportunity Agency contracted with the City of Hibbing to administer low interest loans to individuals for housing rehabilitation in the City of Hibbing (Fund 6660).	\$ 70,751
Arrowhead Economic Opportunity Agency received a Homeownership Assistance Program Grant from St. Louis County to provide education and financial assistance to eligible households seeking to become homeowners in the counties of Cook, Lake, Itasca, Koochiching and St. Louis (Fund 8552).	97,389
Arrowhead Economic Opportunity Agency received a grant from the United States Department of Agriculture Rural Development to assist homeowners with financing for private household water well systems (Fund 8600).	45,351
Arrowhead Economic Opportunity Agency received a grant from the United States Department of Agriculture Rural Development for housing preservation loans (Fund 8802).	183,542
Arrowhead Economic Opportunity Agency administers revolving loan programs to make loans to eligible homebuyers (Funds 9600, 9690, and 9800).	<u>363,843</u>
	<u>\$ 1,751,549</u>

NOTE 8 - ACCRUED PAID LEAVE

The Agency maintains a savings and a checking account specifically available for paid leave liability. Arrowhead Economic Opportunity Agency accrues paid leave expense in the period it is earned and records the liability in the Agency's Internal Service Fund. Paid leave earned by the Agency's employees at June 30, 2023 was \$1,471,543.

NOTE 9 - LEASES

The Agency has entered into various operating leases for space, including off-site office space for its Employment & Training and Transit departments, as well as warehouse space for Weatherization, with remaining lease terms for these agreements of one to three years. Payments under these lease arrangements are all fixed. The right-of-use assets and operating lease liabilities were calculated utilizing the weighted-average discount rates of 2.79% and 2.84%.

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023**

NOTE 9 - LEASES (CONTINUED)

Cash paid for amounts included in the measurement of operating lease liabilities was \$147,365 and total lease expense was \$786,256 for the year ended June 30, 2023.

Future minimum lease payments are as follows for the years ending June 30, 2023:

2024	\$	66,367
2025		62,925
2026		<u>10,662</u>
Total minimum lease payments and operating lease liabilities		<u>\$ 139,954</u>

NOTE 10 - LONG-TERM DEBT

First mortgage payable to the Minnesota Housing Finance Agency (MHFA) under the Affordable Rental Investment Fund (ARIF) Program. The loan plus accrued interest, at 1%, is due on February 22, 2026 and is secured by the Eveleth Partnership's real estate mortgage.

\$ 200,000

The MHFA regulatory agreement places restrictions on the operation of the Eveleth Limited Partnership, which include among others, the following:

- Rental rates must be approved by lenders.
- Tenants must meet certain income limitations to qualify for occupancy in the Partnership.
- Transfer or sale of the Partnership is subject to lender approval.

First mortgage payable to the Minnesota Housing Finance Agency (MHFA). The loan bears no interest and is due on December 30, 2039 and is secured by the Foyer Partnership's real estate mortgage.

1,465,043

Note payable to the Saint Louis County, Minnesota Housing and Redevelopment Authority. The loan bears no interest and is conveyed to the mortgagee forever and is secured by the Foyer Partnership's real estate mortgage.

150,000

Note payable to the Northeast Minnesota HOME Consortium. The loan bears no interest and is due on December 31, 2039 and is secured by the Foyer Partnership's real estate mortgage.

100,000

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023**

NOTE 10 - LONG-TERM DEBT (CONTINUED)

Note payable to the Greater Minnesota Housing Fund. The loan bears no interest and is due on December 30, 2039 and is secured by the Foyer Partnership's real estate mortgage.	\$ 116,886
First mortgage payable to Northern State Bank of Virginia. The loan bears interest at 5.5-7.0%, is due on June 1, 2028 and is secured by the Quad Cities Food Shelf Building.	118,325
First mortgage payable to Northern State Bank of Virginia. The loan bears interest at 4.5%, is due on September 10, 2025 and is secured by the Aurora Food Shelf Building.	58,328
Promissory note payable to the Virginia Public Utilities. The loan bears no interest and is due 240 months after completion of the Conversion Project, due in monthly installments of \$2,411.66 commencing upon completion of the Conversion Project.	479,922
Mortgage payable to the Minnesota Housing Finance Agency (MHFA). The loan bears no interest and is due on November 29, 2046 and is secured by the Ivy Manor Partnership's real estate mortgage.	438,000
Note payable to the Greater Minnesota Housing Fund. The loan bears no interest and is due on November 29, 2046 and is secured by the Ivy Manor Partnership's real estate mortgage.	<u>300,000</u>
	<u><u>\$ 3,426,504</u></u>

Maturities of long-term debt are as follows:

2024	\$	33,984
2025		34,349
2026		85,962
2027		32,464
2028		134,593
Thereafter		<u>3,105,152</u>
		<u><u>\$ 3,426,504</u></u>

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023**

NOTE 11 - NET ASSETS

Net Assets Without Donor Restrictions

The net assets without donor restrictions are Board designated amounts to be used for future and currently active programs. Designated net assets amounted to \$17,328,814 at June 30, 2023. Of this amount, \$1,315,343 was for future programs, with \$16,013,471 designated for programs currently active in the Agency.

Net Assets With Donor Restrictions

At June 30, 2023, the Agency had no net assets with donor restrictions with a time restriction. Net assets with donor restrictions with purpose restrictions are included in the net assets of AEOA. The composition of net assets with donor restrictions is as follows:

BCBS Food	\$	25,541
Employment & Training		5,410
General		103
Greatest Need		214,827
Housing		98
Interest/Transfer In		589
Random acts		987
Senior Services		8,875
Transit		1,977
Women's supply		<u>210</u>
	\$	<u>258,617</u>

NOTE 12 - CONSOLIDATIONS

The change in consolidated net assets is as follows:

	Without Donor Restrictions			With Donor Restrictions	
	Controlling Interest	Non-controlling Interest	Subtotal	Controlling Interest	Total
Balance, beginning of year	\$ 15,700,635	\$ 4,312,734	\$ 20,013,369	\$ 253,964	\$ 20,267,333
Revenues in excess (deficiency) of expenses	4,202,150	(297,933)	3,904,217	32,043	3,936,260
Reclassifications	<u>27,390</u>	<u>-</u>	<u>27,390</u>	<u>(27,390)</u>	<u>-</u>
Balance, end of year	<u>\$ 19,930,175</u>	<u>\$ 4,014,801</u>	<u>\$ 23,944,976</u>	<u>\$ 258,617</u>	<u>\$ 24,203,593</u>

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023**

NOTE 13 - IN-KIND CONTRIBUTIONS

For the year ended June 30, 2023, contributed nonfinancial assets without donor restrictions recognized within the statement of activities consisted entirely of contributed space in the amount of \$1,289,148.

Contributed space was utilized by Head Start and the Senior & Nutrition Services program, and was valued based on estimated fair market value should the space be rented in the open market.

The Agency does not monetize contributed nonfinancial assets.

NOTE 14 - PROGRAM SERVICES EXPENSES

Program services expenses for the year ended June 30, 2023 were as follows:

<u>Program</u>	<u>Expense</u>
Aging in Place	\$ 144,557
Aitkin County Diversionary Work Program	3,816
Aitkin County Volunteer Driver	34,723
Arrowhead Weatherization	1,082,626
Bill's House	45,261
Blandin Adult Scholarship	202,301
Carlton County Diversionary Work Program	17,000
Carlton County Volunteer Driver	137,734
CDBG COVID Aurora Food Shelf	30,352
CDBG COVID Food Relief	50,100
CDBG COVID Shelter	10,800
CDBG Foyer	20,787
CDBG Shelter Operations	34,668
CDBG Single Family Rehab	87,971
Child Care and Adult Food Program	123,821
Child Care and Adult Food Program COVID	2,147
Child Tax Credit	5,707
Chisago County Volunteer Driver	18,377
Community Support	4,438
Cook County Volunteer Driver	9,615
CSBG	20
Department of Revenue Tax Assistance	1,499
Development Fund	6,340
DOE BIL	54,194
DOE Weatherization	585,865

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023**

NOTE 14 - PROGRAM SERVICES EXPENSES (CONTINUED)

<u>Program</u>	<u>Expense</u>
EAP	\$ 1,040,047
EAP/WX	2,044,046
EAP/WX ARPA	368,996
Elder Services Loan Closet	296
Emergency Shelter Grant COVID Bill's House	328
Emergency Shelter Program Rehousing	32,678
Emergency Shelter Operations	169,504
ESG Rapid Rehousing	87,783
Eveleth LTD Partnership	82,727
Federal Adult Basic Education	70,282
Federal Adult Basic Education ARPA	27,917
Federal Head Start	4,829,560
Federal Head Start CRRSA	254,852
FHPAP Flex	284,695
FHPAP Lake/Cook County	13,793
FHPAP St. Louis County	66,635
Fluoride Varnish	576
Friendly Visitor	111,408
Food Shelf	366,779
Foyer Aides	35,126
Foyer LTD Partnership	187,138
Good Food Guidelines	2,309
Groceries to Go	39,702
Healthy Transition to Adulthood	184,479
Hearth Connection	148,203
Hennepin County Volunteer Driver	632
Hermantown Repairs	14,029
Hibbing Shelter	108,079
HOME	129,967
Home Delivered Meals Waiver	275,036
Homeless Youth Act	129,199
Household Water Well System	341
Housing Corp Fund	19,029
Housing Escrow Fund	11,084
Housing MOU Kootasca	262,347
Housing Navigator/Landlord Incentive	867
HUD Counseling	18,720
HUD Lake/Cook County	25,061
HUD Lake/Cook County Rental Assistance	1,763
HUD Life	19,226
HUD Permanent Supportive Housing	151,052

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023**

NOTE 14 - PROGRAM SERVICES EXPENSES (CONTINUED)

<u>Program</u>	<u>Expense</u>
HUD Supportive Housing Program	\$ 37,373
HUD Supportive Housing Program Youth Foyer	75,668
Hunger Solutions	6,902
IRRR Business Energy Retrofit	1,238,242
IRRR DT Building Rehab	400,115
IRRR Rutabaga Match	17,080
Isanti County Volunteer Driver	24,926
Itasca County Big Idea	40,065
Itasca County Connect	6,469
Itasca County Diversionary Work Program	5,979
Itasca County Volunteer Driver	103,838
Ivy Manor Limited Partnership	467,268
Koochiching County Diversionary Work Program	2,140
Koochiching County Volunteer Driver	121,483
Lake County HRA Emergency Funding	451
Lake County HRA Home Energy Improvement	16,773
Lake County Volunteer Driver	64,574
Local Farmers Feed the Range	58,394
Meals on Wheels	1,288,931
Miscellaneous County Volunteer Driver	210,947
MN Family Investment Prog. - Aitkin County	72,770
MN Family Investment Prog. - Carlton County	120,972
MN Family Investment Prog. - Cook County	20,519
MN Family Investment Prog. - Itasca County	121,571
MN Family Investment Prog. - Koochiching County	79,001
MN Family Investment Prog. - St. Louis County	847,524
MN Head Start	483,472
MN Housing Finance Agency HECAT	45,023
MN Housing Finance Agency Rehab	402,492
MN Family Resiliency Partnership	135,190
MNsure	212,941
MS Adult Basic Education	702,176
MURL Revolving	5,493
Northland HUB Collaborative	31,927
Northland Volunteer Center	(1,897)
Partners in Caring	1,752
Pathway Scholarship I	104,089
Pathway Scholarship II	272,415
Pine County Volunteer Driver	72,369
Power of Produce	3,934
Propane Program	26,618

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023**

NOTE 14 - PROGRAM SERVICES EXPENSES (CONTINUED)

<u>Program</u>	<u>Expense</u>
Range Transitional Housing St. Louis County Centralized Client Area	\$ 2,267
Retired and Senior Volunteer Prog. - Federal	342
Retired and Senior Volunteer Prog. - St. Louis County	137
Retired and Senior Volunteer Prog. - State	7,797
Rutabaga Miscellaneous Projects	2,301
Rutabaga SHIP	17,820
SCSEP State	43,461
Second Harvest	200,210
SELF – Koochiching County	7,483
SELF – TLT	16,955
Senior Carnival	1,813
Senior Dining	954,686
Share the Warmth	29,681
Small Cities Silver Bay	42,445
Small Cities Two Harbors	23,513
Small Independent Layoff Grants	224,111
SNAP	50,074
SNAP 50/50	16,953
SNAP Outreach	46,870
St. Louis County Cost Neutral Scattered Site	571,536
St. Louis County Diversionary Work Program	33,044
St. Louis County Emergency Shelter	50,293
St. Louis County Emergency Shelter COVID	133,100
St. Louis County Volunteer Driver	438,416
Sub Septic & Sewage Treatment System	401,990
Transit	9,270,425
USDA Pandemic Response	9,679
Verso Dislocated Worker	17,803
Wells Fargo Business Energy Retrofit	9,000
Wells Fargo YW STEM	200
Young Women's Initiative	19,620
Youthbuild - Employment & Training	<u>105,396</u>
TOTAL PROGRAM SERVICES EXPENSES	<u>\$ 35,028,400</u>

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023**

NOTE 15 - ECONOMIC DEPENDENCY

A substantial amount of the Agency's support is in the form of annual grants with federal, state, and local governmental agencies. This support is partially dependent upon the Agency's continued qualifications for such funding, together with the amount of funds available to the governmental sources. Accordingly, there is no guarantee that such funding will continue. Reductions in this support could have a significant impact on the Agency's operations. However, AEOA was established in 1965 and has successfully completed 57 years of operation.

NOTE 16 - CONCENTRATION OF CREDIT RISK

Arrowhead Economic Opportunity Agency maintains cash balances at several area financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Agency has obtained collateral agreements with the financial institutions to safeguard portions of their cash balances in excess of insurance. At June 30, 2023, the Agency's cash balances were fully insured or collateralized.

NOTE 17 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Agency has \$16,240,296 of financial assets available within one year of June 30, 2023 to meet cash needs for general operating expenditures, consisting of cash of \$10,096,537, grants receivable of \$5,097,892, and other receivables of \$1,045,867.

NOTE 18 - RETIREMENT BENEFITS

The Agency participates in a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers eligible employees of the Agency. Employees may elect to make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. The Agency's contribution to this plan is based on a percentage of the gross salaries of the qualifying employees, after they have worked the required number of hours in two consecutive years. For the year ended June 30, 2023, the Agency contributed \$616,370 to this plan.

The Agency also has a Code Section 457(b) deferred compensation plan for the Agency directors who may defer a percentage of their compensation to this plan. The Agency contributes a discretionary percentage of eligible participant compensation. Contributions are vested in an insurance company contract. The Agency has a liability that corresponds to the investment. Total employer contributions for the year ended June 30, 2023 were \$9,995.

NOTE 19 - COMMITMENTS AND CONTINGENCIES

Grants

The Agency participates in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023**

NOTE 19 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Agency has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivables at June 30, 2023, may be impaired. In the opinion of the Agency, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

AEOA Eveleth Limited Partnership

The AEOA Eveleth Limited Partnership's sole asset is a housing project. The Partnership's operations are concentrated in the Eveleth, Minnesota multifamily real estate market. In addition, the Partnership operates in a heavily regulated environment, subject to rules and regulations of federal, state, and local governmental agencies. Changes may occur with little notice or inadequate funding to pay for the related costs to comply with a change.

The Annual Contribution Contract with the U.S. Department of Housing and Urban Development expires October 20, 2023. No assurance can be provided that this contract will be renewed upon expiration or if renewed, at what terms.

The Partnership is subject to an extended use agreement between the Partnership and MHFA. The agreement was made in accordance with Section 42(h)(6) of the Internal Revenue Code and requires the Project to maintain low income occupancy (income and rent limits) for 15 years beyond the compliance period (for a total of 30 years). The extended use period ends on December 31, 2025 unless terminated earlier by foreclosure or by offering the Partnership to the housing credit agency, after the first 15 years, to be sold for a qualified contract price (the opt-out option). The Partnership has waived its right to opt-out after the initial 15 year compliance period. Therefore, the Partnership must maintain affordability for 30 years.

AEOA Foyer Limited Partnership

The AEOA Foyer Limited Partnership operates in a heavily regulated environment. The operations and financing of the Partnership are subject to rules and regulations of federal, state, and local governmental agencies. Changes may occur with little notice or inadequate funding to pay for the related costs to comply with a change.

Ivy Manor Limited Partnership

The Ivy Manor Limited Partnership's operations are concentrated in the Virginia, Minnesota multifamily real estate market and provides affordable housing utilizing the housing tax credit program. The housing tax credit program places restrictions on rental rates and requires tenants to qualify for occupancy based on income levels. In order to avoid recapture, the Partnership must remain in compliance with various regulations through December 31, 2032, the anticipated end of the tax credit compliance period. The Partnership is also subject to an extended use agreement with the MHFA. The agreement was made in accordance with Section 42(h)(6) of the Internal Revenue Code and requires the Partnership to maintain low income occupancy (income and rent limits) for as long as MHFA is the holder of the loan on the Partnership or any interest therein.

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023**

NOTE 19 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Partnership operates in a heavily regulated environment, subject to rules and regulations of federal, state, and local governmental agencies. Changes may occur with little notice or inadequate funding to pay for the related costs to comply with a change.

COVID-19

In December 2019, a novel strain of coronavirus was reported in Wuhan, China. The World Health Organization has declared the outbreak to constitute a “Public Health Emergency of International Concern.” The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the Agency’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our customers, employees, vendors, and grantors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Agency’s financial condition or results of operations is uncertain.

NOTE 20 - SUBSEQUENT EVENTS

Subsequent events were evaluated through December 22, 2023, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

ARROWHEAD ECONOMIC OPPORTUNITY AGENCY AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2023

<u>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal Assistance Listing Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE		
<i>Direct</i>		
Farmers Market and Local Food Promotion Program	10.175	\$ <u>50,313</u>
<i>Direct</i>		
Agricultural Worker Pandemic Relief and Protection Program	10.181	<u>9,679</u>
<i>Pass-through Program from: Minnesota Department of Education</i>		
Child and Adult Care Food Program - 2MN300061	10.558	15,396
Child and Adult Care Food Program - 2MN300061	10.558	108,425
COVID-19 - Child and Adult Care Food Program	10.558	<u>2,147</u>
Total AL# 10.558		<u>125,968</u>
<i>SNAP Cluster</i>		
<i>Pass-through Program from: Minnesota Department of Human Services</i>		
State Administrative Matching Grants for SNAP - GRK%163755	10.561	24,216
State Administrative Matching Grants for SNAP - GRK%219860	10.561	31,762
State Administrative Matching Grants for SNAP - GRK%219392	10.561	17,366
State Administrative Matching Grants for SNAP - GRK%146626	10.561	33
<i>Pass-through Program from: St. Louis County, Minnesota</i>		
State Administrative Matching Grants for SNAP - 17253A	10.561	15,487
State Administrative Matching Grants for SNAP - 17455A	10.561	<u>38,293</u>
Total SNAP Cluster AL# 10.561		<u>127,157</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE		<u>313,117</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
<i>Pass-through Program from: Minnesota Homeownership Center</i>		
Housing Counseling Assistance Program	14.169	<u>19,468</u>
<i>CDBG/Entitlement Grants Cluster</i>		
<i>Pass-through Program from: St. Louis County, Minnesota</i>		
CDBG - Food Shelf	14.218	13,000
CDBG - Homeless Shelter	14.218	29,199
CDBG - Homeless Shelter	14.218	11,036
CDBG - Single Family Hsg Rehab	14.218	90,390
CDBG - Youth Services	14.218	22,607
CDBG - Youth Services	14.218	2,587
COVID-19 - CDBG - Food Relief	14.218	50,100
COVID-19 - CDBG - Food Shelf (Aurora)	14.218	88,975
COVID-19 - CDBG - Homeless Shelter	14.218	<u>12,000</u>

The accompanying notes are an integral part of this schedule.

ARROWHEAD ECONOMIC OPPORTUNITY AGENCY AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
Year Ended June 30, 2023

<u>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal Assistance Listing Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (CONTINUED)		
Total CDBG/Entitlement Grants Cluster AL# 14.218		\$ <u>319,894</u>
<i>Pass-through Program from: Lake County HRA</i>		
CDBG/State's program and Non-Entitlement Grants in Hawaii - SCDP Silver Bay	14.228	40,327
CDBG/State's program and Non-Entitlement Grants in Hawaii - SCDP Two Harbors	14.228	<u>24,027</u>
Total AL# 14.228		<u>64,354</u>
<i>Pass-through Program from: St. Louis County, Minnesota</i>		
Emergency Solutions Grant Program	14.231	41,972
Emergency Solutions Grant Program	14.231	12,533
Emergency Solutions Grant Program	14.231	64,624
Emergency Solutions Grant Program	14.231	32,789
COVID-19 - Emergency Solutions Grant Program	14.231	33,717
COVID-19 - Emergency Solutions Grant Program	14.231	<u>140,000</u>
Total AL# 14.231		<u>325,635</u>
<i>Pass-through Program from: St. Louis County, Minnesota</i>		
Home Investment Partnerships Program	14.239	46,666
Home Investment Partnerships Program	14.239	68,364
Home Investment Partnerships Program	14.239	<u>92,701</u>
Total AL# 14.239		<u>207,731</u>
Section 8 Project-Based Cluster		
<i>Pass-through Program from: Virginia MN HRA</i>		
Section 8 Housing Assistance Payments Program	14.195	<u>188,962</u>
<i>Pass-through Program from: Virginia MN HRA</i>		
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249	<u>37,908</u>
Total Section 8 Project-Based Cluster		<u>226,870</u>
<i>Direct</i>		
Continuum of Care Program - MN0083L5K042114	14.267	19,651
Continuum of Care Program - MN0083L5K042215	14.267	6,636
Continuum of Care Program - MN0468L5K042001	14.267	1,955
Continuum of Care Program - MN0468L5K042102	14.267	703
Continuum of Care Program - MN0180L5K092010	14.267	16,268
Continuum of Care Program - MN0180L5K092111	14.267	62,198
Continuum of Care Program - MN0297L5K092007	14.267	29,817
Continuum of Care Program - MN0297L5K092108	14.267	120,306
Continuum of Care Program - MN0080L5K042114	14.267	19,879
Continuum of Care Program - MN0080L5K042215	14.267	876
Continuum of Care Program - MN0111L5K092013	14.267	21,616
Continuum of Care Program - MN0111L5K092114	14.267	17,182
Continuum of Care Program	14.267	<u>54,226</u>
Total AL# 14.267		<u>371,313</u>

The accompanying notes are an integral part of this schedule.

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
Year Ended June 30, 2023**

<u>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal Assistance Listing Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (CONTINUED)		
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		\$ 1,535,265
U.S. DEPARTMENT OF LABOR		
<i>Pass-through Program from: Minnesota Department of Employment and Economic Development</i> Senior Community Service Employment Program - 2215100	17.235	<u>51,130</u>
TOTAL U.S. DEPARTMENT OF LABOR		<u>51,130</u>
U.S. DEPARTMENT OF TRANSPORTATION		
<i>Pass-through Program from: Minnesota Department of Transportation</i> Formula Grants for Rural Areas and Tribal Transit Program - Arrowhead Transit	20.509	2,570,900
COVID-19 - Formula Grants for Rural Areas and Tribal Transit Program - Arrowhead Transit	20.509	<u>1,571,211</u>
Total AL# 20.509		<u>4,142,111</u>
Federal Transit Cluster <i>Pass-through Program from: Minnesota Department of Transportation</i> Bus and Bus Facilities Formula Program - Capital Transit Vehicle	20.526	<u>1,091,430</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION		<u>5,233,541</u>
U.S. DEPARTMENT OF TREASURY		
<i>Pass-through Program from: Minnesota Department of Education</i> COVID-19 - Coronavirus State and Local Fiscal Recovery Funds - Strengthen Adult Basic Education Programming	21.027	29,171
<i>Pass-through Program from: Second Harvest Heartland</i> COVID-19 - Coronavirus State and Local Fiscal Recovery Funds - Expanded Meals	21.027	244,000
<i>Pass-through Program from: St. Louis County, Minnesota</i> COVID-19 - Coronavirus State and Local Fiscal Recovery Funds - Aging in Place	21.027	164,677
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds - Hibbing Shelter	21.027	<u>1,762,310</u>
Total AL# 21.027		<u>2,200,158</u>
TOTAL U.S. DEPARTMENT OF TREASURY		<u>2,200,158</u>
U.S. DEPARTMENT OF ENERGY		
<i>Pass-through Program from: Minnesota Department of Commerce</i> Weatherization Assistance for Low-Income Persons - BIL	81.042	69,692
Weatherization Assistance for Low-Income Persons - WAP DOE A2500	81.042	<u>680,025</u>

The accompanying notes are an integral part of this schedule.

ARROWHEAD ECONOMIC OPPORTUNITY AGENCY AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
Year Ended June 30, 2023

<u>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal Assistance Listing Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF ENERGY (CONTINUED)		
Total AL# 81.042		\$ 749,717
TOTAL U.S. DEPARTMENT OF ENERGY		<u>749,717</u>
U.S. DEPARTMENT OF EDUCATION		
<i>Pass-through Program from: Minnesota Department of Education</i> Adult Education - Basic Grants to States	84.002	<u>86,087</u>
TOTAL U.S. DEPARTMENT OF EDUCATION		<u>86,087</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Aging Cluster		
<i>Pass-through Program from: Arrowhead Regional Development Commission</i>		
Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers - 303-22-003B-524	93.044	13,775
Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers - 303-23-003B-524	93.044	6,967
COVID-19 - Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers - 303-22-ARPB-524	93.044	18,454
COVID-19 - Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers - 303-23-ARPB-524	93.044	<u>2,732</u>
Total AL# 93.044		<u>41,928</u>
<i>Pass-through Program from: Arrowhead Regional Development Commission</i>		
Special Programs for the Aging, Title III, Part C, Nutrition Services - Meals on Wheels - 303-22-00C2-AEO	93.045	457,611
Special Programs for the Aging, Title III, Part C, Nutrition Services - Meals on Wheels - 303-23-00C2-AEO	93.045	90,842
Special Programs for the Aging, Title III, Part C, Nutrition Services - Senior Dining - 303-22-00C1-AEO	93.045	408,135
Special Programs for the Aging, Title III, Part C, Nutrition Services - Senior Dining - 303-23-00C1-AEO	93.045	317,811
COVID-19 - Special Programs for the Aging, Title III, Part C, Nutrition Services - Senior Dining - 303-22-ARC1-AEO	93.045	67,950
COVID-19 - Special Programs for the Aging, Title III, Part C, Nutrition Services - Senior Dining - 303-23-00C1-AEO	93.045	43,075
COVID-19 - Special Programs for the Aging, Title III, Part C, Nutrition Services - Senior Dining - 303-23-00C1-AEO	93.045	69,358
COVID-19 - Special Programs for the Aging, Title III, Part C, Nutrition Services - Meals on Wheels - 303-22-ARC2-AEO	93.045	221,781
COVID-19 - Special Programs for the Aging, Title III, Part C, Nutrition Services - Meals on Wheels - 303-23-00C2-AEO	93.045	<u>218,865</u>
Total AL# 93.045		<u>1,895,428</u>
<i>Pass-through Program from: Arrowhead Regional Development Commission</i>		
Nutrition Services Incentive Program - Meals on Wheels 303-22-00C2-AEO	93.053	55,268
Nutrition Services Incentive Program - Meals on Wheels 303-23-00C2-AEO	93.053	87,738
Nutrition Services Incentive Program - Senior Dining - 303-22-00C1-AEO	93.053	<u>37,500</u>

The accompanying notes are an integral part of this schedule.

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
Year Ended June 30, 2023**

<u>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal Assistance Listing Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (CONTINUED)		
Total AL# 93.053		\$ 180,506
Total Aging Cluster		<u>2,117,862</u>
<i>Pass-through Program from: St. Louis County, Minnesota</i>		
COVID-19 - Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.323	<u>126,451</u>
<i>Pass-through Program from: Northland Foundation</i>		
Every Student Succeeds Act/Preschool Development Grants	93.434	<u>44,976</u>
<i>Pass-through Program from: Minnesota Department of Commerce</i>		
Low-Income Home Energy Assistance - EAP/WX A2117	93.568	1,891,374
Low-Income Home Energy Assistance - EAP/WX A2119	93.568	285,000
Low-Income Home Energy Assistance	93.568	833,807
Low-Income Home Energy Assistance	93.568	410,173
COVID-19 - Low-Income Home Energy Assistance - ARPA A2114	93.568	<u>398,246</u>
Total AL# 93.568		<u>3,818,600</u>
<i>Pass-through Program from: Minnesota Department of Human Services</i>		
Community Services Block Grant - GRK%197449	93.569	173,075
COVID-19 - Community Services Block Grant - 177847	93.569	<u>55,828</u>
Total AL# 93.569		<u>228,903</u>
<i>Head Start Cluster</i>		
<i>Direct</i>		
Head Start 05CH010857-04-00	93.600	3,451,270
Head Start 05CH010857-05-00	93.600	949,990
COVID-19 - Head Start 05HE000470-01-01	93.600	<u>254,852</u>
Total Head Start Cluster AL# 93.600		<u>4,656,112</u>
<i>Pass-through Program from: Minnesota Department of Human Services</i>		
John H. Chafee Foster Care Program for Successful Transition to Adulthood	93.674	<u>246,955</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		<u>11,239,859</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE		
<i>Direct</i>		
Retired and Senior Volunteer Program Federal 20SRNMN003	94.002	112,811
Retired and Senior Volunteer Program Federal 20SREMNO05	94.002	<u>52,596</u>
Total AL# 94.002		<u>165,407</u>
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE		<u>165,407</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 21,574,281</u>

The accompanying notes are an integral part of this schedule.

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
AND SUBSIDIARIES**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2023**

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Arrowhead Economic Opportunity Agency and subsidiaries under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Arrowhead Economic Opportunity Agency and subsidiaries, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Arrowhead Economic Opportunity Agency and subsidiaries.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization has elected to not use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE C - CLUSTERS

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

SNAP Cluster	\$ 127,157
CDBG – Entitlement Grants Cluster	319,894
Section 8 Project-Based Cluster	226,870
Aging Cluster	2,117,862
Head Start Cluster	<u>4,656,112</u>
	<u>\$ 7,447,895</u>

NOTE D - PASS-THROUGH ENTITIES

There were no pass-through entities.



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**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
Arrowhead Economic Opportunity Agency

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 (*Government Auditing Standards*), the consolidated financial statements of Arrowhead Economic Opportunity Agency (a nonprofit organization) and subsidiaries as of and for the year-ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Arrowhead Economic Opportunity Agency and subsidiaries' basic financial statements and have issued our report thereon dated December 22, 2023. Our report includes a reference to other auditors who audited the financial statements of Ivy Manor Limited Partnership, as described in our report on the Organization's financial statements. The financial statements of the Ivy Manor Limited Partnership were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with the Ivy Manor Limited Partnership or that are reported on separately by those auditors who audited the financial statements of Ivy Manor Limited Partnership.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Arrowhead Economic Opportunity Agency and subsidiaries' 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Arrowhead Economic Opportunity Agency and subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of Arrowhead Economic Opportunity Agency and subsidiaries' internal control.

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Arrowhead Economic Opportunity Agency and subsidiaries' consolidated 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 consolidated 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 the Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Walker, Miray & Helne, LLC

Virginia, Minnesota
December 22, 2023



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

To the Board of Directors of
Arrowhead Economic Opportunity Agency

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Arrowhead Economic Opportunity Agency and subsidiaries' 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 each of Arrowhead Economic Opportunity Agency and subsidiaries' major federal programs for the year ended June 30, 2023. Arrowhead Economic Opportunity Agency and subsidiaries' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Arrowhead Economic Opportunity Agency and subsidiaries' complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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 Arrowhead Economic Opportunity Agency and subsidiaries' 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 each major federal program. Our audit does not provide a legal determination of Arrowhead Economic Opportunity Agency and subsidiaries' 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 Arrowhead Economic Opportunity Agency and subsidiaries' 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 Arrowhead Economic Opportunity Agency and subsidiaries' 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 GAAS, *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 Arrowhead Economic Opportunity Agency and subsidiaries' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *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 Arrowhead Economic Opportunity Agency and subsidiaries' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of Arrowhead Economic Opportunity Agency and subsidiaries' 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 Arrowhead Economic Opportunity Agency and subsidiaries' 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.

Walker, Giroux & Helme, LLC

Virginia, Minnesota
December 22, 2023

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
AND SUBSIDIARIES**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2023**

None.

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
AND SUBSIDIARIES**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2023**

Section I - Summary Of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: unmodified

Internal control over financial reporting:

- Material weakness identified? _____ yes X no
- Significant deficiency identified? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major federal programs:

- Material weakness identified? _____ yes X no
- Significant deficiency identified? _____ yes X none reported

Type of auditor's report issued on compliance for major federal programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ yes X no

Identification of major federal programs:

<u>Assistance Listing Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.526	Buses and Bus Facilities Formula, Competitive, and Low or no Emissions Programs (Buses and Bus Facilities Program)
21.027	Coronavirus State and Local Fiscal Recovery Funds
81.042	Weatherization Assistance for Low-Income Persons
93.568	Low-Income Home Energy Assistance Program

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? X yes _____ no

**ARROWHEAD ECONOMIC OPPORTUNITY AGENCY
AND SUBSIDIARIES**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2023**

Section II – Financial Statement Findings

None noted.

Section III – Federal Award Findings And Questioned Costs

None noted.