

HASTINGS FAMILY SERVICE  
INDEPENDENT AUDITOR'S REPORT AND  
CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Hastings Family Service

We have audited the accompanying consolidated financial statements of Hastings Family Service (a nonprofit organization) and affiliates, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hastings Family Service and affiliates as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Respectfully submitted,

*Lewis, Kisch & Associates, Ltd.*

May 3, 2018

CONSOLIDATED STATEMENTS OF FINANCIAL POSITIONDECEMBER 31, 2017 AND 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 612,518	\$ 505,845
Cash and Cash Equivalents - Capital Campaign Cash		22,349
Accounts Receivable	5,171	12,706
Capital Campaign Pledges Receivable - Current Portion	6,550	19,990
Inventory - Clothing	66,694	64,144
Inventory - Food	49,179	47,130
Prepaid Expenses	990	
Total Current Assets	<u>741,102</u>	<u>672,164</u>
<u>Property and Equipment</u>		
Land, Buildings and Equipment	1,442,475	1,425,201
Accumulated Depreciation	<u>(221,330)</u>	<u>(184,120)</u>
Property and Equipment, Net	1,221,145	1,241,081
<u>Other Assets</u>		
Capital Campaign Pledges Receivable - Net of Current Portion	1,050	6,000
Beneficial Interest in Assets Held by Community Foundation	<u>36,185</u>	<u>32,602</u>
Total Other Assets	37,235	38,602
Total Assets	<u><u>\$ 1,999,482</u></u>	<u><u>\$ 1,951,847</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities</u>		
Accounts Payable	\$ 8,197	\$ 22,367
Accrued Payroll	19,839	19,920
Accrued Vacation	16,873	15,346
Current Portion of Long-Term Debt	<u>34,324</u>	
Total Current Liabilities	79,233	57,633
<u>Long-Term Debt</u>		
Long-Term Debt		68,649
Total Liabilities	<u>79,233</u>	<u>126,282</u>
<u>Net Assets</u>		
Unrestricted Net Assets - Undesignated	1,821,860	1,672,532
Unrestricted Net Assets - Board Designated (Gobble Gait)	3,685	7,719
Unrestricted Net Assets - Board Designated (Capital Reserve Fund)	30,651	60,000
Unrestricted Net Assets - Board Designated (Endowment)	<u>13,946</u>	<u>12,169</u>
Total Unrestricted Net Assets	1,870,142	1,752,420
Temporarily Restricted Net Assets - Capital Campaign		22,249
Temporarily Restricted Net Assets - Other Funds	<u>29,639</u>	<u>30,528</u>
Total Temporarily Restricted Net Assets	29,639	52,777
Permanently Restricted Net Assets	20,468	20,368
Total Net Assets	<u>1,920,249</u>	<u>1,825,565</u>
Total Liabilities and Net Assets	<u><u>\$ 1,999,482</u></u>	<u><u>\$ 1,951,847</u></u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Support and Revenue</u>								
Rivertown Treasures	\$ 142,698			142,698	\$ 132,320			132,320
Contributions	405,810	\$ 100,413	\$ 100	506,323	470,007	\$ 6,000	\$ 400	476,407
Government Grants	4,977	21,552		26,529	700	21,552		22,252
Other Income	2,365			2,365	2,600			2,600
Meals on Wheels	51,820			51,820	65,509			65,509
Just Friends Income	33,635			33,635	30,100			30,100
United Way Contribution	8,000			8,000	10,000			10,000
In-Kind Food Contributions	200,731			200,731	200,455			200,455
In-Kind Clothing Contributions	508,824			508,824	632,786			632,786
Gobble Gait Fundraiser (Net of \$17,209 and \$18,832 of direct expenses, respectively)	122,281			122,281	124,204			124,204
Hastings Tastings Fundraiser (Net of \$1,485 and \$1,549 of direct expenses, respectively)	22,287			22,287	24,305			24,305
Change in Value of Beneficial Interests in Assets Held by Community Foundation	1,777	2,984		4,761	541	1,403		1,944
Interest and Dividend Income	1,141			1,141	1,070			1,070
Net Assets Released from Restrictions	148,087	(148,087)		-	100,801	(100,801)		-
Total Support and Revenue	<u>1,654,433</u>	<u>(23,138)</u>	<u>100</u>	<u>1,631,395</u>	<u>1,795,398</u>	<u>(71,846)</u>	<u>400</u>	<u>1,723,952</u>
<u>Expenses</u>								
Program Services	1,181,501			1,181,501	1,301,165			1,301,165
Management and General	237,119			237,119	217,593			217,593
Fundraising	118,091			118,091	108,350			108,350
Total Expenses	<u>1,536,711</u>			<u>1,536,711</u>	<u>1,627,108</u>			<u>1,627,108</u>
Increase (Decrease) in Net Assets	117,722	(23,138)	100	94,684	168,290	(71,846)	400	96,844
Net Assets, Beginning of Year	1,752,420	52,777	20,368	1,825,565	1,584,130	124,623	\$ 19,968	1,728,721
Net Assets, End of Year	<u>\$ 1,870,142</u>	<u>\$ 29,639</u>	<u>\$ 20,468</u>	<u>\$ 1,920,249</u>	<u>\$ 1,752,420</u>	<u>\$ 52,777</u>	<u>\$ 20,368</u>	<u>\$ 1,825,565</u>

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSESYEARS ENDED DECEMBER 31, 2017 AND 2016

Expenses	2017			
	Program Services	Management and General	Fundraising	Total
Clothing Donated	\$ 287,386			\$ 287,386
Clothing Inventory Sold	142,698			142,698
Salaries and Wages	227,997	\$ 114,540	\$ 95,472	438,009
Payroll Taxes	16,597	8,338	6,950	31,885
Employee Benefits	17,469	8,776	7,315	33,560
Professional Fees		46,005		46,005
Advertising			3,184	3,184
Depreciation	22,326	14,884		37,210
Emergency Assistance	102,229			102,229
Food Shelf	246,904			246,904
Insurance	7,249	4,833		12,082
Just Friends Expenses	15,995			15,995
Meals on Wheels Expenses	36,259			36,259
Occupancy	26,278	17,519		43,797
Office Expenses	16,840	21,050	4,210	42,100
Other Expenses	1,496	427	213	2,136
Other Program Expenses	12,284			12,284
Telephone	1,494	747	747	2,988
Total Expenses	<u>\$ 1,181,501</u>	<u>\$ 237,119</u>	<u>\$ 118,091</u>	<u>\$ 1,536,711</u>

Expenses	2016			
	Program Services	Management and General	Fundraising	Total
Clothing Donated	\$ 430,150			\$ 430,150
Clothing Inventory Sold	132,320			132,320
Salaries and Wages	226,043	\$ 106,657	\$ 87,958	420,658
Payroll Taxes	17,456	8,236	6,792	32,484
Employee Benefits	12,432	5,866	4,838	23,136
Professional Fees		38,981		38,981
Advertising			3,471	3,471
Depreciation	21,809	14,540		36,349
Emergency Assistance	84,552			84,552
Food Shelf	244,417			244,417
Insurance	7,312	4,874		12,186
Just Friends Expenses	15,197			15,197
Meals on Wheels Expenses	46,031			46,031
Occupancy	23,050	15,366		38,416
Office Expenses	17,648	22,060	4,412	44,120
Other Expenses	949	270	136	1,355
Other Program Expenses	20,313			20,313
Telephone	1,486	743	743	2,972
Total Expenses	<u>\$ 1,301,165</u>	<u>\$ 217,593</u>	<u>\$ 108,350</u>	<u>\$ 1,627,108</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</u>		
Change in Net Assets	\$ 94,684	\$ 96,844
Adjustments to Reconcile Change in Net Assets to Net Cash from Operating Activities:		
Contributions Received for Long Term Purposes	(100)	(400)
Depreciation	37,210	36,349
In-Kind Contributions Received	(709,555)	(833,241)
In-Kind Contributions Disbursed	704,956	817,461
(Increase) Decrease in Current Assets:		
Accounts Receivable	7,535	(3,169)
Capital Campaign Pledges Receivable	18,390	11,640
Prepaid Expenses	(990)	
Beneficial Interest in Assets Held by Community Foundation	(3,583)	(1,006)
Increase (Decrease) in Current Liabilities:		
Accounts Payable	(14,170)	10,081
Accrued Payroll	(81)	2,023
Accrued Vacation	1,527	(5,414)
Net Cash Flows from Operating Activities	<u>135,823</u>	<u>131,168</u>
<u>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</u>		
Purchases of Property and Equipment	(17,274)	(84,843)
<u>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</u>		
Payments on Long-Term Debt	(34,325)	(15,000)
Contributions Received for Long-Term Purposes	100	400
Net Cash Flows from (Used in) Financing Activities	<u>(34,225)</u>	<u>(14,600)</u>
Net Increase in Cash and Cash Equivalents	84,324	31,725
Cash and Cash Equivalents, Beginning of Year	528,194	496,469
Cash and Cash Equivalents, End of Year	<u>\$ 612,518</u>	<u>\$ 528,194</u>
<u>SUPPLEMENTAL DISCLOSURE</u>		
Interest Paid	<u>\$ 4,601</u>	<u>\$ 5,521</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

**1. Nature of the Organization**

Hastings Family Service (“HFS”) is a community based nonprofit agency providing a range of emergency and supportive services for over forty years to assist and guide neighbors from the Hastings, Minnesota, area who lack food, clothing, shelter, support, or transportation. HFS provides help and hope in a spirit of caring and respect, knowing that unforeseen circumstances like job elimination, reduction in work hours, or medical emergencies can happen to anyone at any time. The current economy has created numerous vulnerabilities, and HFS strives to assist those in need while providing fulfilling opportunities for volunteers and community members to support these efforts.

Hastings Family Service has established the following program services:

*Food Shelf (“The Market”)* – HFS provides people in need of emergency, short-term assistance with a seven-day supply of groceries. In addition, individuals may receive a voucher to a local grocery store to purchase perishable items or address specific dietary needs. Emergency bags of food for 1, 2, or 3 days are also provided.

*Emergency Assistance* – HFS provides grants and vouchers to individuals and families during emergencies. Grants and vouchers may be provided to assist with some expenses, such as housing, utilities, automobile repairs, gas, prescriptions, diapers, formula, and household items.

*Meals on Wheels* – In partnership with Allina Health Regina Hospital, this program provides hot meals and a safety check for the elderly, people living with a disability, and those recovering from surgery.

*Just Friends* – This program provides transportation and assistance with grocery shopping to enhance the quality of life of people in the Hastings Community.

*Project Share* – Families in need receive food, gifts, and toys during the holidays. Businesses, churches, schools, and individuals make donations, fundraise, adopt families, host gift trees, and participate in toy and food drives to help their neighbors.

*School Supplies* – HFS provides a backpack filled with school supplies at the beginning of the school year for children at all grade levels who are in need.

*Rivertown Treasures* – Clean, seasonal, carefully inspected, gently used clothing and household items are provided at no cost to those who need assistance. Merchandise is also available for sale to the public, and all store revenue supports HFS’s programs. The entire inventory of Rivertown Treasures is donated by the community.

*Business Center* – HFS provides faxing, copying, use of a computer and phone free of charge for business purposes.

*Homelessness Assistance* – HFS provides help with emergency needs of those experiencing homelessness.

**2. Summary of Significant Accounting Policies**

Principles of Consolidation – The consolidated financial statements include the accounts of Hastings Family Service and its wholly owned and controlled affiliates (collectively, the “Organization”): Gobble Gait, LLC, and Hastings Music Festival, LLC. All inter-entity transactions and balances have been eliminated. The primary purpose of these affiliates is to operate fundraising events for the benefit of Hastings Family Service.

Gobble Gait, LLC, hosts a Thanksgiving Day walk/run event, whose proceeds and related expenses are included in the Organization’s consolidated financial statements. The Organization’s consolidated financial statements include \$3,685 and \$7,719 of net assets that are board designated as Gobble Gait funds as of December 31, 2017 and 2016, respectively.

Hastings Music Festival, LLC, hosts an annual one-day event, whose proceeds and related expenses are included in the Organization’s consolidated financial statements. There were no events in 2017 and 2016. The Organization’s consolidated financial statements include \$0 of net assets that are board designated as Hastings Music Festival funds as of December 31, 2017 and 2016, respectively.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

**2. Summary of Significant Accounting Policies (Continued)**

New Accounting Pronouncement – In July 2015, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2015-11, *Simplifying the Measurement of Inventory*. The amendments in the ASU clarify that an entity should measure inventory within the scope of this update at the lower of cost and net realizable value, which is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The adoption of ASU 2015-11 is effective for the Organization beginning January 1, 2017. The adoption did not have a material impact on the Organization’s consolidated financial statements.

Basis of Presentation – The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America applicable to not-for-profit organizations. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and the changes therein are classified and reported as follows:

*Unrestricted Net Assets* – Unrestricted net assets are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the board of directors.

*Temporarily Restricted Net Assets* – Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time. When a restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*Permanently Restricted Net Assets* – Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Organization.

Revenues and Expenses – Support and revenue are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets.

Cash and Cash Equivalents – For purposes of the consolidated statement of cash flows, the Organization considers all cash, money-market funds, and other highly liquid investments with maturities of three months or less to be cash equivalents.

The Organization’s cash and cash equivalents have been placed with major financial institutions. At times, such amounts may exceed Federal Deposit Insurance Corporation (“FDIC”) limits. The Organization closely monitors these balances and has not experienced credit losses.

Capital Campaign Cash – Capital campaign cash represents cash designated for use by the capital campaign fund.

Accounts Receivable – Accounts receivable represent amounts due for program services rendered and unconditional commitments from donors, which are all receivable in less than one year. No interest is accrued on accounts receivable. The Organization periodically reviews individual accounts, and as of December 31, 2017 and 2016, no allowance for uncollectible accounts was considered necessary.

Capital Campaign Pledges Receivable – Pledges receivable represent unconditional commitments from donors that are recorded at the pledged amount. The Organization periodically reviews individual accounts, and as of December 31, 2017 and 2016, no allowance for uncollectible accounts was considered necessary.

Inventory – Inventory consists of donated clothing and food items, which have primarily been received by the Organization as in-kind contributions. Inventory is valued at the lower of cost and net realizable value (cost is determined as fair value at the date of gift).

Property and Equipment – Property and equipment are recorded at cost or, if donated, at fair market value at the date of donation. Items of \$1,000 or less are expensed in the year purchased. Depreciation is computed using the straight-line method and is charged to expense over the estimated useful lives of the assets, which range from three years for computer equipment to thirty-nine years for buildings and building improvements. Costs of maintenance, repairs, and minor replacements are expensed as incurred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

**2. Summary of Significant Accounting Policies (Continued)**

Beneficial Interest in Assets Held by Community Foundation – The Organization established an endowment fund, known as the Hastings Family Service NFP Endowment Fund (the “Fund”), under a community foundation. The Organization granted variance power to the community foundation, which allows the community foundation to modify any condition or restriction on its distributions for any specified charitable purpose. The Fund is held and invested by the community foundation for the Organization’s benefit and is reported at fair value in the consolidated statements of financial position.

Accrued Vacation – Accrued vacation represents employees’ earned and unused vacation time. The Organization allows employees to carry over unused vacation time into the next year.

Contributions – Contributions, which may include unconditional promises to give (“pledges”), are recognized as revenues in the period received. Contributions are measured at their fair value and reported as increases in net assets. The Organization reports gifts of cash and other assets as restricted contributions when they are received with donor stipulations that limit the use of the donated assets. When the intent of the donor is that the assets are to remain in perpetuity and the Organization does not have the right to expend the original principal, the assets are reported as permanently restricted. When donor restrictions are met, temporarily restricted net assets are released to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Net assets are also released from donor restrictions when time restrictions are satisfied.

In-Kind Services – In-kind services are recognized at fair value if the services meet the recognition criteria prescribed by generally accepted accounting principles, which include a) requiring specialized skills; b) being provided by someone with those skills; and c) would have to be purchased if they were not donated. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization to fulfill its purpose. No significant contributions of recognizable services were received during the years ended December 31, 2017 and 2016. The Organization receives the support of approximately 400 volunteers per year.

In-Kind Contributions – The Organization receives in-kind contributions of donated food, clothing, and other items that are used for program purposes. In-kind contribution revenue is recognized when the Organization has sufficient discretion over the use and disposition of the items to recognize a contribution in conformity with accounting principles generally accepted in the United States of America. In-kind contributions received through donations are valued and recorded as revenue at their fair value at the time the contribution is received. When the Organization distributes in-kind contributions as part of its own programs, it reports an expense, which is reported in the functional classification for the program in which the in-kind contributions were used. Undistributed in-kind contributions at year-end are reported as inventory.

Sales Tax – The Organization collects and remits sales tax. The Organization’s accounting policy is to include the tax collected and remitted in revenues and expenses.

Income Taxes – The Organization is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code and is not considered a private foundation. Management has evaluated for uncertain tax positions and has determined there are no uncertain tax positions as of December 31, 2017 and 2016. Tax returns for the past three years remain open for examination by tax jurisdictions.

Advertising – The Organization expenses advertising as incurred.

Functional Allocation of Expenses – The costs of providing the Organization’s various programs and supporting services have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. When appropriate, costs are allocated on a direct-cost basis to the various programs or supporting services benefited. In some cases, expenses are incurred that support the work performed under more than one function. Such expenses are allocated based on estimates developed by management.

Use of Estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates. Such estimates include inventory valuation, fair value of in-kind contributions, functional expense allocation, and depreciation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTSDECEMBER 31, 2017 AND 2016**2. Summary of Significant Accounting Policies (Continued)**

Subsequent Events – The Organization has performed an evaluation of subsequent events through May 3, 2018, which is the date the consolidated financial statements were available to be issued.

**3. Capital Campaign Pledges Receivable**

In 2011, the Organization began a capital campaign to provide funding for a building purchase and subsequent remodeling. Capital campaign contributions and pledges received are considered temporarily restricted funds until they are spent on building costs or loan payments. Capital campaign pledges receivable as of December 31, 2017 and 2016, are expected to be collected as follows:

	<u>2017</u>	<u>2016</u>
Less Than One Year	\$ 6,550	\$ 19,900
One to Five Years	1,050	6,000
Total Capital Campaign Pledges Receivable	<u>\$ 7,600</u>	<u>\$ 25,900</u>

**4. Property and Equipment**

Property and equipment consists of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land	\$ 302,400	\$ 302,400
Building	423,919	423,919
Building Improvements	620,653	620,653
Computer Equipment	1,082	1,082
Other Equipment	94,421	77,147
Total Property and Equipment	1,442,475	1,425,201
Less: Accumulated Depreciation	(221,330)	(184,120)
Total Property and Equipment, Net	<u>\$ 1,221,145</u>	<u>\$ 1,241,081</u>

**5. Fair Value Measurements**

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

*Level 1* – Quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date.

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

*Level 3* – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Organization's beneficial interest in assets held by a community foundation is classified within Level 3 because its value is based on the fair value of fund investments as reported by the community foundation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTSDECEMBER 31, 2017 AND 2016**6. Long-Term Debt**

In October 2012, the Organization secured a mortgage loan for \$520,000 due on demand, but if no demand is made then principal payments of \$80,000 are due annually, with the remaining balance due October 23, 2018. Accrued interest at a rate of 6.5% is due on demand, but if no demand is made then interest is due annually beginning in October 2013. As of December 31, 2017, the remaining balance of the mortgage loan, \$34,324, is expected to mature during the year ending December 31, 2018.

**7. Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes at December 31:

	<u>2017</u>	<u>2016</u>
Capital Campaign		\$ 22,249
Homeless and Senior Support	\$ 9,271	10,000
Housing Funds	7,446	7,172
Medical and Dental	5,636	5,850
Moving Forward	3,349	4,949
Meals on Wheels	2,166	2,425
Other	1,771	132
Total Temporarily Restricted Net Assets	<u>\$ 29,639</u>	<u>\$ 52,777</u>

**8. Endowment**

The Organization's endowment consists of donor-restricted funds established to support the overall operations of the Organization and certain unrestricted net assets designated for endowment by the board of directors. Net assets associated with this endowment are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of directors of the Organization has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations or distributions to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation or distribution is added to the fund. The remaining portion of the donor-restricted net assets that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the Organization and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Organization
- 7) The investment policies of the Organization

From time to time, the fair value of assets associated with the donor-restricted endowment fund may fall below the level that the donor or UPMIFA requires the Organization to retain as funds of perpetual duration. When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. There were no such deficiencies as of December 31, 2017 and 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTSDECEMBER 31, 2017 AND 2016**8. Endowment (Continued)**

Endowment net asset composition by type of fund is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>December 31, 2017</u>				
Board-Designated Endowment	\$ 13,946			\$ 13,946
Donor-Restricted Endowment		\$ 1,771	\$ 20,468	22,239
Total	<u>\$ 13,946</u>	<u>\$ 1,771</u>	<u>\$ 20,468</u>	<u>\$ 36,185</u>
<u>December 31, 2016</u>				
Board-Designated Endowment	\$ 12,169			\$ 12,169
Donor-Restricted Endowment		\$ 65	\$ 20,368	20,433
Total	<u>\$ 12,169</u>	<u>\$ 65</u>	<u>\$ 20,368</u>	<u>\$ 32,602</u>

The changes in endowment net assets for the years ended December 31, 2017 and 2016, were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, January 1, 2016	\$ 11,628		\$ 19,968	\$ 31,596
Investment Return				
Investment Income, Net of Fees	(153)	\$ 210		57
Net Realized and Unrealized Gains	694	1,193		1,887
Contributions			400	400
Appropriation of Endowment Assets for Expenditure		(1,338)		(1,338)
Endowment Net Assets, December 31, 2016	<u>\$ 12,169</u>	<u>\$ 65</u>	<u>\$ 20,368</u>	<u>\$ 32,602</u>
Investment Return				
Investment Income, Net of Fees	\$ 45	\$ 76		\$ 121
Net Realized and Unrealized Gains	1,732	2,908		4,640
Contributions			\$ 100	100
Appropriation of Endowment Assets for Expenditure		(1,278)		(1,278)
Endowment Net Assets, December 31, 2017	<u>\$ 13,946</u>	<u>\$ 1,771</u>	<u>\$ 20,468</u>	<u>\$ 36,185</u>

Investment Objectives and Strategies

The Organization has adopted an investment policy to provide guidelines for investing endowment assets. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to achieve long-term total returns through a combination of capital appreciation and income.

To achieve these objectives, the Organization has established an endowment fund under a community foundation.

Spending Policy

The Organization's spending policy is determined by the community foundation's spending policy.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

**9. Retirement Plan**

The Organization has a 403(b) retirement plan for employees that have completed one year of service. The Organization's retirement contributions were \$11,542 and \$10,395 for the years ended December 31, 2017 and 2016, respectively.

**10. Beneficial Interest in Assets Held by Others**

Hastings Family Service is the income beneficiary of a designated fund of The Saint Paul Foundation. The fund was created independently by donors and is administered by The Saint Paul Foundation. The Saint Paul Foundation has explicit variance power over this fund; therefore, Hastings Family Service has not recorded a beneficial interest in these assets, nor has it recorded any potential future distributions from the assets. The designated fund had a fair market value of \$37,674 and \$34,047 at December 31, 2017 and 2016, respectively. The Organization received income distributions from this designated fund of \$1,335 and \$1,417 for the years ended December 31, 2017 and 2016, respectively.