

HASTINGS FAMILY SERVICE
INDEPENDENT AUDITOR'S REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities	3
Consolidated Statements of Functional Expenses	4
Consolidated Statements of Cash Flows	6
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	7

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, 2019 and 2018, 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, 2019 and 2018, 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 28, 2020

CONSOLIDATED STATEMENTS OF FINANCIAL POSITIONDECEMBER 31, 2019 AND 2018

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 773,171	\$ 729,396
Accounts Receivable	53,488	8,628
Capital Campaign Pledges Receivable		3,000
Grant Receivable - Current Portion	25,000	25,000
Inventory - Clothing	80,095	76,222
Inventory - Food	47,353	59,890
Prepaid Expenses		671
Total Current Assets	<u>979,107</u>	<u>902,807</u>
<u>Property and Equipment</u>		
Land, Buildings and Equipment	1,459,789	1,443,813
Accumulated Depreciation	(291,049)	(256,986)
Property and Equipment, Net	<u>1,168,740</u>	<u>1,186,827</u>
<u>Other Assets</u>		
Grant Receivable - Net of Current Portion		25,000
Beneficial Interest in Assets Held by Community Foundation	36,485	33,162
Total Other Assets	<u>36,485</u>	<u>58,162</u>
Total Assets	<u><u>\$ 2,184,332</u></u>	<u><u>\$ 2,147,796</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities</u>		
Accounts Payable	\$ 6,651	\$ 10,751
Accrued Payroll	28,052	24,143
Accrued Vacation	23,032	18,676
Refundable Advances	7,435	
Total Current Liabilities	<u>65,170</u>	<u>53,570</u>
<u>Net Assets</u>		
Without Donor Restrictions		
Undesignated	1,866,634	1,853,499
Board Designated		
Gobble Gait	8,559	5,223
Capital Reserve Fund	59,219	64,545
Endowment	15,016	13,193
Total Board Designated	<u>82,794</u>	<u>82,961</u>
Total Without Donor Restrictions	<u>1,949,428</u>	<u>1,936,460</u>
With Donor Restrictions		
Endowment	21,469	19,969
Other	148,265	137,797
Total With Donor Restrictions	<u>169,734</u>	<u>157,766</u>
Total Net Assets	<u>2,119,162</u>	<u>2,094,226</u>
Total Liabilities and Net Assets	<u><u>\$ 2,184,332</u></u>	<u><u>\$ 2,147,796</u></u>

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<u>Support and Revenue</u>						
Rivertown Treasures	\$ 163,726		\$ 163,726	\$ 153,605		\$ 153,605
Contributions	392,383	\$ 146,053	538,436	383,735	\$ 191,250	574,985
Government Grants		17,286	17,286	8,633	21,552	30,185
Other Income	2,603		2,603	2,436		2,436
Meals on Wheels	50,921		50,921	49,329		49,329
Just Friends Income	25,527		25,527	27,976		27,976
United Way Contribution				8,000		8,000
In-Kind Food Contributions	214,097		214,097	237,743		237,743
In-Kind Clothing Contributions	471,520		471,520	482,400		482,400
Other In-Kind Contributions				3,000		3,000
Gobble Gait Fundraiser (Net of \$20,990 and \$18,198 of direct expenses, respectively)	122,218		122,218	127,424		127,424
Hastings Tastings Fundraiser (Net of \$1,642 and \$1,451 of direct expenses, respectively)	25,316		25,316	25,292		25,292
Change in Value of Beneficial Interests in Assets Held by Community Foundation	1,823	2,760	4,583	(753)	(1,202)	(1,955)
Interest and Dividend Income	2,117		2,117	1,852		1,852
Net Assets Released from Restrictions	154,131	(154,131)		103,941	(103,941)	
Total Support and Revenue	<u>1,626,382</u>	<u>11,968</u>	<u>1,638,350</u>	<u>1,614,613</u>	<u>107,659</u>	<u>1,722,272</u>
<u>Expenses</u>						
Program Services	1,249,955		1,249,955	1,184,503		1,184,503
Management and General	222,902		222,902	225,003		225,003
Fundraising	140,557		140,557	138,789		138,789
Total Expenses	<u>1,613,414</u>		<u>1,613,414</u>	<u>1,548,295</u>		<u>1,548,295</u>
Increase (Decrease) in Net Assets	<u>12,968</u>	<u>11,968</u>	<u>24,936</u>	<u>66,318</u>	<u>107,659</u>	<u>173,977</u>
Net Assets, Beginning of Year	1,936,460	157,766	2,094,226	1,870,142	50,107	1,920,249
Net Assets, End of Year	<u>\$ 1,949,428</u>	<u>\$ 169,734</u>	<u>\$ 2,119,162</u>	<u>\$ 1,936,460</u>	<u>\$ 157,766</u>	<u>\$ 2,094,226</u>

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSESYEAR ENDED DECEMBER 31, 2019

EXPENSES	Program Services				Management and General	Fundraising	Grand Total
	Emergency	Supportive	Community	Total			
Clothing Donated			\$ 237,959	\$ 237,959			\$ 237,959
Clothing Inventory Sold			163,726	163,726			163,726
Salaries and Wages	\$ 170,800	\$ 62,954	64,823	298,577	\$ 114,037	\$ 93,496	506,110
Payroll Taxes	12,535	4,620	4,757	21,912	8,369	6,862	37,143
Employee Benefits	11,538	4,253	4,379	20,170	7,703	6,316	34,189
Professional Fees	1,453	727	1,453	3,633	41,066	727	45,426
Advertising and Events						26,735	26,735
Depreciation	12,620	341	8,158	21,119	11,241	1,703	34,063
Emergency Assistance	84,268			84,268			84,268
Food Shelf	290,401	1,451		291,852			291,852
Insurance	2,388	2,388	2,388	7,164	4,776		11,940
Just Friends Expenses		15,339		15,339			15,339
Meals on Wheels Expenses		40,705		40,705			40,705
Occupancy	10,960	296	7,085	18,341	9,762	1,479	29,582
Office Expenses	3,727	2,112	2,112	7,951	8,838	23,361	40,150
Other Expenses	654	327	327	1,308	4,586	1,076	6,970
Other Program Expenses	5,882	6,559	1,530	13,971	11,481	1,276	26,728
Telephone	1,171	32	757	1,960	1,043	158	3,161
Total Expenses	<u>608,397</u>	<u>142,104</u>	<u>499,454</u>	<u>1,249,955</u>	<u>222,902</u>	<u>163,189</u>	<u>1,636,046</u>
Expenses Included With Revenues on the Statements of Activities:							
Gobble Gait Expenses						(20,990)	(20,990)
Hastings Tastings Expenses						(1,642)	(1,642)
Total Expenses Included in the Expense Section of the Statements of Activities	<u>\$ 608,397</u>	<u>\$ 142,104</u>	<u>\$ 499,454</u>	<u>\$ 1,249,955</u>	<u>\$ 222,902</u>	<u>\$ 140,557</u>	<u>\$ 1,613,414</u>

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSESYEAR ENDED DECEMBER 31, 2018

EXPENSES	Program Services				Management and General	Fundraising	Total
	Emergency	Supportive	Community	Total			
Clothing Donated			\$ 246,941	\$ 246,941			\$ 246,941
Clothing Inventory Sold			153,605	153,605			153,605
Salaries and Wages	\$ 147,798	\$ 48,534	50,383	246,715	\$ 113,710	\$ 94,477	454,902
Payroll Taxes	11,233	3,689	3,829	18,751	8,643	7,181	34,575
Employee Benefits	7,942	2,608	2,707	13,257	6,110	5,077	24,444
Professional Fees	1,405	702	1,405	3,512	43,034	702	47,248
Advertising and Events						22,879	22,879
Depreciation	13,211	357	8,540	22,108	11,766	1,782	35,656
Emergency Assistance	98,247			98,247			98,247
Food Shelf	280,393	457		280,850			280,850
Insurance	2,326	2,326	2,326	6,978	4,652		11,630
Just Friends Expenses		13,205		13,205			13,205
Meals on Wheels Expenses		39,226		39,226			39,226
Occupancy	13,095	353	8,465	21,913	14,156	1,767	37,836
Office Expenses	4,386	2,453	2,453	9,292	10,445	22,349	42,086
Other Expenses	440	220	220	880	1,652	978	3,510
Other Program Expenses	3,502	2,547	991	7,040	9,780	1,086	17,906
Telephone	1,185	32	766	1,983	1,055	160	3,198
Total Expenses	<u>585,163</u>	<u>116,709</u>	<u>482,631</u>	<u>1,184,503</u>	<u>225,003</u>	<u>158,438</u>	<u>1,567,944</u>
Expenses Included With Revenues on the Statements of Activities:							
Gobble Gait Expenses						(18,198)	(18,198)
Hastings Tastings Expenses						(1,451)	(1,451)
Total Expenses Included in the Expense Section of the Statements of Activities	<u>\$ 585,163</u>	<u>\$ 116,709</u>	<u>\$ 482,631</u>	<u>\$ 1,184,503</u>	<u>\$ 225,003</u>	<u>\$ 138,789</u>	<u>\$ 1,548,295</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</u>		
Change in Net Assets	\$ 24,936	\$ 173,977
Adjustments to Reconcile Change in Net Assets to Net Cash From Operating Activities:		
Contributions Received for Long Term Purposes	(120)	(271)
Depreciation	34,063	35,656
In-Kind Contributions Received	(685,617)	(720,143)
In-Kind Contributions Disbursed	694,281	699,904
(Increase) Decrease in Current Assets:		
Accounts Receivable	(44,860)	(3,457)
Capital Campaign Pledges Receivable	3,000	4,600
Grant Receivable	25,000	(50,000)
Prepaid Expenses	671	319
Beneficial Interest in Assets Held by Community Foundation	(3,323)	3,023
Increase (Decrease) in Current Liabilities:		
Accounts Payable	(4,100)	2,554
Accrued Payroll	3,909	4,304
Accrued Vacation	4,356	1,803
Refundable Advances	7,435	
Net Cash Flows From Operating Activities	<u>59,631</u>	<u>152,269</u>
<u>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</u>		
Purchases of Property and Equipment	(15,976)	(1,338)
<u>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</u>		
Payments on Long-Term Debt		(34,324)
Contributions Received for Long-Term Purposes	120	271
Net Cash Flows From (Used in) Financing Activities	<u>120</u>	<u>(34,053)</u>
Net Increase in Cash and Cash Equivalents	<u>43,775</u>	<u>116,878</u>
Cash and Cash Equivalents, Beginning of Year	729,396	612,518
Cash and Cash Equivalents, End of Year	<u>\$ 773,171</u>	<u>\$ 729,396</u>
<u>SUPPLEMENTAL DISCLOSURE</u>		
Interest Paid		<u>\$ 2,218</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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:

Emergency

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.

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

Supportive

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.

Clothing Vouchers – HFS provides vouchers for clothing and household items from Rivertown Treasures to those who need assistance.

Community

Rivertown Treasures – Clean, seasonal, carefully inspected, gently used clothing and household items are 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.

Volunteers – HFS relies on volunteers to provide help and hope to its neighbors. HFS is accredited through the Points of Light Foundation Service Enterprise and maintains that certification by using volunteers to carry out its mission effectively. Volunteers serve in both high-level and entry-level capacities, ultimately freeing up staff to focus on higher-level strategic duties necessary to ensure HFS addresses the ongoing environmental changes in the Hastings community.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

2. Summary of Significant Accounting Policies (Continued)

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 \$8,559 and \$5,223 of net assets that are board designated as Gobble Gait funds as of December 31, 2019 and 2018, 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 2019 and 2018. The Organization's consolidated financial statements include \$0 of net assets that are board designated as Hastings Music Festival funds as of December 31, 2019 and 2018.

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 ("GAAP") 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:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Net assets without donor restrictions may be designated for specific purposes by the board of directors.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that the resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the consolidated statements of activities as net assets released from restrictions.

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 that are neither held for nor restricted by donors for long-term purposes to be cash equivalents.

Accounts Receivable – Accounts receivable represent amounts due for program services rendered and unconditional promises to give, 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, 2019 and 2018, no allowance for uncollectible accounts was considered necessary.

Capital Campaign Pledges Receivable – Pledges receivable represent unconditional, restricted promises to give from donors that are recorded at the pledged amount. The Organization periodically reviews individual accounts, and as of December 31, 2019 and 2018, no allowance for uncollectible accounts was considered necessary.

Grant Receivable – This represents a grant receivable from a donor that is expected to be received in future periods. The Organization considers this grant fully collectible and has not established an allowance account. The Organization expected to receive \$25,000 during the year ended December 31, 2019, and \$25,000 during the year ended December 31, 2020. At December 31, 2019, the entire grant receivable is expected to be collected within one year of the statement of financial position date.

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).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

2. Summary of Significant Accounting Policies (Continued)

Property and Equipment – Property and equipment are recorded at cost or, if donated, at fair market value at the date of donation. Items costing \$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 and repairs that do not improve or extend the useful life of the respective assets are expensed currently.

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, with distributions and changes in fair value recognized in the consolidated statements of activities.

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.

Revenues and Revenue Recognition – The Organization recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions upon which they depend have been met. Contributions received are recorded as with donor restrictions or without donor restriction depending on the existence and/or nature of any donor stipulations for their use.

A portion of the Organization’s revenue is derived from cost-reimbursable government contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenditures. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. The Organization received cost-reimbursable grants of \$18,211 that have not been recognized at December 31, 2019, because qualifying expenditures have not yet been incurred, with an advance payment of \$7,435 recognized in the statement of financial position as a refundable advance. At December 31, 2018, the Organization had received cost-reimbursable grants of \$32,328 that were not yet recognized because qualifying expenditures had not yet been incurred.

The Organization records special events revenue, which includes revenue from Gobble Gait and Hastings Tastings, equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place.

The Organization recognizes revenue from sales of merchandise at the time the merchandise is transferred to the customer, which is typically at the time payment is received from the customer.

The Organization recognizes revenue from Meals on Wheels during the period in which the related services are provided.

In-Kind Services – Donated services are recognized at fair value if the services meet the recognition criteria prescribed by GAAP, 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. No significant contributions of recognizable services were received during the years ended December 31, 2019 and 2018.

Many individuals volunteer their time and perform a variety of tasks that assist the Organization in fulfilling its mission. These contributed services do not meet the recognition criteria described above, so they are not included in the consolidated statements of activities as in-kind services. The Organization receives the support of approximately 400 volunteers per year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

2. Summary of Significant Accounting Policies (Continued)

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 GAAP. 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 – Sales tax collected by the Organization is netted with the corresponding sale to the customer. The Organization collects sales tax from customers and remits the entire amount to the appropriate taxing authorities on a quarterly basis.

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. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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, 2019. Tax returns for the past three years remain open for examination by tax jurisdictions.

Estimates – The preparation of consolidated financial statements in conformity with GAAP 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.

Concentration of Credit Risk – Financial instruments, which potentially subject the Organization to credit risk, consist primarily of cash and 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. At December 31, 2019 and 2018, uninsured cash and cash equivalents balances were approximately \$385,500 and \$414,000, respectively. The Organization closely monitors these balances and has not experienced credit losses.

Reclassifications – Certain reclassifications of amounts previously reported have been made to the financial statements and related notes to maintain consistency between periods reported. These reclassifications had no effect on previously reported net assets.

Recently Adopted Accounting Pronouncements – The Organization has adopted Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended, as management believes the standard improves the usefulness and understandability of the Organization’s financial reporting. Analysis of the various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously audited consolidated financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

The Organization has also adopted ASU 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)*, as management believes the standard improves the usefulness and understandability of the Organization’s financial reporting. Analysis of the various provisions of this standard resulted in no significant changes in the way the Organization recognizes contributions and promises to give, and therefore, no changes to the previously audited consolidated financial statements were required on a retrospective basis.

Subsequent Events – Management has performed an evaluation of subsequent events through May 28, 2020, which is the date the consolidated financial statements were available to be issued.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTSDECEMBER 31, 2019 AND 2018**3. Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date, comprise the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 773,171	\$ 729,396
Accounts receivable	53,488	8,628
Capital campaign pledges receivable – current portion		3,000
Grants receivable – current portion	25,000	25,000
Prepaid expenses		671
Distributions from beneficial interests in assets held by others		1,464
Less: Board-designated net assets	(82,794)	(82,961)
Less: Net assets with donor restrictions	<u>(169,734)</u>	<u>(157,766)</u>
Total	<u>\$ 599,131</u>	<u>\$ 527,432</u>

As part of the Organization's liquidity management plan, the Organization invests cash in excess of daily requirements in money market funds, including an operating reserve designed to accommodate day-to-day fluctuations in normal cash flow requirements and unusual and/or unforeseen emergency cash requirements. The current operating reserve target benchmark is 25% or approximately three months of operating expenses. At December 31, 2019 and 2018, the balance in the operating reserve account was approximately \$575,000 and \$486,000, respectively.

4. 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 donor-restricted until they are spent on building costs or loan payments. Capital campaign pledges receivable as of December 31, 2019 and 2018, are expected to be collected as follows:

	<u>2019</u>	<u>2018</u>
Less than one year		\$ 3,000
One to five years		
Total capital campaign pledges receivable	<u> </u>	<u>\$ 3,000</u>

5. Fair Value Measurements and Disclosures

The Organization reports certain assets at fair value in the consolidated 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTSDECEMBER 31, 2019 AND 2018**5. Fair Value Measurements and Disclosures (Continued)**

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. The compilation and activities of this account as of and for the years ended December 31, 2019 and 2018, are described in Note 7.

6. Property and Equipment

Property and equipment consisted of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land	\$ 302,400	\$ 302,400
Building	423,919	423,919
Building improvements	626,678	621,991
Computer equipment	12,371	1,082
Other equipment	<u>94,421</u>	<u>94,421</u>
Total property and equipment	1,459,789	1,443,813
Less: accumulated depreciation	<u>(291,049)</u>	<u>(256,986)</u>
Total property and equipment, net	<u>\$ 1,168,740</u>	<u>\$ 1,186,827</u>

7. Endowment

The Organization's endowment, reported in the consolidated statements of financial position as beneficial interest in assets held by community foundation, 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. At December 31, 2019 and 2018, there were no such donor stipulations. As a result of this interpretation, the Organization retains in perpetuity (a) the original value of initial and subsequent gift amounts donated to the endowment and (b) any accumulations to the endowment fund made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTSDECEMBER 31, 2019 AND 2018**7. Endowment (Continued)**

The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

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

	Without Donor Restrictions	With Donor Restrictions	Total
<u>December 31, 2019</u>			
Board-designated endowment	\$ 15,016		\$ 15,016
Donor-restricted endowment			
Original donor-restricted amounts required to be maintained in perpetuity by donor		\$ 20,859	20,859
Accumulated investment gains (losses)		610	610
Total	<u>\$ 15,016</u>	<u>\$ 21,469</u>	<u>\$ 36,485</u>
<u>December 31, 2018</u>			
Board-designated endowment	\$ 13,193		\$ 13,193
Donor-restricted endowment			
Original donor-restricted amounts required to be maintained in perpetuity by donor		\$ 20,739	20,739
Accumulated investment gains (losses)		(770)	(770)
Total	<u>\$ 13,193</u>	<u>\$ 19,969</u>	<u>\$ 33,162</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or law ("underwater endowments"). The Organization has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required by law. At December 31, 2018, funds with original gift values of \$20,739, fair values of \$19,969, and deficiencies of \$770 were reported in net assets with donor restrictions. There were no such deficiencies as of December 31, 2019.

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 STATEMENTSDECEMBER 31, 2019 AND 2018**7. Endowment (Continued)**

Changes in endowment net assets for the years ended December 31, 2019 and 2018, were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2018	\$ 13,946	\$ 22,239	\$ 36,185
Investment return			
Investment income, net of fees	56	89	145
Net realized and unrealized gains	(809)	(1,291)	(2,100)
Contributions		271	271
Appropriation of endowment assets for expenditure		(1,339)	(1,339)
Endowment net assets, December 31, 2018	13,193	19,969	33,162
Investment return			
Investment income, net of fees	94	142	236
Net realized and unrealized gains	1,729	2,618	4,347
Contributions		120	120
Appropriation of endowment assets for expenditure		(1,380)	(1,380)
Endowment net assets, December 31, 2019	<u>\$ 15,016</u>	<u>\$ 21,469</u>	<u>\$ 36,485</u>

8. 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. At December 31, 2017, the remaining balance on the mortgage was \$34,324. This balance was paid off in full during the year ended December 31, 2018.

9. Net Assets With Donor Restrictions

Net assets with donor restrictions were restricted for the following purposes or periods at December 31:

	2019	2018
Subject to expenditure for specified purpose		
Food shelf	\$ 54,821	\$ 28,205
Just Friends	18,408	
Project Share	18,002	12,702
Freezer for food shelf	9,650	
Homeless and senior support	7,866	8,155
Strategic planning		10,000
Market Cart		7,261
Other	14,518	21,474
Subject to the passage of time		
Grants that are not restricted by donors, but which are unavailable for expenditure until due	25,000	50,000
Endowments		
Subject to appropriation and expenditure when a specified event occurs:		
Available for general use	610	(770)
Perpetual in nature, earnings from which are subject to endowment spending policy and appropriation:		
General use	20,859	20,739
Total	<u>\$ 169,734</u>	<u>\$ 157,766</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTSDECEMBER 31, 2019 AND 2018**9. Net Assets With Donor Restrictions (Continued)**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows during the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Satisfaction of purpose restrictions		
Food shelf	\$ 57,957	\$ 53,579
Donation matching	25,000	
Just Friends	15,339	4,873
ECA	14,542	21,127
Strategic planning	10,000	
Market Cart	7,260	239
Staffing		8,000
Other	22,653	14,784
Distributions (proceeds are not restricted by donors)		
Beneficial interest in assets held by Community Foundation	1,380	1,339
Total	<u>\$ 154,131</u>	<u>\$ 103,941</u>

10. Functionalized Expenses

The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include employee expenses, professional fees, depreciation, insurance, occupancy, other expenses, other program expenses, and telephone, which are allocated based on estimates developed by management using estimates of space, time, and effort.

11. 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 \$12,675 and \$9,491 for the years ended December 31, 2019 and 2018, respectively.

12. 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 \$38,571 and \$35,175 at December 31, 2019 and 2018, respectively. The Organization received income distributions from this designated fund of \$1,464 and \$1,394 during the years ended December 31, 2019 and 2018, respectively.

13. Subsequent Event

Beginning in March 2020, the COVID-19 outbreak in the United States resulted in significant changes to the Organization's operations. On March 16, 2020, the Organization closed to walk-ins, but continues to offer services by phone and has implemented a drive-through food shelf. Additionally, Rivertown Treasures has temporarily ceased operations, and the Organization's annual Hastings Tastings fundraiser was cancelled.

While this disruption is currently expected to be temporary, there is considerable uncertainty regarding its duration. Therefore, the Organization expects this matter to negatively affect its operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

13. Subsequent Event (Continued)

Investments, in general, are exposed to various risks, such as interest rates, credit, and overall market volatility. Due to considerable economic uncertainty related to the COVID-19 crisis, it is reasonably possible that changes in the values of certain investments will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Subsequent to year-end, the Organization applied and was approved for a \$113,500 loan under the Paycheck Protection Program created as a part of the relief efforts related to COVID-19 and administered by the Small Business Administration. The loan accrues interest at 1%, but payments are not required to begin for six months after the funding of the loan. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The loan is uncollateralized and is fully guaranteed by the federal government.