Financial Statements
December 31, 2018

Living Well Disability Services and Dakota's Adults, Inc.

(With Comparative Totals for 2017)

EideBailly®

eidebailly.com

Independent Auditor's Report

To the Board of Directors
Living Well Disability Services and Dakota's Adults, Inc.
Mendota Heights, Minnesota

Report on the Financial Statements
We have audited the accompanying combined financial statements of Living Well Disability Services and Dakota's Adults, Inc., which comprise the combined statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements
Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Living Well Disability Services and Dakota's Adults, Inc. as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 12 to the combined financial statements, Living Well Disability Services and Dakota's Adults, Inc. has adopted the provisions of FASB Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*. Net assets at December 31, 2017, have been restated to combine temporarily restricted and permanently restricted net assets into a single category of net assets with donor restrictions. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information
The combined financial statements of Living Well Disability Services and Dakota's Adults, Inc. as of December 31, 2017, were audited by other auditors, whose report dated March 22, 2018, expressed an unmodified opinion on those statements. In our opinion, except as explained in the Emphasis of Matter paragraph, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Eide Bailly LLP

Minneapolis, Minnesota
March 26, 2019

Living Well Disability Services and Dakota's Adults, Inc.

Combined Statement of Financial Position
December 31, 2018
(with comparative totals for 2017)

	2018	2017 (Restated)
Assets		
Cash and cash equivalents	$ 1,255,775	$ 4,837,733
Accounts receivable, net	1,610,056	1,460,757
Prepaid expenses	328,488	281,603
Investments	8,278,193	5,271,625
Assets limited as to use		
Replacement reserve escrows	90,125	99,136
Cash - Board-designated and restricted funds	30,272	17,616
Property and equipment, net	6,842,328	7,278,415
Beneficial interests in assets held by community foundations	615,536	545,991
	$ 19,050,773	$ 19,792,876
Liabilities and Net Assets		
Accounts payable	$ 200,767	$ 383,078
Accrued salaries and benefits	1,356,693	1,296,954
Accrued pension	294,851	295,794
Capital lease obligations	196,417	166,877
Bonds payable, net of unamortized bond issuance costs of $62,290 in 2017	-	1,043,584
Total liabilities	2,048,728	3,186,287
Net Assets		
Without donor restrictions		
Undesignated	16,338,447	15,973,003
Board-designated	133,646	141,121
	16,472,093	16,114,124
With donor restrictions		
Purpose and time restricted	48,062	102,470
Perpetual in nature	481,890	389,995
	529,952	492,465
Total net assets	17,002,045	16,606,589
Total liabilities and net assets	$ 19,050,773	$ 19,792,876

	2018			
	Without Donor Restrictions	With Donor Restrictions	Total	2017
Operating Support and Revenue				
Program services	$ 21,090,931	$ -	$ 21,090,931	$ 20,532,360
Grants and contributions	250,541	100,000	350,541	292,187
Special event revenue	266,090	-	266,090	233,722
Direct costs - special events	(64,364)	-	(64,364)	(38,801)
	201,726	-	201,726	194,921
Net investment return	(156,982)	-	(156,982)	716,596
Distributions from and change in value of beneficial interests in assets held by others	-	(16,893)	(16,893)	71,898
Net assets released from restrictions pursuant to endowment spending rate formula	14,981	(14,981)	-	-
Net assets released from restrictions - other	30,639	(30,639)	-	-
Gain on sale of property and equipment	41,605	-	41,605	24,288
Other income	861	-	861	48,644
Total support and revenues	21,474,302	37,487	21,511,789	21,880,894
Operating Expenses				
Program services	19,180,628	-	19,180,628	18,571,360
Support services				
Administrative and general	1,664,751	-	1,664,751	1,542,014
Development	270,954	-	270,954	301,794
Total operating expenses	21,116,333	-	21,116,333	20,415,168
Change in Net Assets	357,969	37,487	395,456	1,465,726
Net Assets, Beginning of Year (Restated)	16,114,124	492,465	16,606,589	15,140,863
Net Assets, End of Year	$ 16,472,093	$ 529,952	$ 17,002,045	$ 16,606,589

	2018				
	Program	Management and General	Fundraising and Development	Total	2017 Total
Salaries and wages	$ 12,321,582	$ 863,066	$ 171,515	$ 13,356,163	$ 12,529,829
Employee benefits	1,533,820	106,147	22,192	1,662,159	1,533,822
Payroll taxes	911,910	65,491	12,797	990,198	938,962
Facility and equipment	1,078,529	64,574	817	1,143,920	1,163,189
Depreciation and amortization	795,045	40,500	-	835,545	771,720
Food and related costs	690,616	985	77	691,678	748,201
Professional and temporary services	391,349	128,898	13,181	533,428	688,198
Licenses, investment and bank fees	450,967	50,942	11,802	513,711	514,076
Technology	255,202	107,642	12,924	375,768	421,650
Community and home activities	356,417	10,088	101	366,606	400,029
Employee costs	132,086	137,386	2,408	271,880	287,011
Health supplies	125,808	-	-	125,808	135,460
Offices related costs	35,369	59,705	5,131	100,205	93,655
Insurance	86,755	11,820	-	98,575	96,003
Fundraising and development	27	8,688	81,005	89,720	98,552
Other expenses	15,146	8,819	1,368	25,333	33,612
	19,180,628	1,664,751	335,318	21,180,697	20,453,969
Less expenses included with revenues					
Direct costs - special events	-	-	(64,364)	(64,364)	(38,801)
Total expenses included in the expense section on the statement of activities	$ 19,180,628	$ 1,664,751	$ 270,954	$ 21,116,333	$ 20,415,168

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	$ 395,456	$ 1,465,726
Depreciation and amortization	835,545	771,722
Interest expense attributable to amortization of debt issuance costs and premium on bonds	62,290	-
Contributions received restricted for long-term use	(100,000)	(17,595)
Contributed property and equipment	(18,918)	-
Realized and unrealized gain on operating investments, net	391,230	(663,583)
Gain on sale of property and equipment	(41,605)	(24,288)
Change in beneficial interests in assets held by others	(69,545)	-
(Increase) decrease in assets		
Accounts receivable	(149,299)	234,831
Other current assets	(46,885)	37,562
Increase (decrease) in liabilities		
Accounts payable	(182,311)	15,576
Accrued salaries and benefits	58,796	44,463
Net cash provided by operating activities	1,134,754	1,864,414
Cash Flows from Investing Activities		
Purchases of property and equipment	(251,028)	(855,598)
Proceeds from sale of property and equipment	43,151	26,801
Purchases of operating investments	(3,397,798)	(118,208)
Proceeds from sale of investments	-	70,573
Change in restricted cash	(3,645)	13,540
Net cash used by investing activities	(3,609,320)	(862,892)
Cash Flows from Financing Activities		
Contributions received restricted for long-term use	100,000	17,595
Principal payments on long-term debt	(1,207,392)	(555,065)
Net cash used by financing activities	(1,107,392)	(537,470)
Net Change in Cash and Cash Equivalents	(3,581,958)	464,052
Cash and Cash Equivalents - Beginning of Year	4,837,733	4,373,681
Cash and Cash Equivalents - End of Year	$ 1,255,775	$ 4,837,733
Supplemental Noncash and Financing Activity		
Equipment Acquired through Capital Lease	$ 131,058	$ 57,829
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	$ 8,541	$ 42,060

Note 1 - Principal Activity and Significant Accounting Policies

Organization

Living Well Disability Services (the Organization) formerly known as Dakota Communities, Inc., is a nonprofit corporation whose mission is to provide exceptional services that transform the lives of people impacted by disabilities. We achieve our mission by providing individually tailored services to people with intellectual, developmental, and physical disabilities throughout the region. Our services are available to people living in their own home, their family’s home, or in one of our 33 group homes. We are working towards a day when all people impacted by disabilities live well. The Organization operates 16 ICF/DD and 17 waiver program locations in six counties in the metro region of Minnesota. In addition, customized services are provided to individuals in their own homes in ten metro counties in Minnesota.

Dakota’s Adults, Inc. dba: Victoria Road, is a nonprofit corporation that owns and operates a 12-bed ICF/DD in Mendota Heights, Minnesota. The Organization provides administrative assistance to Dakota’s Adults, Inc. including the payment of all obligations of the organization for which Dakota’s Adults, Inc. reimburses the Organization.

Principles of Consolidation

These consolidated financial statements include the operations of the Organization and Dakota’s Adults, Inc., collectively the Organizations. The operations of the Organizations have been consolidated due to both common control and economic interest. All significant intercompany accounts and transactions have been eliminated.

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the Organizations’ audited financial statements for the year ended December 31, 2017.

Cash and Cash Equivalents

All cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, are considered to be cash and cash equivalents. Cash and highly liquid financial instruments that are limited as to use are excluded from this definition.

Assets Limited as to Use

Assets limited as to use consist of assets with donor-imposed restrictions, or Board designations.

Accounts Receivable and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for program service fees provided. The Organizations provide an allowance for uncollectible accounts based on the allowance method using management’s judgment. Services are sold on an unsecured basis. Accounts past due by more than 90 days are individually analyzed for collectability. At December 31, 2018, the Organizations had an allowance of $4,602.

Property and Equipment

Property and equipment additions over $500 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 35 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Organizations review the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended December 31, 2018.

Beneficial Interest in Assets Held by Community Foundation

Prior to 2008, the Organizations established an endowment fund that is perpetual in nature (the Fund) with the Saint Paul & Minnesota Community Foundations (the Foundations) and named the Organizations as beneficiary. The Organizations granted variance power to the Foundations, which allows the Foundation to modify any condition or restriction on its distributions for any specified charitable purpose or to any specified organization if, in the sole judgment of the Foundations' Board of Directors, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. The Fund is held and invested by the Foundations for the Organizations' benefit and is reported at fair value in the statements of financial position, with distributions and changes in fair value recognized in the statements of activities.

In addition, the Organizations have solicited contributions that were made directly to the Foundations. As the donors have explicitly granted variance power to the Foundation, only the investment return from the contributions will be distributed to the Organizations via grants, subject to the Foundations spending policy and the Foundation's right to redirect the return on these contributions to another beneficiary without the approval of the donor, the Organizations, or any other party if distributions to the Organizations become unnecessary, impossible, or inconsistent with the needs of the community. As such, the Organizations are precluded from recognizing the rights to these assets. At December 31, 2018, approximately $153,057 was held in the Foundations related to these contributions. Grants of approximately $7,117 have been distributed from these funds during the year ended December 31, 2018.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return (loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Net Assets

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

Net Assets Without Donor Restrictions – Those resources over which the Board of Directors has discretionary control. Designated amounts represent those revenues which the Board has set aside for a particular purpose.

Net Assets Without Donor Restrictions – Board-Designated Net Assets – These are funds that the Board of Directors have set aside separately and transferred to the Saint Paul & Minnesota Community Foundations with the intent to treat the funds as an endowment. As there are not any donor restrictions, the funds are not technically an endowment, so the net assets are not perpetual in nature. The funds transferred to the Saint Paul & Minnesota Community Foundations are being invested consistently with the other perpetual endowments as explained in Note 2. The Organizations had $133,646 of Board-designated net assets at December 31, 2018.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organizations reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. 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.

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Third-Party Reimbursement Agreements

The Organizations’ ICF/DD facilities participate in the Medicaid program which is administered by the Minnesota Department of Human Services (DHS). In 1998, the state of Minnesota authorized the DHS to develop a new payment system to replace its cost-based reimbursement system under Rule 53. ICF/DD providers are paid a facility-based rate that can be adjusted upward, not to exceed a statewide predetermined midpoint.

The rates for waivered service programs are determined through the state administered Disability Waiver Rate System (DWRS). The primary source for program revenues is Medical Assistance and the primary sources for the room and board revenues are Minnesota Supplemental Assistance, Social Security, and Supplemental Security income (under Title XVI of the Social Security Act).

During the year ended December 31, 2018, approximately 99% of residents were covered, under these governmental programs. All outstanding receivables were due from these governmental payors at year end. The occupancy percentage of units was approximately 97% for the year ended December 31, 2018.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. No significant contributions of such goods or services were received during the year ended December 31, 2018.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The 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.

The 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 salaries, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other, which are allocated on the basis of estimates of time and effort.

Income Taxes

The Organizations are organized as Minnesota nonprofit corporations and have been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3), qualify for the charitable contribution deduction under Section 170(b)(1)(A)(viii), and have been determined not to be private foundations under Sections 509(a)(2) and 509(a)(3), respectively. The Organizations are annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, they are subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. The Organizations have determined they are not subject to unrelated business income tax and have not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Organizations believe they have appropriate support for any tax positions taken affecting their annual filing requirements, and as such, do not have any uncertain tax positions that are material to the financial statements. The Organizations would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Financial Instruments and Credit Risk

Deposit concentration risk is managed by placing cash, money market accounts, and certificates of deposit with financial institutions believed by the Organizations to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, no losses have been experienced in any of these accounts. Credit risk associated with accounts receivable and promises to give is very low due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies, Board members, and foundations supportive of our mission. Investments are made by diversified investment managers whose performance is monitored by the Organizations and the finance committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, the Organizations and the investment committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Organizations.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Recent Accounting Guidance

The Financial Accounting Standards Board issued ASU 2016-14 (the ASU), *Presentation of Financial Statements for Not-for-Profit Entities,* during August 2016, which modifies the presentation and disclosure requirements of not-for-profit entities. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for the Organizations' donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from the Organizations' intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess the Organizations' liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses. The ASU also allows for the removal of the indirect reconciliation if presenting a direct cash flow statement. The ASU is effective for the Organizations and has been adopted for the year ended December 31, 2018, resulting in a restatement as a result of the adoption (See Note 12). The Organizations have adopted this standard as management believes the standard improves the usefulness and understandability of the Organizations' financial reporting.

Subsequent Events

The Organizations have evaluated subsequent events through March 26, 2019, the date the consolidated financial statements were available to be issued.

Note 2 - Liquidity and Availability

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

Cash and cash equivalents	$ 1,255,775
Accounts receivable	1,610,056
Operating investments	8,278,193
Distributions expected from assets held by community foundations (endowment funds)	27,000
	$ 11,171,024

Endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments and are held by community foundations. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use.

A Board-designated endowment of $133,646 is subject to an annual distribution equal to 5.25% of the Fund's average market value over the last five years but not less than 2.5% of the Fund's current value or more than 6% of the Fund's current value. These assets are excluded from amounts disclosed above and are reported within beneficial interests in assets held by community foundations on the combined statement of financial position.

As part of a liquidity management plan, cash in excess of daily requirements is invested according to the Board approved investment policy.

Effective February 27, 2019, the Organizations entered into a line of credit for $5,973,068, which is available to draw upon for operating needs on an as needed basis (See Note 6).

Note 3 - Assets Limited as to Use

Assets limited as to use that are required for obligations classified as current liabilities are reported as current assets. The funds are recorded at cost at December 31, 2018. The assets in these funds consist of cash and cash equivalents.

Replacement Reserve Escrows

Dakota's Adults, Inc. makes regular deposits into a restricted bank account. This account is maintained to ensure the availability of funds to replace building components, furniture, and equipment and to service debt. Funds from this account cannot be released without approval by the Department of Housing and Urban Development (HUD).

Board-Designated and Restricted Funds

Restricted contributions include funds received from various donors, foundations and fundraising activities. The revenue is restricted or designated for the specific purpose and expenditures are tracked for those specific capital-improvements or specific operating purposes.

Note 4 - Fair Value Measurements

Certain assets are reported at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset 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 can be accessed 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 for the asset or liability. In these situations, inputs are developed using the best information available in the circumstances.

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

A significant portion of investment assets are classified within Level 1 because they comprise open-end mutual funds with readily determinable fair values based on daily redemption values. The fair value of beneficial interest in assets held by the community foundation is based on the fair value of fund investments as reported by the community foundation. These are considered to be Level 3 measurements.

The following table presents assets measured at fair value on a recurring basis at December 31, 2018:

		Fair Value Measurements at Reporting Date Using		
	Amount	Quoted Prices in Active Markets for Identified Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018				
Investments				
Life insurance contract, cash surrender value (at cost)	$ 48,062	$ -	$ -	$ -
Equities	4,968,721	4,968,721	-	-
Fixed income	3,261,410	3,261,410	-	-
Beneficial interests in assets held by community foundation				
Kathy Lemay fund	110,423	-	-	110,423
Nonprofit endowment fund	341,728	-	-	341,728
Irene Kasal fund	133,646	-	-	133,646
Pitzele fund	29,739	-	-	29,739
Total	$ 8,893,729	$ 8,230,131	$ -	$ 615,536

The following table provides a summary of changes to fair value of the Organizations' Level 3 financial assets for the year ended December 31, 2018, using significant unobservable inputs (Level 3):

Beginning balance	$ 545,991
Contributions	100,000
Interest income	8,233
Investment fees	(7,252)
Grants awarded	(20,203)
Total unrealized gains included in excess of revenues over expenses	(11,233)
Ending balance	$ 615,536

Note 5 - Property and Equipment

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

Land and improvements	$ 3,124,315
Building and improvements	14,343,841
Furniture and equipment	1,790,609
Vehicles	700,376
	19,959,141
Less accumulated depreciation and amortization	(13,116,813)
	$ 6,842,328

Depreciation and amortization expense totaled $835,545 for the year ended December 31, 2018.

Note 6 - Revolving Credit Line

The Organizations had a revolving credit line with Wells Fargo Bank that expired on October 1, 2018. The credit line had a borrowing limit of $1,000,000 and carried a floating interest rate based on the bank prime rate with a floor rate of 3.5%, and was secured by furniture, equipment, and accounts receivable. The credit line was not drawn on in 2018.

The Organizations replaced the Wells Fargo credit line with a newly executed Liquidity Access Line with Morgan Stanley Private Bank, National Association (hereafter, the Bank) on February 27, 2019. The credit line has a borrowing limit of $5,973,068. The credit line carries a floating interest rate based on the 30-day libor rate plus 1.375% (3.885% effective rate on February 11, 2019), and is secured by Living Well Disability Services' portfolio that is managed by Morgan Stanley. The Bank has the right to terminate the agreement at any time. There has been no draw on the Liquidity Access Line.

Note 7 - Long-Term Debt

The Organizations paid off the remainder of the 2.05% Dakota Community Development Agency revenue bonds – series 2013 in May 2018. The Organizations paid $8,541 in interest expense in 2018. A loss on early repayment was recorded equal to the unamortized debt issuance costs totaling $62,290 for the year ended December 31, 2018. All pledged assets have been released.

Note 8 - Commitments and Contingencies

Capital Leases

The Organizations have entered into multiple capital lease agreements for vehicles. The lease payments are recorded as interest expense and principal reductions. The total capitalized cost of equipment under the leases was $457,667 and accumulated amortization was $192,172 for 2018.

Capital lease obligations consist of the following at December 31:

Present value of minimum lease payments	$	196,417
Less current portion		(62,427)
Total noncurrent portion	$	133,990

Future minimum lease commitments under the capital lease consist of the following:

Years Ending December 31,		Amount
2019	$	75,876
2020		75,614
2021		37,694
2022		22,689
2023		11,218
Total		223,091
Less amount representing interest		(26,674)
Total present value of minimum lease payments	$	196,417

Operating Leases

The Organizations have certain operating leases for vehicles in addition to the capital leases noted above. In 2018, there continue to be vehicle leases and equipment leases.

Minimum lease payments in future periods under fixed-term arrangements are as follows:

Years Ending December 31,		Amount
2019	$	63,248
2020		26,666
Total	$	89,914

Lease expense for operating leases totaled $97,016 for the year ended December 31, 2018.

Litigation

The Organizations are involved in various legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Organizations' consolidated statement of financial position or statement of activities.

Note 9 - Endowment

The Organizations have perpetual endowment net assets of $481,890 at December 31, 2018. The income from which is expendable to support facility operations.

The Organizations’ endowment consists of four funds established for a variety of purposes. Its endowment includes funds restricted by donors and funds designated by the Board of Directors to function as an endowment. As required by U.S. GAPP, the net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Organizations 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 Organizations classify as net assets with donor restrictions, and is perpetual in nature, the original value of the gifts to the endowment and the value of subsequent gifts to the endowment.

The remaining portion of donor-restricted endowment funds, if any, that is not classified as perpetual endowments is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organizations. In accordance with UPMIFA, the Organizations consider 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 form income and the appreciation of investments.
6. Other resources of the organization.
7. The investment policies of the organization.

As of December 31, 2018, the Organizations have the following endowment net asset composition by type of fund:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds			
Original-restricted gift amount and amounts required to be maintained in perpetuity by donor	$ -	$ 489,995	$ 489,995
Accumulated investment gains	-	(8,105)	(8,105)
Board-designated endowment funds	133,646	-	133,646
Total funds	$ 133,646	$ 481,890	$ 615,536

Changes in Endowment net assets for the year ended December 31, 2018, are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	$ 141,121	$ 404,870	$ 545,991
Contributions to endowment	-	100,000	100,000
Investment return			
Investment income, net	196	785	981
Net realized and unrealized gains	(2,449)	(8,784)	(11,233)
Net investment return	(2,253)	(7,999)	(10,252)
Appropriations of endowment assets for expenditure	(5,222)	(14,981)	(20,203)
Endowment net assets, end of year	$ 133,646	$ 481,890	$ 615,536

Fund with Deficiencies

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Organizations have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2018, funds with original gift values of $489,995, fair values of $481,890, and deficiencies of $8,105 were reported in net assets with donor restrictions.

Investment Objectives and Risk Parameters

The Organizations have adopted an investment policy which states the primary objectives in the investment management of assets. To attain these objectives the Board has identified four classifications of funds:

- *Short-Term Operating Fund* – Funds will be used by the Organizations to meet cash flow needs and managed by internal staff. The funding of the Operating Account will be determined by executive management's determination of the function, purpose, and primary use of these funds.

- *Reserve Account* – Intended to preserve capital and generate income; not for daily liquidity needs.

- *Long-Term Investment Account* – The majority of the assets are to be invested for the long term, and with an acceptable level of volatility. The goal of the Long-Term Investment Account is to support program obligations into perpetuity. Earnings on long-term assets are available for use by the Organizations. Since expected investment returns from financial assets are not consistent and predictable, use of income must be flexible enough to be made without potential deterioration of real principal.

- *Endowment* – The Board has designated these funds to be managed by The Saint Paul and Minnesota Community Foundations and will not be governed by the investment policy.

In establishing the risk tolerance, the Organizations' ability to withstand short and intermediate term variability was considered. The Organizations' prospects for the future, current financial condition, and level of funding into the portfolio suggest collectively some interim fluctuations in market value and rates of return may be tolerated with the portfolio in order to achieve longer-term objectives.

Strategies Employed for Achieving Objectives

The Organizations have employed the following strategies for achieving its investment objectives.

Short-term investments may be held in cash and cash equivalents including United States Treasury bills, money market funds, commercial paper, repurchase agreements, certificates of deposit, or interest-bearing depository accounts.

Long-term investments shall be consistent with the following asset allocation model:

Asset Class	Minimum	Targets	Maximum
Equities	40%	55%	70%
Fixed Income	20%	35%	45%
Liquid alternative strategies	0%	10%	20%

Spending Policy

The Board has designated The Saint Paul and Minnesota Community Foundations (the Foundations) as the manager of all endowment funds for the Organizations and has adopted the Foundations' spending policy. Accordingly, amounts are to be distributed at 5.25% of the fund's average market value over the last five years, but not less than 4.50% of the fund's current market value, nor more than 6.00% of the current market value, less administrative fees. The Foundations charge administrative fees based on the fund's market value calculated as follows: 0.90% of the first $1,000,000 invested and 0.35% thereafter, with a minimum fee of $250.

Note 10 - Net Assets with Donor Restrictions

Net assets with donor restrictions at December 31, 2018, are restricted for the following purposes or periods:

Subject to the passage of time	$ 48,062
Endowments	
Subject to endowment spending policy and appropriation	
General use	371,468
Kathy LeMay Educational Endowment Fund - restricted for training of management staff	110,422
	481,890
	$ 529,952

Net assets were released from restrictions as follows during the year ended December 31, 2018:

Expiration of time restrictions	$	30,639
Restricted-purpose spending-rate distributions and appropriations		
General use		14,981
	$	45,620

Note 11 - Pension Plan

Employees may elect to defer a portion of their salary under a defined contribution plan sponsored by the Organizations. The plan also allows for discretionary employer contributions. The discretionary employer contributions vest 20% per year beginning after one year of participation. Participants are 100% vested in their own contributions and in the Organizations match. During the year ended December 31, 2018, employer contributions on the employees' behalf were approximately $353,070.

Note 12 - Adoption of ASU 2016-14

The Organizations adopted the provisions of FASB Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*, as of January 1, 2018.

The following financial statement line items for the year ended December 31, 2017, were restated as a result of the adoption:

	As Previously Reported	Adoption of ASU 2016-14	As Restated
Unrestricted net assets	$ 16,114,124	$ (16,114,124)	$ -
Temporarily restricted net assets	102,470	(102,470)	-
Permanently restricted net assets	389,995	(389,995)	-
Net assets without donor restrictions	-	16,114,124	16,114,124
Net assets with donor restrictions	-	492,465	492,465