Financial Statements
December 31, 2020

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

(With Comparative Totals for 2019)

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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, 2020, and the related combined 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, 2020, 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.

Report on Summarized Comparative Information

We have previously audited 2019 financial statements of Living Well Disability Services and Dakota's Adults, Inc., and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 27, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Eide Bailly LLP

Minneapolis, Minnesota
April 7, 2021

	2020	2019
Assets		
Cash and cash equivalents	$ 2,197,307	$ 2,927,375
Accounts receivable, net	1,507,684	1,653,359
Unbilled revenue	638,597	-
Prepaid expenses	466,727	286,820
Investments	10,238,060	9,742,364
Assets limited as to use		
Replacement reserve escrows	94,968	92,440
Cash - Board-designated and restricted funds	480,305	97,661
Property and equipment, net	7,381,817	6,247,128
Endowment		
Investments designated for endowment	9,000	-
Beneficial interests in assets held by community foundations	666,543	647,907
	$ 23,681,008	$ 21,695,054
Liabilities and Net Assets		
Accounts payable	$ 368,779	$ 211,157
Accrued salaries and benefits	1,271,175	1,583,380
Accrued pension	50,593	307,332
Refundable advances	414,762	-
Capital lease obligations	180,452	155,835
Total liabilities	2,285,761	2,257,704
Net Assets		
Without donor restrictions		
Undesignated	20,631,223	18,720,993
Board-designated	144,142	139,579
	20,775,365	18,860,572
With donor restrictions		
Purpose and time restricted	88,481	68,450
Perpetual in nature	531,401	508,328
	619,882	576,778
Total net assets	21,395,247	19,437,350
Total liabilities and net assets	$ 23,681,008	$ 21,695,054

	2020			
	Without Donor Restrictions	With Donor Restrictions	Total	2019
Operating Support and Revenue				
Program services	$ 24,319,026	$ -	$ 24,319,026	$ 21,924,168
Grants and contributions	575,817	76,725	652,542	379,404
Special event revenue	226,884	-	226,884	304,100
Direct costs - special events	(85,440)	-	(85,440)	(79,812)
	141,444	-	141,444	224,288
Net investment return	575,485	-	575,485	1,189,923
Distributions from and change in value of beneficial interests in assets held by others	-	36,485	36,485	40,847
Net assets released from restrictions pursuant to endowment spending rate formula	18,726	(18,726)	-	-
Net assets released from restrictions - other	55,640	(55,640)	-	-
Gain on sale of property and equipment	51,872	-	51,872	7,267
Other income	670	-	670	853
Total support and revenues	25,738,680	38,844	25,777,524	23,766,750
Operating Expenses				
Program services	22,386,526	-	22,386,526	19,340,749
Support services				
Management and general	1,850,007	-	1,850,007	1,685,798
Development	290,578	-	290,578	304,898
Total operating expenses	24,527,111	-	24,527,111	21,331,445
Change in Net Assets	1,211,569	38,844	1,250,413	2,435,305
Excess of Fair Value of Net Assets Aquired over Consideration Paid (Note 11)	707,484	-	707,484	-
Net Assets, Beginning of Year	18,860,572	576,778	19,437,350	17,002,045
Net Assets, End of Year	$ 20,779,625	$ 615,622	$ 21,395,247	$ 19,437,350

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

Combined Statement of Functional Expenses

Year Ended December 31, 2020 (with comparative totals for 2019)

	2020				
	Program	Management and General	Development	Total	2019 Total
Salaries and Wages	$ 14,556,341	$ 1,019,600	$ 202,622	$ 15,778,563	$ 13,577,264
Employee Benefits	1,979,528	136,992	28,641	2,145,161	1,748,624
Payroll Taxes	1,518,131	90,895	1,150	1,610,176	995,582
Facility and Equipment	1,085,621	77,967	15,235	1,178,823	1,040,116
Depreciation and Amortization	780,088	39,740	-	819,828	800,459
Food and Related Costs	765,304	1,092	86	766,482	705,155
Professional and Temporary Services	96,731	21,765	2,418	120,914	531,620
Licenses, Investment, and Bank Fees	472,986	53,429	12,378	538,793	516,504
Technology	160,676	67,772	8,137	236,585	399,059
Community and Home Activities	401,674	11,369	114	413,157	342,537
Employee Costs	210,043	218,471	3,830	432,344	292,941
Health Supplies	176,069	-	-	176,069	129,102
Offices Related Costs	32,244	54,429	4,678	91,351	81,744
Insurance	86,011	11,719	-	97,730	104,256
Fundraising and Development	31	9,738	90,800	100,569	140,607
Other Expenses	65,048	35,029	5,929	106,006	5,687
	22,386,526	1,850,007	376,018	24,612,551	21,411,257
Less Expenses Included with Revenues					
Direct costs - special events	-	-	(85,440)	(85,440)	(79,812)
Total expenses included in the expense section on the statement of activities	$ 22,386,526	$ 1,850,007	$ 290,578	$ 24,527,111	$ 21,331,445

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	$ 1,957,897	$ 2,435,305
Depreciation and amortization	819,828	800,459
Contributions received restricted for long-term use	(9,000)	(4,365)
Realized and unrealized gain on operating investments, net	(345,929)	(1,107,487)
Gain on sale of property and equipment	(51,872)	(7,267)
Change in beneficial interests in assets held by others	(27,636)	(36,480)
Bad debt expense	48,578	-
(Increase) decrease in assets		
Accounts receivable	97,097	(43,303)
Unbilled revenue	(638,597)	-
Prepaid expenses	(179,907)	41,668
Increase (decrease) in liabilities		
Accounts payable	157,622	10,390
Accrued salaries and benefits	(568,944)	239,168
Refundable advances	414,762	-
Net cash from operating activities	1,673,899	2,328,088
Cash Flows used for Investing Activities		
Purchases of property and equipment	(1,886,477)	(172,863)
Purchases of operating investments	-	(352,575)
Net cash used for investing activities	(1,886,477)	(525,438)
Cash Flows used for Financing Activities		
Contributions received restricted for long-term use	9,000	4,365
Principal payments on long-term debt	(141,318)	(65,711)
Net cash used for financing activities	(132,318)	(61,346)
Net Change in Cash, Cash Equivalents, and Restricted Cash	(344,896)	1,741,304
Cash, Cash Equivalents, and Restricted Cash - Beginning of Year	3,117,476	1,376,172
Cash, Cash Equivalents, and Restricted Cash - End of Year	$ 2,772,580	$ 3,117,476
Cash and Cash Equivalents	$ 2,197,307	$ 2,927,375
Assets Limited as to Use		
Replacement reserve escrows	94,968	92,440
Cash - Board-designated and restricted funds	480,305	97,661
Total cash, cash equivalents, and restricted cash	$ 2,772,580	$ 3,117,476
Supplemental Noncash and Financing Activity		
Equipment acquired through capital lease	$ 165,935	$ 47,690

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. The Organization achieves its mission by providing individually tailored services to people with intellectual, developmental, and physical disabilities throughout the region. The Organization's services are available to people living in their own home, their family's home, or in one of our 34 group homes. The Organization is working towards a day when all people impacted by disabilities live well. The Organization operates 17 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.

In January 2020, the Organization acquired financial control of Orono Woodlands, Inc. (OWI). See Note 11. OWI is a nonprofit corporation that operates a 6-bed ICF/DD in Orono, Minnesota. The Organization provides administrative assistance to OWI including the payment of all obligations of the organization for which OWI reimburses the Organization.

Principles of Consolidation

These combined financial statements (hereafter referred to as "the financial statements") include the operations of the Organization, Dakota's Adults, Inc., and OWI, 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, 2019.

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 (See Note 3).

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, 2020, the Organizations had an allowance of $48,578.

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, 2020.

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 Foundations 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 Foundations, only the investment return from the contributions will be distributed to the Organizations via grants, subject to the Foundations spending policy and the Foundations' 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, 2020, approximately $197,253 was held in the Foundations related to these contributions. Grants of approximately $7,338 have been distributed from these funds during the year ended December 31, 2020.

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 $144,142 of Board-designated net assets at December 31, 2020.
>
> *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

The Organizations recognize revenue from program service fees as the services are provided. The performance obligation of delivering goods and services is simultaneously received and consumed by the clients/residents therefore the revenue is recognized over time as these performance obligations are satisfied. The Organizations record special events revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place.

The Organizations recognize 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 on which they depend have been met.

Unbilled receivables are contract assets for unbilled amounts typically resulting from sales under service contracts when revenue recognized exceeds the amount billed to the customer. Unbilled revenues as of December 31, 2020 relate to services provided by the Organizations, specific to OWI. The Organizations are currently working with the Minnesota Department of Human Services (DHS) to properly bill for these services and expect amounts will be billed in early 2021 and expect amounts to be fully collected based on guidance received from DHS. Deferred revenues are contract liabilities for billings in excess of revenue recognized. The Organizations' accounts receivable, unbilled receivables, and deferred revenues as of January 1, 2019, were $1,610,056, $0, and $0, respectively.

Provider Relief Funds

The Organizations received $414,762 of Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Funds administered by the Department of Health and Human Services (HHS) during the year ended December 31, 2020. The funds are subject to terms and conditions imposed by HHS. Among the terms and conditions is a provision that payments will only be used to prevent, prepare for, and respond to coronavirus and shall reimburse the recipient only for healthcare-related expenses or lost revenues that are attributable to coronavirus. Recipients may not use the payments to reimburse expenses or losses that have been reimbursed from other sources or that other sources are obligated to reimburse. HHS currently has a deadline to incur eligible expenses of June 30, 2021. Unspent funds will be expected to be repaid.

These funds are recorded as a refundable advance when received and are recognized as revenues in the accompanying combined statements of activities as all terms and conditions are considered met. The terms and conditions are subject to interpretation and future clarification. In addition, this program may be subject to oversight, monitoring and audit. Failure by a provider that received a payment from the Provider Relief Fund to comply with any term or condition can subject the provider to recoupment of some or all of the payment. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

At December 31, 2020, the Organizations had refundable advances of $414,762 from CARES Act funds, which is included in total refundable advances in current liabilities on the accompanying combined statement of activities. During the year ended December 31, 2020, the Organizations had not yet recognized revenue from this funding.

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, 2020, 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 96% for the year ended December 31, 2020.

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, 2020.

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 and wages, employee benefits, payroll taxes, facility and equipment, professional services, office related costs, insurance, and other, which are allocated on the basis of estimates of time and effort.

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.

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.

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 their 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.

Subsequent Events

The Organizations have evaluated subsequent events through April 7, 2021, the date the combined 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 combined statement of financial position date comprise the following:

Cash and cash equivalents	$ 2,197,307
Accounts receivable	1,507,684
Unbilled revenue	638,597
Operating investments	10,238,060
Distributions expected from assets held by community foundations (endowment funds)	25,000
	$ 14,606,648

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 $144,142 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.

As of December 31, 2020, the Organizations had made no draws on the $6,424,000 line of credit, which became effective on February 27, 2019. The purpose of the line of credit is 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, 2020. 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 combined 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, 2020:

		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)
Investments				
Life insurance contract, cash surrender value (at cost)	$ 54,018	$ -	$ -	$ -
Equities	7,806,933	7,806,933	-	-
Fixed income	2,386,109	2,386,109	-	-
Beneficial interests in assets held by community foundation				
Kathy Lemay fund	119,576	-	-	119,576
Nonprofit endowment fund	370,043	-	-	370,043
Irene Kasal fund	144,721	-	-	144,721
Pitzele fund	32,203	-	-	32,203
Total	$ 10,913,603	$ 10,193,042	$ -	$ 666,543

The table below sets forth certain changes in the fair value of the Plan's Level 3 assets for the year ended December 31, 2020, using significant unobservable inputs (Level 3):

Beginning balance	$ 647,907
Interest income	9,504
Investment fees	(7,609)
Purchases	-
Sales	(24,796)
Total realized and unrealized gains included in excess of revenues over expenses	41,537
Ending balance	$ 666,543

Note 5 - Property and Equipment

Property and equipment consist of the following at December 31, 2020:

Land and improvements	$ 3,509,794
Building and improvements	15,742,061
Furniture and equipment	1,870,727
Vehicles	800,780
	21,923,362
Less accumulated depreciation and amortization	(14,541,545)
	$ 7,381,817

Depreciation and amortization expense totaled $819,828 for the year ended December 31, 2020.

Note 6 - Revolving Credit Line

The Organizations have a $6,424,000 Liquidity Access Line with Morgan Stanley Private Bank, National Association (hereafter, the Bank). The credit line carries a floating interest rate based on the 30-day libor rate plus 0.078% (1.4530% effective rate on December 31, 2020), and is secured by the Organization's portfolio that is managed by Morgan Stanley. The Bank has the right to terminate the agreement at any time. Accrued interest and principal are due at maturity (June 30, 2021). There has been no draw on the Liquidity Access Line.

Note 7 - 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 $671,291 and accumulated amortization was $417,582 for 2020.

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

Years Ending December 31,	Amount
2021	$ 63,151
2022	46,599
2023	35,075
2024	31,942
2025	12,046
Total	188,813
Less amount representing interest	(8,361)
Total present value of minimum lease payments	$ 180,452

Note 8 - Endowment

The Organizations have perpetual endowment net assets of $503,360 at December 31, 2020. 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 (the 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 the 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, 2020, 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	$ -	$ 503,360	$ 503,360
Accumulated investment gains	-	28,041	28,041
Board-designated endowment funds	144,142	-	144,142
Total funds	$ 144,142	$ 531,401	$ 675,543

Changes in endowment net assets for the year ended December 31, 2020, are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	$ 139,579	$ 508,328	$ 647,907
Contributions to endowment	-	9,000	9,000
Investment return			
Investment income, net	397	1,498	1,895
Net realized and unrealized gains	10,236	31,301	41,537
Net investment return	10,633	32,799	43,432
Appropriations of endowment assets for expenditure	(6,070)	(18,726)	(24,796)
Endowment net assets, end of year	$ 144,142	$ 531,401	$ 675,543

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 the UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2020, no deficiencies 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	50%	60%	70%
Fixed income	20%	30%	40%
Liquid alternative strategies	0%	10%	15%

Spending Policy

The Board has designated 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 9 - Net Assets with Donor Restrictions

Net assets with donor restrictions at December 31, 2020, are restricted for the following purposes or periods:

Subject to expenditure for specified purpose	
Use of specific house	$ 27,149
Gardening	7,314
	34,463
Subject to the passage of time	54,018
Endowments	
Subject to endowment spending policy and appropriation	
General use	420,979
Kathy LeMay Educational Endowment Fund - restricted for training of management staff	110,422
	531,401
	$ 619,882

Net assets were released from restrictions as follows during the year ended December 31, 2020:

Expiration of purpose or passage of time restrictions	$ 55,640
Restricted-purpose spending-rate distributions and appropriations	
General use	18,726
	$ 74,366

Note 10 - 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, 2020, employer contributions on the employees' behalf were approximately $393,075.

Note 11 - Business Combination

In January 2020, the Organizations acquired Orono Woodlands, Inc. (OWI) and all of its assets and accrued liabilities. There was no additional consideration received related to this acquisition. The acquisition of OWI by the Organizations was intended to create synergies in performing program services between what was previously performed by the two separate organizations.

The following table summarized the fair values of the assets acquired and the liabilities assumed at the acquisition date:

Cash	$ 144,557
Investments	94,876
Building	400,000
Land	200,000
Total identifiable assets acquired	839,433
Accrued liabilities	131,949
Net assets acquired	$ 707,484