Combined Financial Statements
December 31, 2021

Living Well Disability Services

(With Comparative Totals for 2020)

Independent Auditor's Report

To the Board of Directors
Living Well Disability Services
Mendota Heights, Minnesota

Report on the Audit of the Combined Financial Statements

Opinion

We have audited the combined financial statements of Living Well Disability Services (the Organization), which comprise the combined statement of financial position as of December 31, 2021, 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 (hereafter referred to as "the financial statements").

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the 2020 financial statements of the Organization, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 7, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Eide Bailly LLP

Minneapolis, Minnesota
April 7, 2022

	2021	2020
Assets		
Cash and cash equivalents	$ 1,094,444	$ 2,197,307
Accounts receivable, net	2,126,569	1,507,684
Unbilled revenue	-	638,597
Prepaid expenses	416,819	466,727
Investments	11,105,630	10,238,056
Assets limited as to use		
Replacement reserve escrows	-	94,968
Cash - Board-designated and restricted funds	355,102	480,305
Property and equipment, net	8,291,564	7,381,817
Endowment		
Investments designated for endowment	9,000	9,000
Beneficial interests in assets held by community foundations	769,576	666,547
	$ 24,168,704	$ 23,681,008
Liabilities and Net Assets		
Accounts payable	$ 611,095	$ 368,779
Accrued salaries and benefits	1,283,239	1,271,175
Accrued pension	-	50,593
Refundable advances	-	414,762
Line of credit	700,000	-
Capital lease obligations	182,692	180,452
Total liabilities	2,777,026	2,285,761
Net Assets		
Without donor restrictions		
Undesignated	20,527,609	20,631,223
Board-designated	179,755	144,142
	20,707,364	20,775,365
With donor restrictions		
Purpose and time restricted	85,524	88,481
Accumulated investment earnings on endowment	95,430	28,041
Perpetual in nature	503,360	503,360
	684,314	619,882
Total net assets	21,391,678	21,395,247
Total liabilities and net assets	$ 24,168,704	$ 23,681,008

	2021			
	Without Donor Restrictions	With Donor Restrictions	Total	2020
Operating Support and Revenue				
Program services	$ 23,661,937	$ -	$ 23,661,937	$ 24,319,026
Grants and contributions	446,298	28,440	474,738	652,542
Special event revenue	231,534	-	231,534	226,884
Direct costs - special events	(104,752)	-	(104,752)	(85,440)
	126,782	-	126,782	141,444
Net investment return	990,249	-	990,249	575,485
Distributions from and change in value of beneficial interests in assets held by others	-	88,406	88,406	36,485
Net assets released from restrictions pursuant to endowment spending rate formula	16,201	(16,201)	-	-
Net assets released from restrictions - other	36,213	(36,213)	-	-
Gain (loss) on sale of property and equipment	(15,093)	-	(15,093)	51,872
Provider Relief Fund income	823,408	-	823,408	-
Other income	54,794	-	54,794	670
Total support and revenues	26,140,789	64,432	26,205,221	25,777,524
Operating Expenses				
Program services	23,792,539	-	23,792,539	22,386,526
Support services				
Management and general	2,073,035	-	2,073,035	1,850,007
Development	343,216	-	343,216	290,578
Total operating expenses	26,208,790	-	26,208,790	24,527,111
Change in Net Assets	(68,001)	64,432	(3,569)	1,250,413
Excess of Fair Value of Net Assets Aquired over Consideration Paid	-	-	-	707,484
Net Assets, Beginning of Year	20,775,365	619,882	21,395,247	19,437,350
Net Assets, End of Year	$ 20,707,364	$ 684,314	$ 21,391,678	$ 21,395,247

	2021				
	Program	Management and General	Development	Total	2020 Total
Salaries and Wages	$ 15,140,736	$ 1,060,534	$ 210,757	$ 16,412,027	$ 15,778,563
Employee Benefits	2,063,680	141,260	29,858	2,234,798	2,145,161
Payroll Taxes	1,121,213	80,523	15,735	1,217,471	1,610,176
Facility and Equipment	1,878,111	112,448	1,423	1,991,982	1,178,823
Depreciation and Amortization	828,429	42,200	-	870,629	819,828
Food and Related Costs	780,256	1,113	87	781,456	766,482
Professional and Temporary Services	109,471	24,631	2,737	136,839	120,914
Licenses, Investment, and Bank Fees	528,334	59,681	13,827	601,842	538,793
Technology	200,625	84,622	10,160	295,407	236,585
Community and Home Activities	467,134	13,222	132	480,488	413,157
Employee Costs	358,534	372,920	6,537	737,991	432,344
Health Supplies	183,441	-	-	183,441	176,069
Offices Related Costs	30,241	51,048	4,387	85,676	91,351
Insurance	91,720	12,496	-	104,216	97,730
Fundraising and Development	51	16,337	152,328	168,716	100,569
Other Expenses	10,563	-	-	10,563	106,006
	23,792,539	2,073,035	447,968	26,313,542	24,612,551
Less Expenses Included with Revenues					
Direct costs - special events	-	-	(104,752)	(104,752)	(85,440)
Total expenses included in the expense section on the statement of activities	$ 23,792,539	$ 2,073,035	$ 343,216	$ 26,208,790	$ 24,527,111

	2021	2020
Cash Flows from (used for) Operating Activities		
Change in net assets	$ (3,569)	$ 1,957,897
Depreciation and amortization	870,629	819,828
Contributions received restricted for long-term use	-	(9,000)
Realized and unrealized gain on operating investments, net	(621,891)	(345,929)
Gain (loss) on sale of property and equipment	15,093	(51,872)
Change in beneficial interests in assets held by others	(103,029)	(27,636)
Bad debt expense (recovery)	(54,794)	48,578
(Increase) decrease in assets		
Accounts receivable	(564,091)	97,097
Unbilled revenue	638,597	(638,597)
Prepaid expenses	49,908	(179,907)
Increase (decrease) in liabilities		
Accounts payable	248,152	157,622
Accrued salaries and benefits	(38,529)	(568,944)
Refundable advances	(414,762)	414,762
Net cash from (used for) operating activities	21,714	1,673,899
Cash Flows used for Investing Activities		
Purchases of property and equipment	(1,712,873)	(1,886,477)
Purchases of operating investments	(245,679)	-
Net cash used for investing activities	(1,958,552)	(1,886,477)
Cash Flows from (used for) Financing Activities		
Contributions received restricted for long-term use	-	9,000
Net borrowings under line of credit	700,000	-
Principal payments on long-term debt	(86,196)	(141,318)
Net cash from (used for) financing activities	613,804	(132,318)
Net Change in Cash, Cash Equivalents, and Restricted Cash	(1,323,034)	(344,896)
Cash, Cash Equivalents, and Restricted Cash - Beginning of Year	2,772,580	3,117,476
Cash, Cash Equivalents, and Restricted Cash - End of Year	$ 1,449,546	$ 2,772,580
Cash and Cash Equivalents	$ 1,094,444	$ 2,197,307
Assets Limited as to Use		
Replacement reserve escrows	-	94,968
Cash - Board-designated and restricted funds	355,102	480,305
Total cash, cash equivalents, and restricted cash	$ 1,449,546	$ 2,772,580
Supplemental Noncash and Financing Activity		
Accounts payable for property and equipment	$ 5,836	$ -
Equipment financed through capital lease arrangement	73,436	165,935
	$ 79,272	$ 165,935

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 35 group homes. The Organization is working towards a day when all people impacted by disabilities live well. The Organization operates 17 ICF/DD and 18 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. At the end of February 2021, Dakota's Adults contract with HUD was terminated. After that, it was no longer necessary for Dakota's Adults to be maintained as a separate audit entity. It has now become part of Living Well Disability Services and will be dissolved as a separate entity in 2022.

In January 2020, the Organization acquired financial control of Orono Woodlands, Inc. (OWI). 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. In early 2021, licensing and financial affairs of OWI were absorbed into Living Well Disability Services and the need to maintain it as a separate entity has disappeared. Since it is no longer necessary for OWI to be maintained as a separate audit entity, it will be dissolved as a separate entity in 2022.

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, 2020.

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, 2021, the Organizations had an allowance of $0.

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, 2021.

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, 2021, approximately $227,742 was held in the Foundations related to these contributions. Grants of approximately $7,330 have been distributed from these funds during the year ended December 31, 2021.

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 4. The Organizations had $179,755 of Board-designated net assets at December 31, 2021.

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 report 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. Deferred revenues are contract liabilities for billings in excess of revenue recognized. As it relates to beginning balances, the Organizations' accounts receivable, unbilled receivables, and deferred revenues as of January 1, 2020 were $1,653,359, $0 and $0, respectively, and as of January 1, 2021 were $1,507,684, $638,597, and $0, respectively.

Provider Relief Funds

The Organizations received $823,678 of Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Funds administered by the Department of Health and Human Services (HHS). 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 deadlines for incurring eligible expenses, varying based on the date the Organization received the funds. 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 statement of activities as all terms and conditions are considered met. The terms and conditions are subject to interpretation and future clarification, the most recent of which have been considered through the date that the combined financial statements were available to be issued. 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.

During the year ended December 31, 2021, the Organizations recognized $823,678 of Provider Relief Fund income on the combined statement of activities.

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, 2021, approximately 96% 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 94% for the year ended December 31, 2021.

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, 2021.

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, 2022, 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:

	2021
Cash and cash equivalents	$ 1,094,444
Accounts receivable	2,126,569
Operating investments	11,105,630
Distributions expected from assets held by community foundations (endowment funds)	29,000
	$ 14,355,643

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 $179,755 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, 2021, the Organizations had made $700,000 of 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, 2021. The assets in these funds consist of cash and cash equivalents.

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 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 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 assets. 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 fixed income investments are valued by the custodian of the securities using pricing models based on credit quality time to mature, stated interest rates, and market-rate assumptions are classified within level 2. 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, 2021:

		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)	$ 58,834	$ -	$ -	$ -
Cash (at cost)	172,891	-	-	-
Equities	9,628,505	9,628,505	-	-
Fixed income	1,254,400	-	1,254,400	-
Beneficial interests in assets held by community foundation				
Kathy Lemay fund	138,059	-	-	138,059
Nonprofit endowment fund	427,247	-	-	427,247
Irene Kasal fund	167,091	-	-	167,091
Pitzele fund	37,179	-	-	37,179
Total	$ 11,884,206	$ 9,628,505	$ 1,254,400	$ 769,576

The following are transfers into and out of Level 3 of the fair value hierarchy and purchasers and issues of Level 3 assets and liabilities:

Transfers into Level 3	$ -
Transfers out of Level 3	-
Purchases	-
Issuances	(24,796)

Note 5 - Property and Equipment

Property and equipment consist of the following at December 31, 2021:

Land and improvements	$ 3,556,760
Building and improvements	17,171,862
Furniture and equipment	1,933,622
Vehicles	889,218
	23,551,462
Less accumulated depreciation and amortization	(15,259,898)
	$ 8,291,564

Depreciation and amortization expense totaled $870,628 for the year ended December 31, 2021.

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 1.375% (1.4573% effective rate on December 31, 2021), and is secured by the Organizations' portfolio that is managed by Morgan Stanley. The Bank has the right to terminate the agreement at any time. Amounts outstanding on the line totaled $700,000 as of December 31, 2021.

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 $759,729, and accumulated amortization was $515,978 for 2021.

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

Years Ending December 31,	Amount
2022	$ 70,427
2023	44,082
2024	44,543
2025	21,448
2026	4,902
Total	185,402
Less amount representing interest	(2,710)
Total present value of minimum lease payments	$ 182,692

Note 8 - Endowment

The Organizations have perpetual endowment net assets of $503,360 at December 31, 2021. 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. GAAP, 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, 2021, 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	-	95,430	95,430
Board-designated endowment funds	179,755	-	179,755
Total funds	$ 179,755	$ 598,790	$ 778,545

Changes in endowment net assets for the year ended December 31, 2021, are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	$ 144,142	$ 531,401	$ 675,543
Investment return			
Investment income, net	1,609	6,980	8,589
Net realized and unrealized gains	42,599	76,610	119,209
Net investment return	44,208	83,590	127,798
Appropriations of endowment assets for expenditure	(8,595)	(16,201)	(24,796)
Endowment net assets, end of year	$ 179,755	$ 598,790	$ 778,545

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. As of December 31, 2021, 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, 2021, are restricted for the following purposes or periods:

Subject to expenditure for specified purpose	
Use of specific house	$ 17,460
Gardening	9,230
	26,690
Subject to the passage of time	58,834
Endowments	
Subject to endowment spending policy and appropriation	
General use	488,368
Kathy LeMay Educational Endowment Fund - restricted for training of management staff	110,422
	598,790
	$ 684,314

Net assets were released from restrictions as follows during the year ended December 31, 2021:

Expiration of purpose or passage of time restrictions	$ 36,213
Restricted-purpose spending-rate distributions and appropriations	
General use	16,201
	$ 52,414

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, 2021, employer contributions on the employees' behalf were approximately $450,100.