Combined Financial Statements
December 31, 2022

Living Well Disability Services

(With Comparative Totals for 2021)

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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, 2022, 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 accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2022, 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 of 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 of 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 2021 financial statements of the Organization, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 7, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Eide Bailly LLP

Minneapolis, Minnesota
June 15, 2023

	2022	2021
Assets		
Cash and cash equivalents	$ 766,722	$ 1,094,444
Accounts receivable, net	2,240,976	2,126,569
Prepaid expenses	481,187	416,819
Refundable advance	386,930	-
Investments	8,934,034	11,105,630
Assets limited as to use		
Cash - Board-designated and restricted funds	414,682	355,102
Property and equipment, net	8,154,704	8,291,564
Finance lease right of use asset	178,569	-
Endowment		
Investments designated for endowment	9,000	9,000
Beneficial interests in assets held by community foundations	667,812	769,576
	$ 22,234,616	$ 24,168,704
Liabilities and Net Assets		
Accounts payable	$ 702,297	$ 611,095
Accrued salaries and benefits	1,696,531	1,283,239
Refundable advances	30,000	-
Line of credit	1,118,458	700,000
Capital lease obligations	-	182,692
Finance lease liability	183,366	-
Total liabilities	3,730,652	2,777,026
Net Assets		
Without donor restrictions		
Undesignated	17,637,589	20,527,609
Board-designated	158,157	179,755
	17,795,746	20,707,364
With donor restrictions		
Purpose and time restricted	167,806	85,524
Accumulated investment earnings on endowment	37,052	95,430
Perpetual in nature	503,360	503,360
	708,218	684,314
Total net assets	18,503,964	21,391,678
Total liabilities and net assets	$ 22,234,616	$ 24,168,704

	2022			
	Without Donor Restrictions	With Donor Restrictions	Total	2021
Operating Support and Revenue				
Program services	$ 24,623,849	$ -	$ 24,623,849	$ 23,661,937
Grants and contributions	471,295	121,261	592,556	474,738
Special event revenue	330,235	-	330,235	231,534
Direct costs - special events	(158,978)	-	(158,978)	(104,752)
	171,257	-	171,257	126,782
Net investment return (loss)	(1,300,283)	(9,964)	(1,310,247)	990,249
Distributions from and change in value of beneficial interests in assets held by others	-	(39,366)	(39,366)	88,406
Net assets released from restrictions pursuant to endowment spending rate formula	19,012	(19,012)	-	-
Net assets released from restrictions - other	29,015	(29,015)	-	-
Gain (loss) on sale of property and equipment	715,925	-	715,925	(15,093)
Provider Relief Fund income	-	-	-	823,408
Other income	14,277	-	14,277	54,794
Total support and revenues	24,744,347	23,904	24,768,251	26,205,221
Operating Expenses				
Program services	24,637,257	-	24,637,257	23,792,539
Support services				
Management and general	2,612,010	-	2,612,010	2,073,035
Development	332,850	-	332,850	343,216
Total operating expenses	27,582,117	-	27,582,117	26,208,790
Change in Net Assets	(2,837,770)	23,904	(2,813,866)	(3,569)
Cumulative effect of change in accounting principle (Note 1)	(73,848)	-	(73,848)	-
Net Assets, Beginning of Year	20,707,364	684,314	21,391,678	21,395,247
Net Assets, End of Year	$ 17,795,746	$ 708,218	$ 18,503,964	$ 21,391,678

	2022				
	Program	Management and General	Development	Total	2021 Total
Salaries and Wages	$ 15,842,862	$ 1,109,714	$ 220,530	$ 17,173,106	$ 16,412,027
Employee Benefits	1,948,501	134,845	28,192	2,111,538	2,234,798
Payroll Taxes	1,175,829	84,445	16,501	1,276,775	1,217,471
Facility and Equipment	1,601,505	95,886	1,213	1,698,604	1,991,982
Depreciation and Amortization	872,842	44,841	-	917,683	870,629
Food and Related Costs	825,888	1,178	92	827,158	781,456
Professional and Temporary Services	105,029	23,631	2,626	131,286	136,839
Licenses, Investment, and Bank Fees	423,163	47,801	11,074	482,038	601,842
Technology	226,891	95,701	11,490	334,082	295,407
Community and Home Activities	468,529	13,261	133	481,923	480,488
Employee Costs	827,811	861,028	15,093	1,703,932	737,991
Health Supplies	151,432	-	-	151,432	183,441
Offices Related Costs	29,213	49,313	4,238	82,764	85,676
Insurance	103,903	14,156	-	118,059	104,216
Fundraising and Development	60	19,044	177,565	196,669	168,716
Other Expenses	33,799	17,166	3,081	54,046	10,563
	24,637,257	2,612,010	491,828	27,741,095	26,313,542
Less Expenses Included with Revenues					
Direct costs - special events	-	-	(158,978)	(158,978)	(104,752)
Total expenses included in the expense section on the statement of activities	$ 24,637,257	$ 2,612,010	$ 332,850	$ 27,582,117	$ 26,208,790

	2022	2021
Cash Flows from (used for) Operating Activities		
Change in net assets	$ (2,813,866)	$ (3,569)
Depreciation and amortization	917,683	870,629
Contributions received restricted for long-term use	-	-
Realized and unrealized (gain) loss on operating investments, net	1,593,192	(621,891)
(Gain) loss on sale of property and equipment	(715,925)	15,093
Change in beneficial interests in assets held by others	101,764	(103,029)
Bad debt expense (recovery)	35,066	(54,794)
(Increase) decrease in assets		
Accounts receivable	(149,473)	(564,091)
Unbilled revenue	-	638,597
Refundable advances	(386,930)	-
Prepaid expenses	(64,368)	49,908
Increase (decrease) in liabilities		
Accounts payable	94,202	248,152
Accrued salaries and benefits	413,292	(38,529)
Refundable advances	30,000	(414,762)
Net cash from (used for) operating activities	(945,363)	21,714
Cash Flows from (used for) Investing Activities		
Purchases of property and equipment	(1,091,048)	(1,712,873)
Proceeds from sale of property and equipment	822,120	-
Purchases of operating investments	(237,960)	(245,679)
Proceeds from sale of investments	816,364	-
Net cash from (used for) investing activities	309,476	(1,958,552)
Cash Flows from (used for) Financing Activities		
Net borrowings under line of credit	418,458	700,000
Principal payments on finance leases	(50,713)	-
Principal payments on long-term debt	-	(86,196)
Net cash from financing activities	367,745	613,804
Net Change in Cash, Cash Equivalents, and Restricted Cash	(268,142)	(1,323,034)
Cash, Cash Equivalents, and Restricted Cash - Beginning of Year	1,449,546	2,772,580
Cash, Cash Equivalents, and Restricted Cash - End of Year	$ 1,181,404	$ 1,449,546
Cash and Cash Equivalents	$ 766,722	$ 1,094,444
Assets Limited as to Use		
Cash - Board-designated and restricted funds	414,682	355,102
Total cash, cash equivalents, and restricted cash	$ 1,181,404	$ 1,449,546

	2022	2021
Supplemental Noncash and Financing Activity		
Accounts payable for property and equipment	$ 3,000	$ 5,836
Lease liabilities arising from obtaining right of use assets	104,548	73,436
	$ 107,548	$ 79,272
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	$ 12,000	$ -

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 owned and operated a 12-bed ICF/DD in Mendota Heights, Minnesota. The Organization provided administrative assistance to Dakota's Adults, Inc. including the payment of all obligations of the organization for which Dakota's Adults, Inc. reimbursed 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 the Organization is in the process of dissolving Dakota's Adults, Inc.

In January 2020, the Organization acquired financial control of Orono Woodlands, Inc. (OWI). OWI is a nonprofit corporation that operated a 6-bed ICF/DD in Orono, Minnesota. The Organization provided administrative assistance to OWI including the payment of all obligations of the organization for which OWI reimbursed 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. It has now become part of Living Well Disability Services and the Organization is in the process of dissolving OWI.

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, 2021.

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, 2022, 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, 2022.

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, 2022, approximately $197,617 was held in the Foundations related to these contributions. Grants of approximately $7,708 have been distributed from these funds during the year ended December 31, 2022.

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.
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> *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 $158,157 of Board-designated net assets at December 31, 2022.
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> *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.

Leases

The Organizations determines if an arrangement is a lease at inception. Finance leases are included in finance lease right-of-use (ROU) assets and finance lease liabilities in our statement of financial position.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Finance lease ROU assets and liabilities are recognized at the lease commencement date and are based on the present value of lease payments over the lease term. As most leases do not provide an implicit rate, a risk-free rate is utilized in lieu of determining an incremental borrowing rate at the commencement date in deciding the present value of lease payments. The finance lease ROU asset also includes any lease payments made and excludes lease incentives. Lease expense is recognized on a straight-line basis over the lease term. Lease agreements with lease and non-lease components are generally accounted for separately.

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, 2021 were $1,507,684, $638,597, and $0, respectively.

Provider Relief Funds

The Organizations received $823,408 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.

Employee Retention Credit

The Coronavirus Aid, Relief, and Economic Security Act provided an employee retention credit (the credit) which is a refundable tax credit against certain employment taxes of up to $5,000 per employee for eligible employers. The credit is equal to 50% of qualified wages paid to employees, capped at $10,000 of qualified wages through December 31, 2020. The Consolidated Appropriations Act of 2021 and the American Rescue Plan Act of 2021 expanded the availability of the credit, extended the credit through September 30, 2021, and increased the credit to 70% of qualified wages, capped at $7,000 per quarter. The Organization has preliminarily determined they will receive an approximate benefit from the credit of 6,400,000 related to 2021 wages. The Organizations have not recorded contribution revenue for the credit, because the IRS's approval of the amounts are a barrier to receiving payment that management believes is more than administrative. The Organizations recognized a $386,930 refundable advance for payment made to the third party provider who performed the calculation on their behalf that will be returned if they do not receive approval from the IRS.

Subsequent to yearend the Organizations' received notices from the IRS for the first and second quarters of 2023 notifying them of overpayments that will be reimbursed in the amounts of $2,302,792 and $2,286,782, respectively. In June 2023 a check for the reimbursement for the first quarter of 2021 in the amount of $2,302,792 was received by the Organizations'. The Organizations' credit filings remain open for potential examination by the Internal Revenue Service through the statute of limitations, which has varying expiration dates extending through 2029. Any disallowed claims resulting from such examinations could be subject to repayment to the federal government.

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, 2022, 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, 2022.

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, 2022.

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.

The Organization maintains its cash in bank deposit accounts which exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per depositor, per insured bank, for each account ownership category. At December 31, 2022, the Organization had approximately $992,000, in excess of FDIC-insured limits.

Adoption of Accounting Standards Codification Topic 842

Effective January 1, 2022, the Organizations adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02, *Leases* (Topic 842). The Organizations elected to apply the guidance as of January 1, 2022, the beginning of the adoption period. The comparative financial information and disclosures presented are in accordance with the legacy standard, ASC 840. The standard requires the recognition of right-of-use assets and lease liabilities for lease contracts with terms greater than 12 months. Operating lease costs are recognized in the income statement as a single lease cost and finance lease costs are recognized in two components, interest expense and amortization expense. The Organizations have elected the package of practical expedients permitted in ASC Topic 842. Accordingly, the Organizations accounted for its existing leases as either finance or operating lease under the new guidance, without reassessing (a) whether the contract contains a lease under ASC Topic 842, (b) whether classification of the operating lease would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in ASC Topic 842 at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Organizations recognized on January 1, 2022, the beginning of the adoption period, a cumulative adjustment to change in net assets of $73,848, an operating lease liability of $130,231, and an operating right-of-use asset of $116,742. The adoption of the new standard did not materially impact the Organizations' combined statements of activities or statements of cash flows. See Note 7 for further disclosure of the Organizations' lease contracts.

Subsequent Events

The Organizations have evaluated subsequent events through June 15, 2023, 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 at December 31, 2022:

Cash and cash equivalents	$ 766,722
Accounts receivable	2,240,976
Operating investments	8,934,034
Distributions expected from assets held by community foundations (endowment funds)	23,000
	$ 11,964,732

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 $158,157 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, 2022, the Organizations had made $1,118,458 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, 2022. 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, 2022:

	Amount	Fair Value Measurements at Reporting Date Using: 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)	$ 48,870	$ -	$ -	$ -
Cash (at cost)	172,891	-	-	-
Equities	8,047,225	8,047,225	-	-
Fixed income	674,048	-	674,048	-
Beneficial interests in assets held by community foundation				
Kathy Lemay fund	119,818	-	-	119,818
Nonprofit endowment fund	370,715	-	-	370,715
Irene Kasal fund	145,014	-	-	145,014
Pitzele fund	32,265	-	-	32,265
Total	$ 9,610,846	$ 8,047,225	$ 674,048	$ 667,812

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	(26,046)

Note 5 - Property and Equipment

Property and equipment consist of the following at December 31, 2022:

Land and improvements	$ 3,469,996
Building and improvements	17,201,737
Furniture and equipment	1,897,774
Vehicles	129,489
	22,698,996
Less accumulated depreciation	(14,544,292)
	$ 8,154,704

Depreciation expense totaled $874,962 for the year ended December 31, 2022.

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% (5.767% effective rate on December 31, 2022), 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 $1,118,458 as of December 31, 2022.

Note 7 - Leases

The Organizations lease vehicles for various terms under long-term, non-cancelable finance lease agreements. The leases expire at various dates through 2026 and provide options to extend month-to-month.

The weighted-average discount rate is based on the discount rate implicit in the lease.

The Organizations have elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on straight-line basis.

Total lease costs for the year ended December 31, 2022 were as follows:

Short-term lease cost	$ 11,606
Finance lease cost:	
Interest expense	12,200
Amortization of right-of-use assets	42,721

The following summarizes the weighted-average remaining lease term and weighted-average discount rate for the year ended:

	2022
Weighted-average remaining lease term:	
Finance leases	3.9 Years
Weighted-average discount rate:	
Finance leases	6.21%

The future minimum lease payments under noncancelable finance leases with terms greater than one year are listed below as of December 31, 2022:

2023	$	80,804
2024		65,151
2025		41,590
2026		30,464
2027		23,562
Total lease payments		241,571
Less interest		(58,205)
Present value of lease liabilities	$	183,366

Note 8 - Endowment

The Organizations have perpetual endowment net assets of $503,360 at December 31, 2022. 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, 2022, 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	-	37,052	37,052
Board-designated endowment funds	158,157	-	158,157
Total funds	$ 158,157	$ 540,412	$ 698,569

Changes in endowment net assets for the year ended December 31, 2022, are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	$ 179,755	$ 598,790	$ 778,545
Investment return			
Investment income, net	(648)	(1,820)	(2,468)
Net realized and unrealized gains	(13,916)	(37,546)	(51,462)
Net investment return	(14,564)	(39,366)	(53,930)
Appropriations of endowment assets for expenditure	(7,034)	(19,012)	(26,046)
Endowment net assets, end of year	$ 158,157	$ 540,412	$ 698,569

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, 2022, 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, 2022, are restricted for the following purposes or periods:

Subject to expenditure for specified purpose	
Improvement for homes	$ 100,000
Use of specific house	10,830
Gardening	8,106
	118,936
Subject to the passage of time	48,870
Endowments	
Subject to endowment spending policy and appropriation	
General use	429,990
Kathy LeMay Educational Endowment Fund - restricted for training of management staff	110,422
	540,412
	$ 708,218

Net assets were released from restrictions as follows during the year ended December 31, 2022:

Expiration of purpose or passage of time restrictions	$ 29,015
Restricted-purpose spending-rate distributions and appropriations	
General use	19,012
	$ 48,027

Note 10 - Retirement 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, 2022, employer contributions on the employees' behalf were approximately $502,370.