Financial Statements

Family Pathways
(A Nonprofit Organization)
North Branch, Minnesota

For the Years Ended
June 30, 2018 and 2017

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

Family Pathways

Table of Contents

June 30, 2018 and 2017

	Page No.
Independent Auditor's Report	3
Financial Statements	
Statements of Financial Position	5
Statements of Activities	6
Statements of Functional Expenses	8
Statements of Cash Flows	10
Notes to the Financial Statements	11

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Family Pathways
North Branch, Minnesota

We have audited the accompanying financial statements of Family Pathways (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting polices used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Family Pathways as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the Organization as of June 30, 2017 were audited by other auditors whose report dated February 2, 2018 expressed an unmodified opinion on those statements.

Abdo Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
October 23, 2018

FINANCIAL STATEMENTS

Family Pathways

Statements of Financial Position

June 30, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	$ 440,090	$ 184,600
Accounts receivable	131,983	168,034
Inventory	659,499	514,296
Prepaids	70,673	62,510
Total Current Assets	1,302,245	929,440
Property and Equipment		
Land	1,465,219	1,465,219
Building and improvements	9,179,992	9,082,870
Equipment, fixtures, and vehicles	445,110	438,749
Total Property and Equipment	11,090,321	10,986,838
Less: Accumulated Depreciation	(2,495,739)	(2,138,342)
Total Property and Equipment, Net	8,594,582	8,848,496
Other Assets		
Security deposits	14,982	8,139
Cash held for restricted purposes	50,000	50,000
Total Other Assets	64,982	58,139
Total Assets	$ 9,961,809	$ 9,836,075
Liabilities and Net Assets		
Liabilities		
Current Liabilities		
Accounts payable	$ 81,367	$ 54,538
Accrued salaries and vacation	253,871	207,957
Accrued payroll taxes	47,760	21,339
Accrued interest	16,867	14,800
Other accrued expenses	30,514	34,295
Mortgages and bonds payable, current	383,034	302,719
Total Current Liabilities	813,413	635,648
Noncurrent Liabilities		
Mortgages and bonds payable - noncurrent, net of deferred financing costs of $182,478 and $199,839, respectively	5,413,445	5,778,999
Tenant security deposits	2,062	2,362
Total Noncurrent Liabilities	5,415,507	5,781,361
Total Liabilities	6,228,920	6,417,009
Net Assets		
Unrestricted	3,672,889	3,268,817
Temporarily restricted	10,000	100,249
Permanently restricted	50,000	50,000
Total Net Assets	3,732,889	3,419,066
Total Liabilities and Net Assets	$ 9,961,809	$ 9,836,075

See Independent Auditor's Report and Notes to the Financial Statements.

Family Pathways
Statements of Activities
For the Years Ended June 30, 2018 and 2017

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Other Support				
Revenue				
Thrift store sales	$ 4,985,112	$ -	$ -	$ 4,985,112
Recycling revenue	292,573	-	-	292,573
Service revenue	143,967	-	-	143,967
Rental income	60,484	-	-	60,484
Rental expenses	-	-	-	-
Interest income	883	-	-	883
Change in value of swap	(9,923)	-	-	(9,923)
Gain on sale of property and equipment	-	-	-	-
Other income	6,305	-	-	6,305
Total Revenue	5,479,401	-	-	5,479,401
Support				
Grants	886,390	-	-	886,390
Contributions - monetary	1,265,815	10,000	-	1,275,815
Contributions - food	2,502,713	-	-	2,502,713
Special events, net of direct benefit expenses of $0	-	-	-	-
Net assets released from restrictions	100,249	(100,249)	-	-
Total Support	4,755,167	(90,249)	-	4,664,918
Total Revenue and Other Support	10,234,568	(90,249)	-	10,144,319
Expenses				
Program Services				
Thrift store expenses	3,673,344	-	-	3,673,344
Basic life services	3,386,642	-	-	3,386,642
Refuge network	1,003,968	-	-	1,003,968
Senior services	477,158	-	-	477,158
Youth services	289,253	-	-	289,253
Total Program Services	8,830,365	-	-	8,830,365
Support Services				
Management and general	712,997	-	-	712,997
Fundraising	287,134	-	-	287,134
Total Support Services	1,000,131	-	-	1,000,131
Total Expenses	9,830,496	-	-	9,830,496
Change in Net Assets	404,072	(90,249)	-	313,823
Net Assets, Beginning	3,268,817	100,249	50,000	3,419,066
Net Assets, Ending	$ 3,672,889	$ 10,000	$ 50,000	$ 3,732,889

See Independent Auditor's Report and Notes to the Financial Statements.

Family Pathways
Statements of Activities (Continued)
For the Years Ended June 30, 2018 and 2017

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Other Support				
Revenue				
Thrift store sales	$ 4,676,657	$ -	$ -	$ 4,676,657
Recycling revenue	112,884	-	-	112,884
Service revenue	106,586	-	-	106,586
Rental income	58,379	-	-	58,379
Rental expenses	(74,878)	-	-	(74,878)
Interest income	128	-	-	128
Change in value of swap	26,884	-	-	26,884
Gain on sale of property and equipment	91,735	-	-	91,735
Other income	25,976	-	-	25,976
Total Revenue	5,024,351	-	-	5,024,351
Support				
Grants	1,005,374	-	-	1,005,374
Contributions - monetary	531,072	385,352	-	916,424
Contributions - food	1,606,958	-	-	1,606,958
Special events, net of direct benefit expenses of $66,625	76,555	-	-	76,555
Net assets released from restrictions	638,603	(638,603)	-	-
Total Support	3,858,562	(253,251)	-	3,605,311
Total Revenue and Other Support	8,882,913	(253,251)	-	8,629,662
Expenses				
Program Services				
Thrift store expenses	3,522,512	-	-	3,522,512
Basic life services	3,347,470	-	-	3,347,470
Refuge network	932,229	-	-	932,229
Senior services	455,828	-	-	455,828
Youth services	297,587	-	-	297,587
Total Program Services	8,555,626	-	-	8,555,626
Support Services				
Management and general	566,293	-	-	566,293
Fundraising	241,658	-	-	241,658
Total Support Services	807,951	-	-	807,951
Total Expenses	9,363,577	-	-	9,363,577
Change in Net Assets	(480,664)	(253,251)	-	(733,915)
Net Assets, Beginning	3,749,481	353,500	50,000	4,152,981
Net Assets, Ending	$ 3,268,817	$ 100,249	$ 50,000	$ 3,419,066

See Independent Auditor's Report and Notes to the Financial Statements.

Family Pathways
Statement of Functional Expenses
For the Year Ended June 30, 2018

	Program Services						Support Services			
	Thrift Store Expenses	Basic Life Services	Refuge Network	Senior Services	Youth Services	Total Program Services	Management and General	Fundraising	Total Support Services	Total Expenses
Personnel Costs										
Salaries	$ 1,977,651	$ 438,553	$ 707,725	$ 323,656	$ 122,543	$ 3,570,128	$ 319,485	$ 113,229	$ 432,714	$ 4,002,842
Payroll taxes	150,043	32,265	54,623	24,261	9,492	270,684	4,737	8,857	13,594	284,278
Employee benefits	154,633	38,628	46,249	25,537	10,994	276,041	84,209	4,296	88,505	364,546
Total Personnel Costs	2,282,327	509,446	808,597	373,454	143,029	4,116,853	408,431	126,382	534,813	4,651,666
Expenses										
Food distributed - purchased	216	329,437	8,075	437	720	338,885	-	13,044	13,044	351,929
Food distributed - donated	-	2,293,245	56,211	3,042	5,013	2,357,511	-	-	-	2,357,511
Insurance	67,364	18,652	13,999	622	5,342	105,979	76,232	475	76,707	182,686
Interest	138,343	25,591	6,743	5,894	17,563	194,134	15,919	727	16,646	210,780
Maintenance and repairs	79,669	14,313	3,785	3,277	9,843	110,887	4,291	407	4,698	115,585
Marketing and public awareness	106,007	552	556	6,308	-	113,423	-	8,551	8,551	121,974
Meals, travel and entertainment	9,909	30,522	25,040	35,578	5,413	106,462	3,964	5,514	9,478	115,940
Office	3,580	4,781	3,804	833	300	13,298	5,612	48,864	54,476	67,774
Postage	171	1,189	163	275	81	1,879	7,824	21,577	29,401	31,280
Processing fees	95,363	1,672	442	383	1,150	99,010	2,026	7,123	9,149	108,159
Professional services	2,221	3,585	8,029	3,255	2,032	19,122	99,879	38,772	138,651	157,773
Program supplies	84,643	15,336	4,055	3,511	10,546	118,091	4,422	436	4,858	122,949
Rent	104,509	17,516	4,632	4,010	12,046	142,713	5,252	498	5,750	148,463
Small equipment, leases and rentals	6,267	11,180	8,840	2,621	5,980	34,888	13,217	10,084	23,301	58,189
Staff development	5,630	943	4,263	2,683	874	14,393	13,281	1,304	14,585	28,978
Storage and transportation	139,548	2,980	2,592	-	2,010	147,130	6,361	9	6,370	153,500
Telephone/communications/IT	23,793	12,920	19,607	9,735	3,503	69,558	18,473	727	19,200	88,758
Trash	87,230	15,837	4,188	3,626	10,891	121,772	4,747	451	5,198	126,970
Utilities	187,027	33,956	8,978	7,774	23,351	261,086	10,182	966	11,148	272,234
Total Expenses Before Depreciation	3,423,817	3,343,653	992,599	467,318	259,687	8,487,074	700,113	285,911	986,024	9,473,098
Depreciation and amortization	249,527	42,989	11,369	9,840	29,566	343,291	12,884	1,223	14,107	357,398
Total Expenses	$ 3,673,344	$ 3,386,642	$ 1,003,968	$ 477,158	$ 289,253	$ 8,830,365	$ 712,997	$ 287,134	$ 1,000,131	$ 9,830,496

See Independent Auditor's Report and Notes to the Financial Statements.

Family Pathways
Statement of Functional Expenses (Continued)
For the Year Ended June 30, 2017

	Program Services						Support Services			
	Thrift Store Expenses	Basic Life Services	Refuge Network	Senior Services	Youth Services	Total Program Services	Management and General	Fundraising	Total Support Services	Total Expenses
Personnel Costs										
Salaries	$ 1,818,578	$ 452,045	$ 646,145	$ 311,807	$ 164,944	$ 3,393,519	$ 280,741	$ 142,651	$ 423,392	$ 3,816,911
Payroll taxes	140,642	34,914	50,926	23,801	13,088	263,371	22,033	11,309	33,342	296,713
Employee benefits	193,221	33,933	46,300	18,048	13,172	304,674	31,094	11,184	42,278	346,952
Total Personnel Costs	2,152,441	520,892	743,371	353,656	191,204	3,961,564	333,868	165,144	499,012	4,460,576
Expenses										
Food distributed - purchased	250	915,607	-	1,239	186	917,282	-	-	-	917,282
Food distributed - donated	438	1,604,023	-	2,171	326	1,606,958	-	-	-	1,606,958
Insurance	113,644	37,843	30,946	9,686	18,265	210,384	11,170	3,547	14,717	225,101
Interest	98,396	39,187	7,602	3,552	12,593	161,330	5,805	-	5,805	167,135
Maintenance and repairs	80,438	9,550	13,264	4,230	4,519	112,001	9,375	-	9,375	121,376
Marketing and public awareness	105,895	2,778	1,797	2,223	55	112,748	425	60,468	60,893	173,641
Mileage	11,846	26,219	21,413	26,156	4,073	89,707	193	3,627	3,820	93,527
Office	6,874	991	450	-	1,291	9,606	21,583	741	22,324	31,930
Postage	190	225	255	524	66	1,260	10,246	30,411	40,657	41,917
Processing fees	86,458	1,186	-	-	-	87,644	6,748	6,925	13,673	101,317
Professional services	29,600	12,507	20,913	12,014	5,694	80,728	90,303	15,830	106,133	186,861
Program supplies	62,051	5,188	28,057	8,352	9,480	113,128	11,562	7,652	19,214	132,342
Rent	142,965	2,681	-	-	-	145,646	-	8,609	8,609	154,255
Small equipment	16,283	13,223	18,720	4,253	3,354	55,833	5,103	633	5,736	61,569
Staff development	1,729	332	3,659	2,004	871	8,595	1,319	2,235	3,554	12,149
Storage and transportation	149,776	-	-	-	-	149,776	-	-	-	149,776
Telephone/communications/IT	27,653	13,889	21,840	9,648	4,446	77,476	13,718	243	13,961	91,437
Trash	82,018	4,986	867	324	2,151	90,346	11,371	-	11,371	101,717
Utilities	150,054	43,107	12,068	6,845	14,498	226,572	9,713	100	9,813	236,385
Volunteer expense	3,069	5,705	343	1,834	533	11,484	5,283	2,118	7,401	18,885
Total Expenses Before Depreciation	3,322,068	3,260,119	925,565	448,711	273,605	8,230,068	547,785	308,283	856,068	9,086,136
Depreciation and amortization	200,444	87,351	6,664	7,117	23,982	325,558	18,508	-	18,508	344,066
Less: special events expenses	-	-	-	-	-	-	-	(66,625)	(66,625)	(66,625)
Total Expenses	$ 3,522,512	$ 3,347,470	$ 932,229	$ 455,828	$ 297,587	$ 8,555,626	$ 566,293	$ 241,658	$ 807,951	$ 9,363,577

See Independent Auditor's Report and Notes to the Financial Statements.

Family Pathways
Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	$ 313,823	$ (733,915)
Adjustment to reconcile change in net assets		
to net cash provided by operating activities:		
Depreciation	357,398	360,083
Gain on sale of property and equipment	-	(91,735)
Deferred financing cost interest	17,361	11,664
Change in value of swap	9,923	(26,884)
Change in assets:		
Accounts receivable	36,051	(71,803)
Pledges receivable	-	146,500
Inventory	(145,203)	628,698
Prepaids	(8,163)	34,547
Security deposits	(6,843)	4,386
Change in liabilities:		
Accounts payable	26,829	(27,927)
Accrued salaries and vacation	45,914	620
Accrued payroll taxes	26,421	16,593
Accrued interest	2,067	4,667
Other accrued expenses	(3,781)	1,834
Tenant security deposits	(300)	428
Net Cash Provided by Operating Activities	671,497	257,756
Cash Flows from Investing Activities		
Sale of property and equipment	-	175,000
Purchase of property and equipment	(25,609)	(184,694)
Net Cash Used by Investing Activities	(25,609)	(9,694)
Cash Flows from Financing Activities		
Payments on long-term debt	(390,398)	(527,439)
Proceeds from long-term debt	-	12,980
Net Cash Used by Financing Activities	(390,398)	(514,459)
Increase (Decrease) in Cash and Cash Equivalents	255,490	(266,397)
Cash and Cash Equivalents, Beginning	184,600	450,997
Cash and Cash Equivalents, Ending	$ 440,090	$ 184,600
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for:		
Interest	$ 210,780	$ 167,091
Income taxes	$ -	$ -
Noncash Investing and Financing Activities:		
Property purchased with note payable	$ 77,874	$ 1,488,991

See Independent Auditor's Report and Notes to the Financial Statements.

Note 1: Summary of Significant Accounting Policies

A. Nature of Activities

Family Pathways (the Organization) is a Minnesota nonprofit corporation whose mission is to work with communities to develop supportive, caring relationships to help people meet their basic needs. The four human service departments (Basic Life, Youth, Senior, and the Refuge Network) provide programs and services to approximately 184,000 residents of Chisago, Pine, Isanti, Kanabec, and Mille Lacs Counties of East Central Minnesota (Region 7E) in addition to the school districts of Forest Lake and Foley, Minnesota and Frederic and St. Croix Falls, Wisconsin. They have been assisting low-income individuals and their families find unique ways of achieving long-term sustainability since incorporation in 1978.

Basic Life Services - The Organization had 11 food shelves at June 30, 2018 in Cambridge, Chisago Lakes, Forest Lake, Hinckley, Mora, North Branch, Onamia, Pine City, and Sandstone, Minnesota, and Frederic and St. Croix Falls, Wisconsin, and a mobile food shelf. The food shelves collect and distribute food and personal items to individuals and families experiencing crisis situations. The trained coordinators work with people to assess immediate needs and develop plans for long-range self-sufficiency while providing professional advocacy and resource referral services.

Youth Services - Youth Services provides multiple programs and technology centers for the area's underserved youth populations. The Circle of Friends (COF) is a peer-mentoring program, designed for special needs children to be included in mainstream activities. Kids First offers school-age youth and adult mentoring relationships on a 1:1 basis. The Youth Enrichment & Technology Centers provide computer labs and homework tutors to assist students with their academic success.

Senior Services - Senior Services assists older adults to remain living independently in their own homes. They conduct in-home assessments, coordinate volunteer visits, and supply respite services to alleviate the strains placed upon caregivers. The volunteers are available to aid clients with routine necessities, such as grocery shopping assistance and transportation to medical appointments. The programs include social respite (adult day centers) for early to mid-stage memory loss clients, and caregiver support groups.

Thrift Stores - The stores strengthen communities by providing livable wages for staff and valuable training for volunteers, while generating ongoing revenues that support Family Pathways programs and services. The stores build ecological awareness in the community by encouraging recycling efforts and promoting the reuse of clothing and household goods.

Refuge Network - The Refuge Network provides support services for people who are currently involved or have been involved in an abusive relationship. The Refuge Network believes that no one deserves to be abused and therefore seeks to bring an end to domestic violence.

B. Financial Statement Presentation

Contributions received are recorded as increases in unrestricted, temporarily restricted or permanently restricted support, depending on the existence and nature of any donor restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations or where donor-imposed stipulations are met in the year of the contribution.

Temporarily restricted net assets - Net assets subject to donor imposed restrictions, which will be satisfied by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are transferred to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Organization had $10,000 and $100,249 in temporarily restricted net assets at June 30, 2018 and 2017, respectively.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they may be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. The Organization had $50,000 in permanently restricted net assets at both June 30, 2018 and 2017.

Note 1: Summary of Significant Accounting Policies (Continued)

B. Financial Statement Presentation (Continued)

Revenue is reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by donor stipulation or by law.

C. Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America.

D. Use of Estimates

The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

E. Cash and Cash Equivalents

The Organization considers all short-term debt instruments purchased with an initial maturity of three months or less to be cash equivalents. The Organization maintains cash in bank deposit accounts at high credit quality financial institutions. Cash accounts are insured by FDIC. The balances may, at times, exceed federally insured limits. The Organization has not experienced any loss on these accounts and believes it is not exposed to any significant credit risk.

F. Accounts Receivable

Accounts receivable consist of amounts due for program services rendered and grants awarded but not yet received. All amounts are expected to be collected within one year. No interest is accrued on accounts receivable. No allowance for uncollectible amounts is considered necessary as of June 30, 2018 and 2017, since management expects all receivables to be collectible.

G. Pledges Receivable

Pledges receivable that are expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are recorded at present value of the amounts to be collected. No allowance for uncollectible amounts is considered necessary as of June 30, 2018 and 2017, since management expects all receivables to be collectible.

H. Inventory

The Organization estimates the year-end thrift store inventories based on the average of the last month’s and two subsequent months’ sales.

Food pantry inventory at year-end has been recorded at a combination of both published food bank rates and cost purchases based on yearly activity of both donated and purchased food. The Organization evaluates this for obsolescence monthly as that is the approximate timing for the inventory to turn over.

Note 1: Summary of Significant Accounting Policies (Continued)

I. Property and Equipment

The Organization capitalizes all asset additions over $3,000. Purchased property and equipment is recorded at cost. Contributed property and equipment is recorded at fair market value at the date of donation. Depreciation and amortization are computed on the straight-line method over the estimated useful life of the respective asset. Total depreciation was $357,398 and $360,083 for the years ended June 30, 2018 and 2017, respectively.

Estimated economic useful lives are as follows:

Asset	Useful Lives in Years
Buildings and Improvements	10 - 40
Equipment and Fixtures	5 - 7

J. Deferred Financing Costs

Deferred financing costs consist of issuance costs related to tax-exempt bonds and notes payable. These costs are being amortized on the straight-line method over the term of the bond or note. These costs are presented net with the related long-term debt (Note 2). Deferred financing cost interest expense was $17,361 and $11,664 for the years ended June 30, 2018 and 2017, respectively.

K. Expense Allocation

The costs of providing various programs have been summarized on a functional basis. Expenses which are not directly identifiable by program or supporting services are allocated based on estimates by management.

L. Income Taxes

The Organization is tax-exempt under Section 501(c)(3) of the Internal Revenue Code, and is not considered a private foundation. The Organization is subject to income tax on any unrelated business, including net rental income.

The Organization has evaluated for uncertain tax positions, and management has determined there are no uncertain tax positions as of June 30, 2018 and 2017.

M. Revenue Recognition

Grants are recorded when awarded by the grantor and are considered to be available for unrestricted use unless specifically restricted by the donor. Government grants are earned when services are provided by the Organization. Contributions are recorded as revenue when received.

Donated materials sold in thrift stores and sold to stores that will recycle various items are recorded as store sales and recycling revenue, respectively, when those items are sold, as this value is determined to be equivalent to the fair value at the date of donation. Donated food is recorded when received at $1.75 per pound and expensed at $1.75 per pound when distributed for the year ended June 30, 2018. Donated food was recorded at $1.67 per pound and expensed at $1.67 per pound for the year ended June 30, 2017.

Donated property and equipment are reported as unrestricted support unless explicit donor stipulations specify how donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how those long-lived assets must be maintained, the Organization reports expirations or donor restrictions when the donated or acquired long-lived assets are placed in service.

Note 1: Summary of Significant Accounting Policies (Continued)

N. Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were $121,974 and $134,284 for the years ended June 30, 2018 and 2017, respectively.

O. Change in Accounting Estimate

During the year ended June 30, 2018, the Organization changed its accounting estimate regarding the valuation of its thrift store inventory from the average of the last three months' sales of the year to the average of the last month's and two subsequent months' sales of inventory.

P. New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09) as a new Topic, Accounting Standards Codification *Topic 606*. The amendments are intended to provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices and improve disclosure requirements. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers: Deferral of the Effective Date*, which deferred the effective date of ASU 2014-09 by one year. This ASU is effective for annual reporting periods beginning after December 15, 2017, and shall be applied using either a full retrospective or modified retrospective approach. Early adoption is permitted. The new guidance is effective for the Organization in fiscal year 2019. The Organization is currently evaluating the impact on the results of operations, financial condition and cash flows and has not determined the impact on its financial statements at this time.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about liquidity and availability of resources, expenses and investment return, and cash flows. This ASU is effective for annual reporting periods beginning after December 15, 2017, and shall be applied retrospectively. Early adoption is permitted. The new guidance is effective for the Organization in fiscal year 2019. The Organization is currently evaluating the impact on the results of operations, financial condition and cash flows, and has not determined the impact on its consolidated financial statements at this time.

In March 2016, the FASB issued ASU No. 2016-02, *Leases*, as a new topic, Accounting Standards Codification 842. The objective of ASU No. 2016-02 is to increase transparency and comparability among organizations by reorganizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. ASU No. 2016-02 is effective for annual reporting periods beginning after December 15, 2018, and shall be applied using either a full retrospective or modified retrospective approach. Early adoption is permitted. The new guidance is effective for the Organization in fiscal year 2020. The Organization is currently evaluating the impact on the results of operations, financial condition and cash flows and has not determined the impact on its financial statements at this time.

Q. Subsequent Events

In preparing these financial statements the Organization has evaluated events and transactions for potential recognition or disclosure through October 23, 2018, the date the financial statements were available to be issued. See Note 2 regarding the payoff of the 2015B revenue note subsequent to year end.

Note 2: Long-term Debt

<u>Tax-Exempt Bond - MidWest One Bank</u>

On December 29, 2015, the Organization entered into a tax-exempt bond issued by the City of North Branch, Minnesota for the purchase of property and the refinance and consolidation of other property debts. The bond consists of three revenue notes: $1,869,789 2015A revenue note used to finance property and construction of a new thrift store on that property in North Branch, Minnesota; $216,600 2015B revenue note to refinance that portion of the St. Croix Falls Mall building that is leased out; and $1,587,979 2015C revenue note used to refinance and consolidate mortgages on properties in North Branch (regional office), Nessel (shelter), and the remaining portion of the St. Croix Falls Mall.

Note 2: Notes and Bonds Payable (Continued)

Tax-Exempt Bond - MidWest One Bank (Continued)

The 2015A revenue note matures on December 29, 2035 and has principal payments of $10,745 starting in January 2017 and continuing for the life of the note, or until paid off. The Organization is drawing against the 2015A revenue note as needed. Interest on the 2015A revenue note begins at 2.97% but is adjusted every 60th month based on a formula including the then current five-year U.S. Treasury Constant Maturity rate. The 2015B revenue note matures on September 29, 2018 and has fixed principal and interest payments of $6,968 over the life of the note. Interest on the 2015B revenue note is fixed at 4.20%. This note was paid off on its maturity date. The 2015C revenue note matures on December 29, 2035 and has principal payments of $9,815 starting in October 2018 and continuing for the life of the note. Interest on the 2015C revenue note begins at 2.97% but is adjusted every 60th month based on a formula including the then current five-year U.S. Treasury Constant Maturity rate.

Special Assessments

In 2008, special assessments for the City of Cambridge were placed into service, with a total assessment of $32,287, which is payable in semi-annual payments of $2,085 at 4.94% over 10 years. Assessments are secured by related real estate. Special assessments were paid off during the year ended June 30, 2018.

Tax-Exempt Bond – Wells Fargo

A 17-year tax-exempt bond issued by the Minnesota Agricultural and Economic Development Board was entered into on June 1, 2012. The bond was issued to finance the purchase of property and refinance other property debts. The Organization has obtained a fixed payment interest rate swap agreement. The bond and related interest rate swap agreement require monthly payments of interest and principal. Principal payments are $10,500 and increase annually by $500 per month. Interest is being paid at 2.24% per month. The swap agreement has a termination date of July 1, 2022. The bond is secured by property located in Cambridge (food shelf, offices), Forest Lake, Rush City, Hinckley, North Branch, Onamia, Pine City, and Princeton.

Tax-Exempt Bond - Woodlands National Bank

A 20-year tax-exempt bond issued by the City of Cambridge, Minnesota, was entered into on June 16, 2006. The bond was issued to finance the purchase of property and refinance other property debts. The bond specifies 240 monthly payments of $7,492 including interest at 1.79%. The bond is secured by property located in Cambridge (thrift store), Isanti, Mora, and Wyoming.

Note Payable - Stearns Bank

A three-year note payable financed through a bank was entered into on April 21, 2017. The note was issued to finance the purchase of a vehicle. The note specifies monthly payments of $392, including interest at 5.49%. The note is secured by the related vehicle.

Note 2: Mortgages and Bonds Payable (Continued)

Long-term debt consisted of the following at June 30, 2018 and 2017:

	2018	2017
Tax-exempt bond - Wells Fargo	$ 1,941,160	$ 2,085,500
Tax-exempt bond - Woodlands	666,885	745,903
Special assessments	-	3,178
Note payable - Stearns Bank	8,136	12,291
Tax-exempt bond 2015A - MidWest One	1,755,325	1,752,999
Tax-exempt bond 2015B - MidWest One	20,782	95,016
Tax-exempt bond 2015C - MidWest One	1,586,669	1,586,669
Total Long-term Debt	5,978,957	6,281,556
Less: deferred financing costs (Note 1J)	(182,478)	(199,838)
Less: current portion of long-term debt	(383,034)	(302,719)
Net Long-term Debt	$ 5,413,445	$ 5,778,999

Future maturities of long-term debt are as follows:

Period Ended June 30,	Total Amount	Deferred Financing Costs	Net Amount
2019	$ 397,116	$ (14,082)	$ 383,034
2020	404,880	(13,652)	391,228
2021	412,955	(13,652)	399,303
2022	424,870	(13,652)	411,218
2023	437,005	(13,652)	423,353
Thereafter	3,902,131	(113,788)	3,788,343
Total	$ 5,978,957	$ (182,478)	$ 5,796,479

Note 3: Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following as of June 30, 2018 and 2017:

	2018	2017
Food Shelves Capital Improvements	$ -	$ 35,346
Refuge Network	10,000	64,903
Total	$ 10,000	$ 100,249

People + Process. Going Beyond the Numbers

Note 4: Permanently Restricted Net Assets

The Organization has received $50,000 from donors that are permanently restricted, to be kept in perpetuity for the advancement of the Organization's mission, vision, and values. The earnings may be used for program operations.

The board of directors has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary.

The funds are being held at a bank until the board develops and approves resolutions regarding an investment policy and the minimum fund levels required before earnings may be distributed. These amounts are held for permanently restricted purposes and therefore, they are not considered current assets.

Note 5: Pension Plan

The Organization offers a 401(k) plan for its employees. Eligible employees are allowed to make salary reduction contributions and the Organization matches those contributions up to 2% of compensation effective January 1, 2016. Prior to this date, the Organization matched contributions up to 4% of compensation. The Organization contributed $29,535 and $55,784 for the years ended June 30, 2018 and 2017, respectively.

Note 6: Leased Facilities and Equipment

The Organization has three building leases and numerous copier leases at various locations that expire at various times through 2021. Rental expense was $140,434 and $152,989 for the years ended June 30, 2018 and 2017, respectively. The future rental commitments are as follows for the years ending June 30:

Period Ended June 30,	Amount
2019	$ 79,316
2020	81,726
2021	55,563
Total	$ 216,605