

OPEN ARMS OF MINNESOTA
AUDITED FINANCIAL STATEMENTS
December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Management
Open Arms of Minnesota
Minneapolis, Minnesota

We have audited the accompanying financial statements of Open Arms of Minnesota (a non-profit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, cash flows, and functional expenses for the years 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 policies 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 Open Arms of Minnesota as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Harrington Langer & Associates

June 25, 2019

OPEN ARMS OF MINNESOTA
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

| | 2018 | 2017 |
|---|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 302,111 | \$ 443,372 |
| Grants and pledges receivable | 193,575 | 195,176 |
| Inventory | 175,614 | 125,010 |
| Prepaid expenses | 7,183 | 6,639 |
| TOTAL CURRENT ASSETS | 678,483 | 770,197 |
| PROPERTY AND EQUIPMENT, net | 4,898,337 | 4,996,236 |
| OTHER ASSETS | | |
| Beneficial interest in charitable remainder trust | 108,205 | 106,066 |
| TOTAL ASSETS | \$ 5,685,025 | \$ 5,872,499 |

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|---------------------|
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 169,859 | \$ 120,376 |
| Notes payable, current portion | 62,535 | 9,089 |
| Accrued expenses | 122,638 | 132,908 |
| Line of credit | 150,000 | 300,000 |
| Deferred revenue | 50,150 | 93,725 |
| | <u>555,182</u> | <u>656,098</u> |
| TOTAL CURRENT LIABILITIES | | |
| LONG-TERM LIABILITIES | | |
| Notes payable, net of current portion | 539,083 | 451,757 |
| Less loan origination fees, net | (1,342) | (2,953) |
| | <u>537,741</u> | <u>448,804</u> |
| TOTAL LONG-TERM LIABILITIES | | |
| | <u>1,092,923</u> | <u>1,104,902</u> |
| TOTAL LIABILITIES | | |
| NET ASSETS | | |
| Without donor restrictions | 4,347,897 | 4,653,031 |
| With donor restrictions | 244,205 | 114,566 |
| | <u>4,592,102</u> | <u>4,767,597</u> |
| TOTAL NET ASSETS | | |
| | <u>\$ 5,685,025</u> | <u>\$ 5,872,499</u> |
| TOTAL LIABILITIES AND NET ASSETS | | |

OPEN ARMS OF MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total 2018</u> | <u>Total 2017</u> |
|---|---------------------------------------|------------------------------------|-----------------------|-----------------------|
| REVENUE AND SUPPORT | | | | |
| Contributions | \$ 1,296,780 | \$ 136,000 | \$ 1,432,780 | \$ 1,396,857 |
| Government grants | 786,744 | - | 786,744 | 589,437 |
| Special events, net of direct costs of \$252,251 and \$211,013, respectively | 581,836 | - | 581,836 | 491,755 |
| In-kind donations | 26,508 | - | 26,508 | 33,507 |
| Earned income | 125,439 | - | 125,439 | 109,567 |
| Service contract | 1,338,467 | - | 1,338,467 | 580,019 |
| Miscellaneous | 21,293 | - | 21,293 | 5,589 |
| Change in value of beneficial interest in charitable remainder trust | - | 2,139 | 2,139 | 2,787 |
| Net assets released from restrictions | 8,500 | (8,500) | - | - |
| TOTAL REVENUE AND SUPPORT | <u>4,185,567</u> | <u>129,639</u> | <u>4,315,206</u> | <u>3,209,518</u> |
| EXPENSES | | | | |
| Program services | 3,789,267 | - | 3,789,267 | 2,891,504 |
| Management and general | 212,393 | - | 212,393 | 178,532 |
| Fundraising | 489,041 | - | 489,041 | 347,777 |
| TOTAL EXPENSES | <u>4,490,701</u> | <u>-</u> | <u>4,490,701</u> | <u>3,417,813</u> |
| CHANGE IN NET ASSETS | (305,134) | 129,639 | (175,495) | (208,295) |
| NET ASSETS, BEGINNING OF YEAR | <u>4,653,031</u> | <u>114,566</u> | <u>4,767,597</u> | <u>4,975,892</u> |
| NET ASSETS, END OF YEAR | <u>\$ 4,347,897</u> | <u>\$ 244,205</u> | <u>\$ 4,592,102</u> | <u>\$ 4,767,597</u> |

OPEN ARMS OF MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---|----------------------------|-----------------------------------|----------------------------|
| REVENUE AND SUPPORT | | | |
| Contributions | \$ 1,396,857 | \$ - | \$ 1,396,857 |
| Government grants | 589,437 | - | 589,437 |
| Special events, net of direct costs of \$211,013 | 491,755 | - | 491,755 |
| In-kind donations | 33,507 | - | 33,507 |
| Earned income | 109,567 | - | 109,567 |
| Service contract | 580,019 | - | 580,019 |
| Miscellaneous | 5,589 | - | 5,589 |
| Change in value of beneficial interest in charitable remainder trust | - | 2,787 | 2,787 |
| Net assets released from restrictions | 56,980 | (56,980) | - |
| | <u>3,263,711</u> | <u>(54,193)</u> | <u>3,209,518</u> |
| TOTAL REVENUE AND SUPPORT | | | |
| EXPENSES | | | |
| Program services | 2,891,504 | - | 2,891,504 |
| Management and general | 178,532 | - | 178,532 |
| Fundraising | 347,777 | - | 347,777 |
| | <u>3,417,813</u> | <u>-</u> | <u>3,417,813</u> |
| TOTAL EXPENSES | | | |
| CHANGE IN NET ASSETS | (154,102) | (54,193) | (208,295) |
| NET ASSETS, BEGINNING OF YEAR | <u>4,807,133</u> | <u>168,759</u> | <u>4,975,892</u> |
| NET ASSETS, END OF YEAR | <u><u>\$ 4,653,031</u></u> | <u><u>\$ 114,566</u></u> | <u><u>\$ 4,767,597</u></u> |

OPEN ARMS OF MINNESOTA
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

| | 2018 | 2017 |
|---|--|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (175,495) | \$ (208,295) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 188,688 | 174,790 |
| Loss on disposal of equipment | 14,710 | - |
| Change in value of beneficial interest in charitable remainder trust | (2,139) | (2,787) |
| (Increase) Decrease in: | | |
| Grants receivable | 1,601 | 21,317 |
| Inventory | (50,604) | (18,172) |
| Prepaid expenses | (544) | 4,819 |
| (Decrease) Increase in: | | |
| Accounts payable | 49,483 | 40,769 |
| Funds held for others | - | (32,723) |
| Accrued expenses | (10,270) | 66,311 |
| Deferred revenue | (43,575) | 83,725 |
| | NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | 129,754 |
| | (28,145) | 83,725 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (103,888) | (53,679) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Principal payments on notes payable | (9,228) | (8,464) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (141,261) | 67,611 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 443,372 | 375,761 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 302,111 | \$ 443,372 |
| SUPPLEMENTAL CASH FLOWS DISCLOSURES | | |
| Interest paid | \$ 43,760 | \$ 42,088 |

OPEN ARMS OF MINNESOTA
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

| | Program Services | Management and General | Fundraising | Total 2018 | Total 2017 |
|--|---------------------|------------------------------|-------------------|--------------------|--------------------|
| Salaries and taxes | \$1,634,658 | \$ 125,743 | \$ 335,315 | \$2,095,716 | \$1,774,168 |
| Benefits | 235,329 | 13,074 | 13,074 | 261,477 | 183,320 |
| Total Personnel Expenses | 1,869,987 | 138,817 | 348,389 | 2,357,193 | 1,957,488 |
| Containers and paper costs | 182,114 | - | - | 182,114 | 128,581 |
| Food and pantry | 1,072,887 | - | - | 1,072,887 | 618,117 |
| Furniture and equipment, rental and maintenance | 86,884 | 4,827 | 4,827 | 96,538 | 73,047 |
| Insurance | 24,956 | 1,386 | 1,386 | 27,728 | 23,593 |
| Kitchen supplies | 82,749 | - | - | 82,749 | 47,649 |
| Loss on disposal of equipment | - | 14,710 | - | 14,710 | - |
| Miscellaneous | 6,545 | 19,634 | 104,714 | 130,893 | 102,266 |
| Occupancy | 100,589 | 6,706 | 4,471 | 111,766 | 94,914 |
| Office expense | 82,685 | 4,594 | 4,594 | 91,873 | 60,506 |
| Open Farms | 13,020 | - | - | 13,020 | 10,112 |
| Postage | 11,052 | 780 | 1,170 | 13,002 | 13,814 |
| Printing | 24,602 | 2,315 | 2,026 | 28,943 | 30,827 |
| Professional fees | 29,778 | 1,654 | 1,654 | 33,086 | 58,267 |
| Staff mileage and travel | 20,658 | 1,148 | 1,148 | 22,954 | 6,721 |
| Telephone and internet | 12,357 | 727 | 1,454 | 14,538 | 9,639 |
| Volunteer expenses | 8,019 | - | - | 8,019 | 7,482 |
| Depreciation and amortization | 160,385 | 15,095 | 13,208 | 188,688 | 174,790 |
| Total Expenses | \$3,789,267 | \$ 212,393 | \$ 489,041 | \$4,490,701 | \$3,417,813 |

OPEN ARMS OF MINNESOTA
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2017

| | Program Services | Management and General | Fundraising | Total |
|--|---------------------|------------------------------|-------------------|---------------------|
| Salaries and taxes | \$ 1,348,368 | \$ 124,192 | \$ 301,608 | \$ 1,774,168 |
| Benefits | 153,988 | 14,666 | 14,666 | 183,320 |
| Total Personnel Expenses | 1,502,356 | 138,858 | 316,274 | 1,957,488 |
| Containers and paper costs | 128,581 | - | - | 128,581 |
| Food and pantry | 618,117 | - | - | 618,117 |
| Furniture and equipment, rental and maintenance | 65,743 | 3,652 | 3,652 | 73,047 |
| Insurance | 21,233 | 1,180 | 1,180 | 23,593 |
| Kitchen supplies | 47,649 | - | - | 47,649 |
| Miscellaneous | 97,153 | 5,113 | - | 102,266 |
| Occupancy | 85,422 | 5,695 | 3,797 | 94,914 |
| Office expense | 54,456 | 3,025 | 3,025 | 60,506 |
| Open Farms | 10,112 | - | - | 10,112 |
| Postage | 11,742 | 829 | 1,243 | 13,814 |
| Printing | 26,203 | 2,466 | 2,158 | 30,827 |
| Professional fees | 52,441 | 2,913 | 2,913 | 58,267 |
| Staff mileage and travel | 6,049 | 336 | 336 | 6,721 |
| Telephone and internet | 8,193 | 482 | 964 | 9,639 |
| Volunteer expenses | 7,482 | - | - | 7,482 |
| Depreciation and amortization | 148,572 | 13,983 | 12,235 | 174,790 |
| Total expenses | \$ 2,891,504 | \$ 178,532 | \$ 347,777 | \$ 3,417,813 |

NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Mission: With open arms we nourish body, mind, and soul.

Vision: We see a world of abundance where people won't go hungry.

Nature of Activities:

Open Arms of Minnesota (the Organization) accomplishes its mission by preparing and delivering safe, healthy, delicious, and nutritious meals to people living with chronic and progressive diseases including HIV/AIDS, breast cancer, multiple sclerosis (MS) and amyotrophic lateral sclerosis (ALS). The food service program provides two meals, plus a meal enhancement and some breakfast items each day, Monday through Friday, the equivalent of 12 meals per week. The Organization delivered 624,787 and 600,993 meals for the years ended December 31, 2018 and 2017, respectively. Clients are referred to the Organization through a doctor, caseworker, or social worker. The Organization serves people living with disease along with their dependent children and/or affected caregivers throughout the Twin Cities metropolitan area.

Basis of presentation:

The financial statements of Open Arms of Minnesota have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"), which requires the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the Statements of Activities.

**NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(continued)**

Support and Expenses:

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a 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 statement of activities as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

Tax-Exempt Status:

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and similar Minnesota Statutes, except to the extent it has taxable income that is not related to its tax-exempt purpose. Unrelated business income is taxed at federal and state corporate income tax rates. The receipt from income from non-exempt rentals, other food and catering items are subject to taxation as unrelated business income. The Organization did not incur any income tax from unrelated business income.

The Organization has been classified as an Organization that is not a private foundation under the IRC and charitable contributions by donors are tax deductible.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) for uncertain position that more likely than not would not be sustained upon examination by the applicable tax authorities. Federal and state tax authorities generally have the right to examine the current and three previous years of income tax returns. The Organization is not currently under examination by any taxing jurisdiction.

**NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(continued)**

Cash and Cash Equivalents:

For the purpose of the statements of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The Organization maintains its cash balances at a financial institution insured by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2018 and 2017, the Organization had uninsured cash balances of \$0 and \$116,658, respectively.

Grants and Pledges Receivable:

Bad debts are recorded on the allowance method based on historical experience and management's evaluation of outstanding receivables. At December 31, 2018 and 2017, management considered all outstanding amounts to be fully collectible. Accordingly, there was no allowance for doubtful accounts. Receivables at December 31, 2018 and 2017 were all due in less than one year.

Inventories:

Inventories are valued at the lower of cost or market. Cost is determined by the first-in, first-out method.

Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in these financial statements. Actual results could differ from those estimates.

Property and Equipment:

All major expenditures for property and equipment are capitalized at cost. Equipment and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair market values at the date they are received. Depreciation is provided on the straight-line method over the estimated useful lives of the assets of 3-39 years. Whenever assets are retired or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts and any resulting gain or loss is reflected in the financial statements for the period. The cost of maintenance and repairs is charged to expense as incurred.

**NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(continued)**

Government Grants and Contracts:

Government grants and contract funds are recorded as revenue when earned as an exchange transaction. Revenue is earned when eligible expenditures, as defined in each grant or contract, are made. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the Organization will record such disallowance at the time assessment is made.

Functional Expenses:

Expenses are charged to program services based on direct expenditures incurred whenever possible. Any expenditures not directly chargeable are allocated to program services based on management's analysis and estimates of direct personnel hours and labor-related costs. These estimates are revised by management, as necessary, to reflect the current state of the Organization and to provide accurate expense allocations.

Reclassifications:

Certain prior year amounts have been reclassified to conform with the current year presentation. These reclassifications had no effect on previously reported net assets.

New Accounting Pronouncement:

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

Subsequent Events:

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through June 25, 2019, the date the financial statements were available to be issued.

NOTE 2. AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets available for general expenditure within one year.

| | <u>Amount</u> |
|---|--------------------------|
| Financial assets at year-end | |
| Cash and cash equivalents | \$ 302,111 |
| Grants receivable | <u>193,575</u> |
| | |
| Total financial assets | 495,686 |
| | |
| Less amounts not available to be used within one year | |
| Net assets with donor restrictions | 242,066 |
| Less net assets with restrictions to be met in less than one year | <u>(242,066)</u> |
| | |
| Financial assets available to meet general expenditures within one year | <u><u>\$ 495,686</u></u> |

The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses.

NOTE 3. INVENTORY

At December 31, 2018 and 2017, inventory consisted of the following:

| | <u>2018</u> | <u>2017</u> |
|----------------|--------------------------|--------------------------|
| Food items | \$ 77,814 | \$ 32,553 |
| Packaged meals | <u>97,800</u> | <u>92,457</u> |
| | <u><u>\$ 175,614</u></u> | <u><u>\$ 125,010</u></u> |

NOTE 4. BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUST

The Organization has been named as one of three beneficiaries of a charitable remainder trust. This trust will terminate and the principal will be distributed upon the death of the donor. This is an irrevocable trust recorded at net present value. The recordable interest is as follows at December 31, 2018 and 2017:

| | <u>2018</u> | <u>2017</u> |
|--------------------------|-------------------|-------------------|
| Principal value of trust | \$ 155,000 | \$ 155,000 |
| Less: discount at 4% | <u>(46,795)</u> | <u>(48,934)</u> |
| Present value of trust | <u>\$ 108,205</u> | <u>\$ 106,066</u> |

NOTE 5. PROPERTY AND EQUIPMENT

At December 31, 2018 and 2017, property and equipment consisted of the following:

| | <u>2018</u> | <u>2017</u> |
|------------------------------------|---------------------|---------------------|
| Land | \$ 705,000 | \$ 705,000 |
| Building and building improvements | 5,397,526 | 5,376,283 |
| Furniture and equipment | 152,608 | 129,395 |
| Kitchen equipment | 239,488 | 210,398 |
| Vehicles | 52,668 | 42,007 |
| Farm equipment | <u>12,823</u> | <u>12,823</u> |
| | 6,560,113 | 6,475,906 |
| Less: accumulated depreciation | <u>(1,661,776)</u> | <u>(1,479,670)</u> |
| | <u>\$ 4,898,337</u> | <u>\$ 4,996,236</u> |

Depreciation expense was \$188,688 and \$174,790 for the years ended December 31, 2018 and 2017, respectively.

NOTE 6. INVESTMENTS

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Level 2 inputs consist of observable inputs other than quoted prices for identical assets (Level 1). Level 3 inputs are unobservable and have the lowest priority. The Plan uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments.

NOTE 6. INVESTMENTS (continued)

When available, the Plan measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 2 inputs are used for when Level 1 inputs are not available. Level 3 inputs would only be used if Level 1 or Level 2 inputs were not available.

Investments are stated at fair market value, which is based on quoted market prices at December 31, 2018 and 2017. A summary of investments by type is as follows:

| | 2018 | | | |
|---|----------------|----------------|----------------|--------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Beneficial interest in charitable remainder trust | \$ - | \$ - | \$ 108,205 | \$ 108,205 |

| | 2017 | | | |
|---|----------------|----------------|----------------|--------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Beneficial interest in charitable remainder trust | \$ - | \$ - | \$ 106,066 | \$ 106,066 |

The table below presents information about the changes in the beneficial interest in charitable remainder trust which is measured at fair value on a recurring basis using significant unobservable inputs. These unobservable inputs include an estimated discount rate of 4%, as well as an estimated life expectancy of the donor, which is derived from the Social Security Administration actuarial life expectancy table.

| | <u>Amount</u> |
|-------------------------------------|-------------------|
| Balance, January 1, 2017 | \$ 103,279 |
| Change in value in beneficial trust | <u>2,787</u> |
| Balance, January 1, 2018 | 106,066 |
| Change in value in beneficial trust | <u>2,139</u> |
| Balance, December 31, 2018 | <u>\$ 108,205</u> |

NOTE 7. LOAN ORIGINATION FEES

The Organization incurred loan origination fees of \$8,055, which consist of loan costs covering interest and costs incurred securing the loan. These fees are amortized equally over the term of the loan and, for financial statement purposes, are netted against the related loan amount. There is estimated future amortization expense of \$1,342 for the year ending December 31, 2019.

NOTE 8. NOTE PAYABLE

Note payable consisted of the following at December 31, 2018 and 2017:

| | <u>2018</u> | <u>2017</u> |
|---|-------------------|-------------------|
| Note payable, Propel Nonprofit, in monthly installments of \$2,850 and a final installment of \$442,187, including a fixed interest rate of 5.5%. The note matures February 29, 2020 and is secured by land and a building. | \$ 451,618 | \$ 460,846 |
| Note payable, Propel Nonprofit, in monthly installments of \$5,000 and a final installment of \$92,442, including a fixed interest rate of 5.5%. The note matures February 29, 2020 and is secured by land and a building. | <u>150,000</u> | <u>-</u> |
| | 601,618 | 460,846 |
| Less: current portion | (62,535) | (9,089) |
| Less: loan origination fees, net | <u>(1,342)</u> | <u>(2,953)</u> |
| | <u>\$ 537,741</u> | <u>\$ 448,804</u> |

Future maturities of long-term debt are as follows:

| Year ending December 31 | <u>Amount</u> |
|----------------------------|-------------------|
| 2019 | \$ 62,535 |
| 2020 | <u>539,083</u> |
| | <u>\$ 601,618</u> |

NOTE 9. LINE OF CREDIT

During 2018, the Organization has a \$150,000 line of credit agreement with the Propel Nonprofits which expires February 29, 2020. Advances on the line of credit are subject to interest at 5.50% per annum. The Organization had outstanding amounts of \$150,000 on this line of credit agreement at December 31, 2018.

During 2017, the Organization had a \$300,000 line of credit agreement with the Propel Nonprofits which expired November 30, 2018. Advances on the line of credit were subject to interest at 6.50% per annum. The Organization had outstanding amounts of \$300,000 on this line of credit agreement at December 31, 2017.

NOTE 10. NET ASSETS WITH DONOR RESTRICTIONS

As of December 31, 2018 and 2017, net assets with donor restrictions consisted of the following:

| | <u>2018</u> | <u>2017</u> |
|-----------------------------------|-------------------|-------------------|
| Specific Purchase | | |
| Dan Wu volunteer lounge | \$ - | \$ 8,500 |
| Capital improvements | 10,000 | - |
| Provide prepared meals to clients | 26,000 | - |
| Health care program | 10,000 | - |
| Capacity campaign | 20,000 | - |
| Time restricted | <u>178,205</u> | <u>106,066</u> |
| | <u>\$ 244,205</u> | <u>\$ 114,566</u> |

Net assets were released from restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of the passage of time or other events specified by the donors as follows for the years ended December 31, 2018 and 2017:

| | <u>2018</u> | <u>2017</u> |
|-------------------------|-----------------|------------------|
| Dan Wu volunteer lounge | \$ 8,500 | \$ 25,000 |
| Time restricted | <u>-</u> | <u>31,980</u> |
| | <u>\$ 8,500</u> | <u>\$ 56,980</u> |

NOTE 11. OPERATING LEASES

The Organization leases office equipment under operating leases that expire in November 2019. There are future rent commitments of \$5,427 on these leases for the year ending December 31, 2019. Rent expense under these leases was \$19,497 and \$10,991 for the years ended December 31, 2018 and 2017, respectively.

NOTE 12. IN-KIND CONTRIBUTIONS

The Organization records in-kind contributions at fair market value at the date of the donation. In-kind contributions included the following for the years ended December 31, 2018 and 2017:

| | <u>2018</u> | <u>2017</u> |
|----------|------------------|------------------|
| Food | \$ 20,077 | \$ 29,852 |
| Supplies | <u>6,431</u> | <u>3,655</u> |
| | <u>\$ 26,508</u> | <u>\$ 33,507</u> |

During the years ended December 31, 2018 and 2017, the Organization received in-kind contributions for a special event of \$60,731 and \$59,200, respectively. Both the revenue and expense are reported on the statements of activities as special events revenue and expense. The Organization's home-delivered meals program is performed primarily by volunteers. The value of these volunteer hours are not reflected in the financial statements because they are not amenable to objective measurement. For the year ended December 31, 2018, management estimates approximately 7,540 volunteers worked 70,421 hours in kitchen meal prep work, meal deliveries, and administrative volunteer services, which translates to approximately 34 FTE's (Full Time Equivalent staff positions). For the year ended December 31, 2017, management estimates approximately 7,400 volunteers worked 68,732 hours in kitchen meal prep work, meal deliveries, and administrative volunteer services, which translates to approximately 33 FTE's (Full Time Equivalent staff positions).

NOTE 13. PENSION PLAN

Effective January 1, 2015, the Organization switched its 403(b) Retirement Plan to a 401(k) retirement plan. The plan covers those employees who meet certain eligibility requirements as defined in the plan. Employer contributions are discretionary. The Organization made no contributions for the plans for the years ended December 31, 2018 and 2017.