

NEIGHBORS, INC.

FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2011

NEIGHBORS, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Neighbors, Inc.
South St. Paul, Minnesota

We have audited the accompanying statement of financial position of Neighbors, Inc. (a nonprofit organization) as of December 31, 2011 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2010 financial statements and, in our report dated July 5, 2011 we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neighbors, Inc. as of December 31, 2011 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Olsen Thielen & Co., Ltd.

St. Paul, Minnesota
July 5, 2012

NEIGHBORS, INC.

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2011
(WITH COMPARATIVE AMOUNTS AT DECEMBER 31, 2010)**

ASSETS		
	2011	2010
CURRENT ASSETS:		
Cash	\$ 428,891	\$ 485,889
Certificates of Deposit	77,050	138,960
Pledge Receivables	367,908	-
Other Receivables	1,150	2,700
Gift Certificates	5,765	6,318
Prepaid Expenses	1,558	3,001
Inventory	239,069	262,872
Total Current Assets	1,121,391	899,740
OTHER ASSETS:		
Pledge Receivables, Net	324,950	-
Endowment Fund Investments	289,547	292,663
Investments	51,416	48,855
Total Other Assets	665,913	341,518
PROPERTY AND EQUIPMENT, NET	1,586,010	906,972
TOTAL ASSETS	\$ 3,373,314	\$ 2,148,230
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current Portion of Long-Term Debt	\$ 51,000	\$ -
Accounts Payable	39,496	41,067
Accrued Vacation	30,479	30,479
Total Current Liabilities	120,975	71,546
LONG-TERM DEBT	949,000	750,000
NET ASSETS:		
Unrestricted Net Assets:		
Board Designated for Capital Campaign	267,832	329,254
Board Designated for Endowment Fund	118,006	121,122
Undesignated	1,053,952	632,291
Total Unrestricted Net Assets	1,439,790	1,082,667
Temporarily Restricted Net Assets	692,008	72,476
Permanently Restricted Net Assets	171,541	171,541
Total Net Assets	2,303,339	1,326,684
TOTAL LIABILITIES AND NET ASSETS	\$ 3,373,314	\$ 2,148,230

The accompanying notes are an integral part of the financial statements.

NEIGHBORS, INC.

STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2011 (WITH SUMMARIZED TOTALS FOR THE YEAR ENDED DECEMBER 31, 2010)

	2011			2010 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE:				
Support:				
United Way Contributions	\$ 138,598	\$ -	\$ -	\$ 138,598
Contributions, Cash and Securities	436,779	-	-	436,779
Contributions, In-Kind	1,873,982	-	-	1,873,982
Foundation Grants	719,683	692,008	-	1,411,691
Total Support	<u>3,169,042</u>	<u>692,008</u>	<u>-</u>	<u>3,861,050</u>
Revenue:				
Government Fees	66,289	-	-	66,289
Sales to Public	80,693	-	-	80,693
Investment Income	3,453	-	-	3,453
Rental and Other Income	62,441	-	-	62,441
Total Revenue	<u>212,876</u>	<u>-</u>	<u>-</u>	<u>212,876</u>
Net Assets Released from Restrictions	<u>72,476</u>	<u>(72,476)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>3,454,394</u>	<u>619,532</u>	<u>-</u>	<u>4,073,926</u>
EXPENSES:				
Program Services	2,790,667	-	-	2,790,667
Management and General	167,270	-	-	167,270
Fundraising	139,334	-	-	139,334
Total Expenses	<u>3,097,271</u>	<u>-</u>	<u>-</u>	<u>3,097,271</u>
CHANGE IN OPERATING NET ASSETS	357,123	619,532	-	976,655
NONOPERATING LOSS:				
Building Sale Loss	-	-	-	(99,646)
CHANGE IN NET ASSETS	357,123	619,532	-	976,655
NET ASSETS at Beginning of Year	<u>1,082,667</u>	<u>72,476</u>	<u>171,541</u>	<u>1,326,684</u>
NET ASSETS at End of Year	<u>\$ 1,439,790</u>	<u>\$ 692,008</u>	<u>\$ 171,541</u>	<u>\$ 2,303,339</u>

The accompanying notes are an integral part of the financial statements.

NEIGHBORS, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2011 (WITH SUMMARIZED TOTALS FOR THE YEAR ENDED DECEMBER 31, 2010)

	2011						Total Expenses	
	Program Services			Supportive Services			2011	2010
	Emergency Assistance	Supportive Assistance	Total Program	Management and General	Fundraising			
Salaries	\$ 332,499	\$ 100,277	\$ 432,776	\$ 63,333	\$ 31,667	\$ 527,776	\$ 464,415	
Employee Benefits	40,498	12,214	52,712	7,715	3,857	64,284	87,449	
Payroll Taxes	29,505	8,898	38,403	5,620	2,810	46,833	37,435	
Total Salaries and Benefits	<u>402,502</u>	<u>121,389</u>	<u>523,891</u>	<u>76,668</u>	<u>38,334</u>	<u>638,893</u>	<u>589,299</u>	
Professional Fees	17,079	5,151	22,230	3,253	1,627	27,110	41,498	
Insurance	16,352	4,932	21,284	3,115	1,557	25,956	21,868	
Postage	4,564	1,377	5,941	869	435	7,245	9,278	
Printing	6,137	1,851	7,988	1,169	584	9,741	7,020	
Advertising	14,814	4,468	19,282	2,822	1,411	23,515	27,648	
Supplies	9,403	2,836	12,239	1,790	896	14,925	9,735	
Telephone	5,823	1,756	7,579	1,108	555	9,242	9,155	
Building Repairs and Maintenance	21,110	6,367	27,477	4,021	2,010	33,508	19,697	
Building Moving Costs	12,133	3,659	15,792	2,311	1,155	19,258	-	
Utilities	16,379	4,940	21,319	3,120	1,560	25,999	13,278	
Property Taxes	20,583	6,208	26,791	3,921	1,960	32,672	-	
Equipment Maintenance	4,436	1,338	5,774	844	422	7,040	6,809	
Occupancy	28,479	8,589	37,068	5,424	2,712	45,204	9,000	
Conferences	10,121	3,052	13,173	1,928	964	16,065	11,816	
Travel	6,076	1,833	7,909	1,157	579	9,645	7,192	
Transportation Services	-	9,332	9,332	-	-	9,332	9,554	
Other Supportive Services	-	-	-	-	-	-	12,020	
Cash Assistance to Families	85,012	-	85,012	-	-	85,012	101,925	
Non-Cash Assistance to Families	1,886,969	-	1,886,969	-	-	1,886,969	1,605,959	
Garlough/Convington Collaborative	-	1,253	1,253	-	-	1,253	769	
Capital Campaign	-	-	-	-	80,205	80,205	67,410	
Interest	-	-	-	49,013	-	49,013	4,610	
Miscellaneous	5,961	1,798	7,759	1,136	566	9,461	6,936	
Depreciation	18,904	5,701	24,605	3,601	1,802	30,008	25,066	
Total	<u>\$ 2,592,837</u>	<u>\$ 197,830</u>	<u>\$ 2,790,667</u>	<u>\$ 167,270</u>	<u>\$ 139,334</u>	<u>\$ 3,097,271</u>	<u>\$ 2,617,542</u>	

The accompanying notes are an integral part of the financial statements.

NEIGHBORS, INC.

STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2011 (WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2010)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 976,655	\$ 51,467
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operating Activities:		
Depreciation	30,008	25,066
Reinvestment of Dividends and Interest	(9,604)	(6,500)
Unrealized (Gains) Losses on Investments	10,159	(17,700)
Loss on Sale of Property	-	99,646
Changes in Assets and Liabilities:		
Pledge Receivables	(692,858)	-
Other Receivables	1,550	250
Gift Certificates	553	310
Prepaid Expenses	1,443	-
Inventory	23,803	(39,214)
Accounts Payable	(1,571)	33,721
Accrued Vacation	-	3,368
Net Cash Provided By Operating Activities	340,138	150,414
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of Certificates of Deposit	138,960	168,245
Purchase of Certificates of Deposit	(77,050)	(138,960)
Purchase of Investments	-	(5,326)
Proceeds From Sale Of Property, Net of Closing Costs	-	256,673
Purchase of Property and Equipment	(709,046)	(933,016)
Net Cash Used In Investing Activities	(647,136)	(652,384)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Long-Term Debt	250,000	750,000
NET INCREASE (DECREASE) IN CASH	(56,998)	248,030
CASH at Beginning of Year	485,889	237,859
CASH at End of Year	\$ 428,891	\$ 485,889

The accompanying notes are an integral part of the financial statements.

NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Neighbors, Inc. (the Organization) is a nonprofit organization created by local churches in 1972 to address unmet needs in northern Dakota County, Minnesota. The principal purpose of the Organization is to provide neighborly assistance, in an organized fashion, primarily through the use of volunteers. Emergency services include the clothes closet, food shelf emergency grants and holiday assistance. Supportive services include transportation, tele-care, support groups, partnership initiative, parent support network and parish nurse program.

Basis of Presentation

In the accompanying financial statements, net assets that have similar characteristics have been combined into categories as follows:

Unrestricted – Net assets over which the Board of Directors has discretionary control.

Temporarily Restricted – Net assets whose use by the Organization is subject to donor-imposed stipulations that can be fulfilled by actions pursuant to those stipulations or that expire with the passage of time.

Permanently Restricted – Net assets subject to donor imposed restrictions that they be maintained permanently by the Organization. The donors have permitted the Organization to use all or part of the income earned, including capital appreciation, for unrestricted or temporarily restricted purposes. Permanently restricted net assets consist of investments restricted for the endowment fund.

Accounting Estimates

The presentation 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 of assets and liabilities and disclosure of contingent 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.

Subsequent Events

In preparing these financial statements, the Organization has evaluated for recognition or disclosure the events or transactions that occurred through July 5, 2012, the date the financial statements were available to be issued.

Certificates of Deposit

Certificates of deposit are those with maturities of less than one year but greater than three months when purchased. These investments are readily convertible to cash and are stated at cost plus accrued interest, which approximates fair value.

Receivables

Receivables are reported at the amount the Organization expects to collect on balances outstanding at year-end. Write-off of accounts receivable occurs when all collection efforts have been exhausted or certain conditions or forgiveness have been reached. The Organization has concluded that losses on balances outstanding at year-end will be immaterial.

NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values. Fair value is determined by reference to quoted prices in active markets. Unrealized gains and losses are included in the statement of activities.

Inventory

Inventory consists of donated food, clothing and toys. Donated food and toys are valued at fair market value based on retail or wholesale prices of similar items. Donated clothing is valued at fair market value based on prices used in the Organization's clothes closet.

Property and Equipment

Property and equipment are recorded at original cost. Additions, improvements or major renewals are capitalized. If items of property are sold, retired or otherwise disposed of, they are removed from the asset and accumulated depreciation accounts and any gains or losses thereon are reflected in the statement of activities.

Depreciation is computed using the straight-line method at rates based on the estimated service lives of the various assets as follows:

Building and Improvements	40 Years
Office Equipment	3-10 Years
Furniture and Fixtures	5-15 Years

Revenue Recognition and Pledge Receivables

Government grants and contract revenue are recognized when earned. 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 the final assessment is made.

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Contributed materials are recorded as contributions, when received, at their fair market value when such value can be objectively and accurately determined.

Functional Allocation of Expenses

The costs of providing various programs and services are summarized on a functional basis on the statement of activities. Accordingly, certain costs were allocated among the programs or services benefited based on best estimates by management.

NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Organization is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code, as amended. The Organization is also exempt from Minnesota income taxes. The Organization is subject to income taxes on unrelated business income due to the rental of debt-financed property and has determined that any liability would be insignificant.

The Organization reviews income tax positions taken or expected to be taken in income tax returns to determine if there are any income tax uncertainties. The Organization recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by taxing authorities, based on the technical merits of the positions. The Organization has identified no income tax uncertainties.

The Organization's federal and state tax returns are open to examination for tax years 2008 through 2010.

Advertising

Advertising costs are expensed as incurred. Total advertising expenses were \$23,515 for 2011.

Fair Value Measurements

Under generally accepted accounting principles, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The accounting standards establish a three-level fair value hierarchy that prioritizes information used in developing assumptions when pricing an asset or liability as follows:

Level 1 - Observable inputs such as quoted prices in active markets;

Level 2 - Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and,

Level 3 - Unobservable inputs where there is little or no market data, which requires the reporting entity to develop its own assumptions.

The Organization uses observable market data, when available, in making fair value measurements. Fair value measurements are classified according to the lowest level input that is significant to the valuation.

The Organization holds certain assets that are required to be measured at fair value on a recurring basis. The fair values of the Organization's Endowment Fund investments and other investments were determined by reference to quoted prices in active markets, which are Level 1 inputs. The Organization also holds inventories of donated food and toys valued at fair market value based on retail or wholesale prices of similar items and donated clothing valued at fair market value based on prices used in the Organization's clothes closet. These inventory valuations inputs are considered Level 2 inputs.

Summarized Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or by functional expense. In order to constitute a presentation in conformity with generally accepted accounting principles, information by net asset class and functional expense would be required. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2010, from which the summarized information was derived.

NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain summarized information has been reclassified to conform with the present year presentation. These reclassifications had no effect on change in net assets for either period.

NOTE 2 - PLEDGE RECEIVABLES

Promises to give consist of capital campaign pledges. Pledge receivables are due as follows for the year ended December 31, 2011:

2012	\$ 367,908
2013	<u>335,000</u>
	702,908
Less Discount at 3%	<u>10,050</u>
Total	<u>\$ 692,858</u>

NOTE 3 - INVESTMENTS AND ENDOWMENT FUNDS

Endowment fund investments consist of mutual funds. The endowment fund includes permanently restricted contributions of \$171,541 as of December 31, 2011. The remaining endowment funds are unrestricted.

Endowment funds at December 31, 2011 consist of the following:

Mutual Funds:

Federated Total Return Bond Fund	\$ 96,130
Franklin Mutual Shares Fund	51,572
Growth Fund of America	109,132
Templeton World Fund	<u>32,713</u>
Total	<u>\$ 289,547</u>

Other investments are stated at their fair market value of \$51,416 at December 31, 2011 and consist of preferred stock.

Investment return on all investments consists of the following:

Interest and Dividend Income	\$ 13,612
Net Unrealized Investment Losses	<u>(10,159)</u>
Total	<u>\$ 3,453</u>

NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Land	\$ 225,000
Building and Improvements	1,294,733
Office Equipment and Furniture	<u>146,995</u>
Total Property and Equipment	1,666,728
Less Accumulated Depreciation	<u>80,718</u>
Net Property and Equipment	<u>\$ 1,586,010</u>

In 2010, the Organization sold their headquarter building for \$275,000. A loss of \$99,646 was recorded on the sale.

In 2010, the Organization purchased a new headquarter building for \$882,000. The purchase included a contract for deed of \$750,000, which is further discussed in Note 5.

NOTE 5 - LONG-TERM DEBT

Long-term debt consists of the following:

Contract for deed payable, dated November 23, 2010. Interest rate of 6% until December 1, 2015, and then shall accrue at 2.75% over the Wall Street Journal prime rate. However, the rate cannot be less than 5% and not greater than 9%. The entire balance is due on December 1, 2020, and is secured by property.	\$ 750,000
Note payable, dated January 12, 2011. Due in monthly payments between \$5,500 and \$10,000, including interest of 6.75% until December 31, 2014. The note is secured by property.	<u>250,000</u>
Total Funded Debt	1,000,000
Less Current Portion	<u>51,000</u>
Total Long-Term Debt	<u>\$ 949,000</u>

Cash paid for interest was \$45,263 for 2011.

Principal payments required during the next five years are: 2012 - \$51,000; 2013 - \$82,000; 2014 - \$117,000; 2015 - \$0; 2016 - \$0; thereafter \$750,000.

NOTE 6 - PENSION PLAN

The Organization participates in a defined contribution 403(b) pension plan which covers substantially all of the Organization's employees. Expense for the plan was \$11,384 for the year ended December 31, 2011.

NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - PENSION PLAN (Continued)

The Organization also participates with the United Way and other United Way affiliated agencies in a multi-employer defined benefit pension plan. Pension expense was \$12,898 for the year ended December 31, 2011. The participants in the defined benefit pension plan agreed to freeze the pension plan effective December 31, 2004. At the time the plan was frozen, a portion of the plan obligation was unfunded. The plan administrator is working to establish the amount of the unfunded obligation and to allocate the amount among the various agencies that participated in the plan. The Organization's portion of the unfunded obligation has not yet been determined and thus is not reflected in the financial statements.

NOTE 7 - ENDOWMENT FUNDS

The purpose of the endowment fund is to ensure financial stability by providing a steady stream of investment income which is available for restricted and unrestricted purposes. The Organization's endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors. Net assets associated with the endowment funds, including funds designated by the Board, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of Neighbors, Inc. has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as board designated unrestricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers 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 purpose 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 from income and the appreciation of investments.
- (6) Other resources of the Organization.
- (7) The investment policies of the Organization.

NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - ENDOWMENT FUNDS (Continued)

The Organization has adopted investment and spending policies for investment assets to support the mission by providing earnings and capital appreciation to support agency programs, capital expenditures, and board-directed initiatives through a strategic plan that strives to maintain and grow the investment corpus and provide annual earnings to support the Organization's mission. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that preserve the inflation-adjusted value of the fund and maximize total return. The Organization targets a diversified asset allocation that places an emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Finance Committee of Neighbors, Inc. will review and recommend any amount to be distributed from the endowment assets on an as-needed basis.

Changes in endowment net assets for the year ended December 31, 2011 are as follows:

	<u>Permanently Restricted</u>	<u>Board Designated</u>	<u>Total</u>
BALANCE on December 31, 2010	\$ 171,541	\$ 121,122	\$ 292,663
Investment Activity:			
Unrealized Losses	–	(10,520)	(10,520)
Interest and Dividend Income	<u>–</u>	<u>7,404</u>	<u>7,404</u>
BALANCE on December 31, 2011	<u>\$ 171,541</u>	<u>\$ 118,006</u>	<u>\$ 289,547</u>

NOTE 8 - NET ASSETS

Temporarily program restricted net assets at December 31, 2011 consist of pledge receivables that are restricted for the capital campaign.

Temporarily restricted net assets released from restriction were \$72,476 in 2011. Temporarily restricted net assets were released from restriction due to satisfaction of program restrictions.