

Neighbors, Inc.

Financial Statements Together with Independent Auditors' Report

June 30, 2021

NEIGHBORS, INC.

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Neighbors, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 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 Neighbors, Inc. as of June 30, 2021 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Neighbors, Inc.'s 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 14, 2020. In, our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Roseville, Minnesota
October 11, 2021

Olsen Thielens & Co., Ltd

NEIGHBORS, INC.

STATEMENT OF FINANCIAL POSITION JUNE 30, 2021 (With Comparative Amounts at June 30, 2020)

ASSETS		
	2021	2020
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 555,484	\$ 473,522
Certificates of Deposit	106,124	105,830
Pledge Receivables	517	3,400
Prepaid Expenses	12,032	11,574
Inventory	135,160	192,461
Total Current Assets	809,317	786,787
OTHER ASSETS:		
Endowment Fund Investments	752,150	600,256
PROPERTY AND EQUIPMENT, NET	1,595,000	1,461,667
TOTAL ASSETS	\$ 3,156,467	\$ 2,848,710
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current Portion of Long Term Debt	\$ 5,900	\$ 5,600
Accounts Payable	14,323	9,348
Accrued Salaries	8,561	-
Accrued Vacation	34,912	33,377
Refundable Advances	50,831	-
Total Current Liabilities	114,527	48,325
LONG-TERM LIABILITIES		
Note Payable	-	150,500
Long-Term Debt	45,438	58,041
Total Long-Term Liabilities	45,438	208,541
NET ASSETS:		
Without Donor Restrictions:		
Board Designated for Operating Reserve	22,306	163,916
Board Designated for Endowment Fund	533,235	380,643
Undesignated	2,221,348	1,827,672
Total Net Assets without Donor Restriction	2,776,889	2,372,231
Net Assets with Donor Restrictions	219,613	219,613
Total Net Assets	2,996,502	2,591,844
TOTAL LIABILITIES AND NET ASSETS	\$ 3,156,467	\$ 2,848,710

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

NEIGHBORS, INC.

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2021

(With Summarized Totals for the Year Ended June 30, 2020)

	2021			2020
	Without Donor Restriction	With Donor Restriction	Total	Total
SUPPORT AND REVENUE:				
Support:				
Contributions, Cash and Securities	\$ 1,047,117	\$ -	\$ 1,047,117	\$ 846,442
Contributions, In-Kind	1,759,243	-	1,759,243	2,246,867
Government Grants	73,758	-	73,758	40,101
PPP Loan Forgiveness	150,500	-	150,500	-
Foundation Grants	238,256	-	238,256	262,822
Total Support	3,268,874	-	3,268,874	3,396,232
Revenue:				
Investment Income	176,328	-	176,328	41,427
Sales to Public	31,290	-	31,290	96,504
Total Revenue	207,618	-	207,618	137,931
Net Assets Released from Restrictions	-	-	-	-
Total Support and Revenue	3,476,492	-	3,476,492	3,534,163
EXPENSES:				
Program Services	2,857,294	-	2,857,294	3,345,594
Management and General	143,407	-	143,407	142,848
Fundraising	71,133	-	71,133	71,423
Total Expenses	3,071,834	-	3,071,834	3,559,865
CHANGE IN NET ASSETS	404,658	-	404,658	(25,702)
NET ASSETS at Beginning of Year	2,372,231	219,613	2,591,844	2,617,546
NET ASSETS at End of Year	\$ 2,776,889	\$ 219,613	\$ 2,996,502	\$ 2,591,844

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

NEIGHBORS, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2021

(With Summarized Totals for the Year Ended June 30, 2020)

	2021					Total Expenses	
	Program Services			Supportive Services		2021	2020
	Emergency Assistance	Supportive Assistance	Total Program	Management and General	Fundraising		
Salaries	\$ 481,799	\$ 145,304	\$ 627,103	\$ 91,771	\$ 45,886	\$ 764,760	\$ 715,372
Employee Benefits	58,208	17,555	75,763	11,087	5,544	92,394	151,273
Payroll Taxes	36,404	10,979	47,383	6,934	3,467	57,784	51,783
Total Salaries and Benefits	<u>576,411</u>	<u>173,838</u>	<u>750,249</u>	<u>109,792</u>	<u>54,897</u>	<u>914,938</u>	<u>918,428</u>
Non-Cash Assistance to Families	1,878,644	-	1,878,644	-	-	1,878,644	2,357,121
Depreciation	37,402	11,280	48,682	7,124	3,562	59,368	55,222
Professional Fees	11,235	3,388	14,623	2,140	1,070	17,833	11,132
Utilities	32,622	9,838	42,460	6,214	3,107	51,781	60,935
Building Repairs and Maintenance	26,459	7,980	34,439	5,040	2,520	41,999	38,943
Insurance	14,126	4,260	18,386	2,691	1,345	22,422	18,524
Miscellaneous	16,299	4,916	21,215	3,105	1,552	25,872	37,881
Transportation Services	-	6,502	6,502	-	-	6,502	12,355
Printing	6,817	2,056	8,873	1,298	649	10,820	12,117
Conferences	9,429	2,844	12,273	1,796	898	14,967	8,294
Supplies	4,397	1,326	5,723	837	419	6,979	8,851
Travel	2,676	807	3,483	510	255	4,248	5,217
Equipment Maintenance	5,536	1,670	7,206	1,055	527	8,788	9,648
Postage	3,485	1,051	4,536	664	332	5,532	5,197
Interest	-	-	-	1,141	-	1,141	-
Total	<u>\$ 2,625,538</u>	<u>\$ 231,756</u>	<u>\$ 2,857,294</u>	<u>\$ 143,407</u>	<u>\$ 71,133</u>	<u>\$ 3,071,834</u>	<u>\$ 3,559,865</u>

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

NEIGHBORS, INC

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2021

(With Comparative Amounts for the Year Ended June 30, 2020)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 404,658	\$ (25,702)
Adjustments to Reconcile Change in Net Assets to Net Cash Flows From Operating Activities:		
Depreciation	59,368	55,222
Reinvestment of Dividends and Interest	(10,304)	(31,484)
Net Realized and Unrealized Gains on Investments	(154,720)	(7,017)
PPP Loan Forgiveness	(150,500)	-
Changes in Assets and Liabilities:		
Pledge Receivables	2,883	(3,150)
Prepaid Expenses	(458)	459
Inventory	57,301	58,208
Accounts Payable	4,975	3,112
Accrued Salaries	8,561	-
Accrued Vacation	1,535	15,059
Refundable Advances	50,831	-
Net Cash Flows From Operating Activities	274,130	64,707
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of Certificates of Deposit	105,830	104,644
Purchase of Certificates of Deposit	(106,124)	(105,830)
Purchase of Investments	(36,875)	(101,353)
Sale of Investments	50,005	101,353
Purchase of Property and Equipment	(192,701)	(10,984)
Net Cash Flows From Investing Activities	(179,865)	(12,170)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Note Payable	-	150,500
Proceeds from Long-Term Debt	-	67,170
Principal Payments on Long-Term Debt	(12,303)	(3,529)
Net Cash Flows From Financing Activities	(12,303)	214,141
NET CHANGE IN CASH AND CASH EQUIVALENTS	81,962	266,678
CASH AND CASH EQUIVALENTS at Beginning of Year	473,522	206,844
CASH AND CASH EQUIVALENTS at End of Year	\$ 555,484	\$ 473,522
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash Payments For:		
Interest	\$ 2,911	\$ 2,031

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 Activities

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 and partnership initiative.

Basis of Presentation

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

Net Assets without Donor Restrictions - Net assets without donor restrictions are resources available to support operations which the Organization has discretionary control. Designated amounts represent those revenues which the Organization has set aside for a particular purpose.

Net Assets with Donor Restrictions - Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the Organization must continue to use the resources in accordance with the donor's instructions.

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 October 11, 2021, the date the financial statements were available to be issued. There were no subsequent events that required recognition or disclosure in the financial statements.

Cash Equivalents

The Organization considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents are stated at cost, which approximates market value.

NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Certificates of Deposit

Short-term interest bearing investments are those with maturities of less than one year but greater than three months when purchased. Certificates with maturity dates beyond one year are classified as noncurrent assets. These investments are readily convertible to cash and are stated at cost plus accrued interest, which approximates fair value.

Receivables

Receivables are reported at net realizable value. The Organization monitors outstanding balances and periodically writes off balances that are determined to be uncollectible. The Organization has concluded that losses on balances outstanding at year-end will be immaterial.

Investments

Investments in marketable securities are stated at fair value, which is determined by quoted market prices in active markets. Realized and unrealized gains and losses are included in the statement of activities. Realized gains and losses are determined using the specific identification method. Interest and dividend income are reported as income when earned.

In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and such changes could materially affect the investment balances.

In Kind Contributions and Inventory

Inventories at June 30, 2021 consist of donated food, toys, clothing and gift certificates. Inventory is valued at the lower of cost or net realizable value. Cost for donated food is determined using the value of food per pound calculated by Feeding America through a study of approximate average wholesale value of one pound of donated product at the national level. Other items are valued at the amount paid for similar items. Donated clothing is valued at net realizable value based on prices used in the Organization's clothes closet. In-kind contributions received for the year ended June 30, 2021 consist of the following:

Food	\$ 1,732,624
Toys and Clothes	22,149
Other	<u>4,470</u>
Total	<u>\$ 1,759,243</u>

Many individuals have donated time and services to advance the Organization's programs and objectives. The value of these services has not been recorded in the financial statements because it does not meet the definition of recognition under generally accepted accounting principles.

NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 for 2021:

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

Revenue Recognition

Effective July 1, 2020, the Organization adopted Accounting Standards Update (ASU) 2014-09 *Revenue from Contracts with Customers* (Topic 606) and all subsequently issued clarifying ASU's which replaced most existing revenue recognition guidance in US Generally Accepted Accounting Principles (GAAP). The new guidance requires the Organization to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services. The new guidance also requires expanded disclosures related to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The adoption of this new guidance was done using the modified retrospective method. The Organization applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of July 1, 2020. Results for reporting periods beginning after July 1, 2020, are presented under Topic 606 while prior periods amounts are not adjusted and continue to be reported in accordance with legacy GAAP.

The adoption of this new standard did not result in a material impact to the Organization's financial statements. There was no significant effect on the financial statements related to the adoption of this new standard which would require a cumulative effect adjustment to net assets at the date of adoption under the modified retrospective method.

As a practical expedient, the Organization groups similar contracts or similar performance obligations together into portfolios of contracts if doing so does not result in a significant difference from applying the new accounting standard to the individual contracts.

Contribution and Grant Revenue

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. Conditional promises to give are not recognized until they become unconditional. 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 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, 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. Donor-imposed contributions are reported as net assets with donor restrictions, even if it is anticipated such restrictions will be met in the current reporting period.

NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Government Grants and Contract Revenue

Government grants and contract revenue are recognized when earned. Revenue is earned when eligible expenditures, as defined in each grant or contract, are made. Refundable advances consist of contract revenue received but not yet expended. 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. Management believes that any disallowances, if any, would not have a significant effect on the statement of financial position.

Functional Allocation of Expenses

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program are allocated directly according to their natural expenditure classification. General and administrative expenses that are common to several functions are allocated based on the proportion of each program's direct and personnel expenses to the total program direct and personnel expenses.

Income Taxes

The Organization is exempt from Federal and State income taxes under Section 501(c)(3) of the Internal Revenue Code but is subject to income tax on net unrelated business income. The Organization had no unrelated business income tax in 2021.

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 significant income tax uncertainties. The Organization files information returns as a tax-exempt organization. Should that status be challenged in the future, all years since inception could be subject to review by the IRS.

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.

NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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.

Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash. The Organization places its cash with high credit quality financial institutions and, by policy, generally limits the amount of credit exposure to any one financial institution. The Organization had a credit risk concentration as a result of depositing \$304,000 of funds in excess of insurance limits in a single bank.

Recently Issued Accounting Pronouncements

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*, which provides guidance for accounting for leases. The new guidance requires companies to recognize the assets and liabilities for the rights and obligations created by leased assets, initially measured at the present value of the lease payments. The accounting guidance for lessors is largely unchanged. This ASU is effective for annual periods beginning after December 15, 2021 and interim periods beginning after December 15, 2022 with early adoption permitted. It is to be adopted using the modified retrospective approach. The Organization is currently evaluating this guidance to determine the impact it may have on its financial statements.

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 June 30, 2020, from which the summarized information was derived.

Risks and Uncertainties

In March 2020, the World Health Organization declared the novel strain of the coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The Organization cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption from this pandemic may impact the Organization's operations and financial statements.

NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - INVESTMENTS AND ENDOWMENT FUNDS

Endowment fund investments consist of mutual funds. The endowment fund includes donor restricted contributions of \$219,613 as of June 30, 2021. The remaining endowment funds are without donor restriction.

Endowment funds at June 30, 2021 consist of the following:

Growth Fund of America	\$ 297,176
Federated Total Return Bond Fund	104,157
Franklin Mutual Shares Fund	66,103
Templeton World Fund	66,538
International Bond Fund of America	57,560
Franklin Mutual Global	47,953
Strategic Bond A	46,767
Smallcap World	35,829
Federated Equity Income	<u>30,067</u>
Total	<u>\$ 752,150</u>

Investment return consists of the following for the year ended June 30, 2021:

Interest and Dividend Income	\$ 21,608
Net Realized and Unrealized Investment Gains	<u>154,720</u>
Total	<u>\$ 176,328</u>

NOTE 3 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization maintains and manages adequate operating reserves per policies set by the board of directors. The Finance Committee regularly reviews and recommends reserve policies to the board of directors for approval.

The Organization's endowment funds consist of donor-restricted and quasi-endowments. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure. Quasi-endowments are not expected to be spent within the next year although the Board of Directors can re-designate these funds for general expenditure if needed.

Financial assets available for general expenditure, without donor or other restrictions limiting their use, within one year of June 30, 2021, are as follows:

Financial Assets:	
Cash and Cash Equivalents	\$ 555,484
Certificates of Deposit	106,124
Pledge Receivables	517
Endowment Investments	<u>752,150</u>
Total Financial Assets	<u>1,414,275</u>
Less Donor Imposed Purpose and Perpetual Restricted Net Assets	219,613
Less Unrestricted Designated Endowment Net Assets	<u>533,235</u>
Amounts Available for General Expenditure Within One Year	<u>\$ 661,427</u>

NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2021:

Land	\$ 225,000
Building and Improvements	1,715,011
Office Equipment and Furniture	190,911
Vehicle	71,383
Total Property and Equipment	<u>2,202,305</u>
Less Accumulated Depreciation	<u>607,305</u>
Net Property and Equipment	<u>\$ 1,595,000</u>

NOTE 5- PPP LOAN AND FORGIVENESS

In March 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law. Part of CARES was the Paycheck Protection Program (PPP) which allowed for organizations to apply for a potentially forgivable loan if the proceeds were used for the specified purposes. In April 2020, the Organization received a \$150,500 loan from the PPP program and used it for the designated purposes. On January 20, 2021, the Organization received a forgiveness letter from the SBA for the full amount received. The loan forgiveness was recorded as a gain on forgiveness of debt in the Statement of Activities in the current period.

NOTE 6 - LONG-TERM DEBT

Long-term debt consists of a note payable to a bank in monthly installments of \$695 including 4.36% interest. The note matures October 1, 2024 and is secured by a deposit cash account. Principal payments required during the next 4 years are: 2022- \$5,900; 2023- \$6,200; 2024-\$6,400 and 2025- \$32,838. Cash payments for interest were \$2,911 for 2021.

NOTE 7 - 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 \$23,384 for the year ended June 30, 2021.

The Organization also participated in a multiple employer defined benefit pension plan in which 16 other agencies also participated. Of the approximate 1,100 participants, 1% are the Organization's employees. Effective December 31, 2004, the plan froze benefit accruals and, as a result, employees do not earn additional defined benefits for future services.

NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - PENSION PLAN (Continued)

As required by GAAP for this plan, an employer shall recognize as net pension cost the required contribution for the period and shall recognize as a liability any contribution due and unpaid. The funding is determined by the actuary and is allocated based on employee compensation among the participating agencies. The objective in funding the plan is to accumulate sufficient funds to provide for benefits and to achieve full funding to allow for termination of the plan. Because the plan's unfunded projected termination liability exceeds the fair market value of plan assets, continued annual contributions will be required in order to achieve full funding. If any participating agency defaults on their annual contributions, the remaining agencies assume the liability and contributions of the agency in default. Plan assets are invested based on a long-term investment strategy and held approximately 30% in fixed income securities and 70% in equity accounts.

In 2020, the multiple employer defined pension plan was dissolved. Each participating agency assumed their share of the liability as of September 18, 2019. The Organization assumed a liability (promissory note) of \$67,170 that will be paid in 60 monthly installments of \$695, including interest of 4.36% (see note 6). The promissory note is secured by a deposit cash account. The promissory note balance was \$51,338 at June 30, 2021.

NOTE 8 - 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 Organization has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the prudent expenditure of donor-restricted endowment funds. Unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the Organization. In making a determination to appropriate, an organization shall act in good faith with the care that a prudent person would exercise. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (perpetual endowments) (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual 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 as perpetual endowments is classified as term endowments until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

The Organization considers an endowment fund to be underwater if the fair value of the fund is less than the sum of (1) the original value of initial and subsequent gifts donated to the fund and (2) any accumulations to the fund that are required to be maintained in perpetuity in accordance with applicable donor gift instrument. The Organization has interpreted UPMIFA to permit spending from underwater funds in accordance with prudent measures required under the law. There are no funds currently underwater.

NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - ENDOWMENT FUNDS (Continued)

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.

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 within reasonable and prudent levels of risk. The Organization targets a diversified asset allocation plan, sets performance benchmarks and has established various asset quality and limitation thresholds.

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

Changes in endowment net assets for the year ended June 30, 2021, are as follows:

	With Donor Restrictions (Perpetual)	Without Donor Restrictions	Total
BALANCE on June 30, 2020	\$ 219,613	\$ 380,643	\$ 600,256
Investment Activity:			
Realized and Unrealized Gains	–	154,720	154,720
Transfers	–	(23,736)	(23,736)
Interest and Dividend Income	–	21,608	21,608
BALANCE on June 30, 2021	<u>\$ 219,613</u>	<u>\$ 533,235</u>	<u>\$ 752,848</u>

NOTE 9 - NET ASSETS

Donor restricted net assets at June 30, 2021 consists of the following:

Donor Restricted Perpetual Endowments	<u>\$ 219,613</u>
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