

HASTINGS FAMILY SERVICE
INDEPENDENT AUDITOR'S REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities	3
Consolidated Statements of Functional Expenses	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Hastings Family Service

We have audited the accompanying consolidated financial statements of Hastings Family Service (a nonprofit organization) and affiliates, which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hastings Family Service and affiliates as of December 31, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Respectfully submitted,

Lewis, Kisch & Associates, Ltd.

April 20, 2017

CONSOLIDATED STATEMENTS OF FINANCIAL POSITIONDECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 505,845	\$ 459,370
Cash and Cash Equivalents - Capital Campaign Cash	22,349	37,099
Accounts Receivable	12,706	9,537
Capital Campaign Pledges Receivable - Current Portion	19,990	20,272
Inventory - Clothing	64,144	51,193
Inventory - Food	47,130	44,301
Total Current Assets	<u>672,164</u>	<u>621,772</u>
<u>Property and Equipment</u>		
Land, Buildings and Equipment	1,425,201	1,342,497
Accumulated Depreciation	<u>(184,120)</u>	<u>(149,910)</u>
Property and Equipment, Net	1,241,081	1,192,587
<u>Other Assets</u>		
Capital Campaign Pledges Receivable - Net of Current Portion	6,000	17,358
Beneficial Interest in Assets Held by Community Foundation	<u>32,602</u>	<u>31,596</u>
Total Other Assets	38,602	48,954
Total Assets	<u><u>\$ 1,951,847</u></u>	<u><u>\$ 1,863,313</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities</u>		
Accounts Payable	\$ 22,367	\$ 12,286
Accrued Payroll	19,920	17,897
Accrued Vacation	15,346	20,760
Total Current Liabilities	<u>57,633</u>	<u>50,943</u>
<u>Long-Term Debt</u>		
Long-Term Debt	68,649	83,649
Total Liabilities	<u>126,282</u>	<u>134,592</u>
<u>Net Assets</u>		
Unrestricted Net Assets - Undesignated	1,672,532	1,503,688
Unrestricted Net Assets - Board Designated (Gobble Gait)	7,719	8,814
Unrestricted Net Assets - Board Designated (Capital Reserve Fund)	60,000	60,000
Unrestricted Net Assets - Board Designated (Endowment)	<u>12,169</u>	<u>11,628</u>
Total Unrestricted Net Assets	1,752,420	1,584,130
Temporarily Restricted Net Assets - Capital Campaign	22,249	74,729
Temporarily Restricted Net Assets - Other Funds	<u>30,528</u>	<u>49,894</u>
Total Temporarily Restricted Net Assets	52,777	124,623
Permanently Restricted Net Assets	20,368	19,968
Total Net Assets	<u>1,825,565</u>	<u>1,728,721</u>
Total Liabilities and Net Assets	<u><u>\$ 1,951,847</u></u>	<u><u>\$ 1,863,313</u></u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF ACTIVITIESYEARS ENDED DECEMBER 31, 2016 AND 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Support and Revenue</u>								
Rivertown Treasures	\$ 132,320			\$ 132,320	\$ 114,720			\$ 114,720
Contributions	470,007	\$ 6,000	\$ 400	476,407	479,081	\$ 36,639		515,720
Government Grants	700	21,552		22,252	6,192	21,552		27,744
Other Income	2,600			2,600	1,600			1,600
Meals on Wheels	65,509			65,509	57,836			57,836
Just Friends Income	30,100			30,100	36,811			36,811
United Way Contribution	10,000			10,000	10,000			10,000
In-Kind Food Contributions	200,455			200,455	210,381			210,381
In-Kind Clothing Contributions	632,786			632,786	680,615			680,615
Gobble Gait Fundraiser (Net of \$18,832 and \$20,414 of direct expenses, respectively)	124,204			124,204	128,988			128,988
Hastings Tastings Fundraiser (Net of \$1,549 and \$1,606 of direct expenses, respectively)	24,305			24,305	23,972			23,972
Change in Value of Beneficial Interests in Assets Held by Community Foundation	541	1,403		1,944				
Interest and Dividend Income	1,070			1,070	1,038			1,038
Net Assets Released from Restrictions	100,801	(100,801)			126,837	(126,837)		
Total Support and Revenue	1,795,398	(71,846)	400	1,723,952	1,878,071	(68,646)		1,809,425
<u>Expenses</u>								
Program Services	1,301,165			1,301,165	1,419,924			1,419,924
Management and General	217,593			217,593	205,635			205,635
Fundraising	108,350			108,350	125,868			125,868
Total Expenses	1,627,108			1,627,108	1,751,427			1,751,427
Increase (Decrease) in Net Assets	168,290	(71,846)	400	96,844	126,644	(68,646)		57,998
Net Assets, Beginning of Year	1,584,130	124,623	19,968	1,728,721	1,457,486	193,269	\$ 19,968	1,670,723
Net Assets, End of Year	<u>\$ 1,752,420</u>	<u>\$ 52,777</u>	<u>\$ 20,368</u>	<u>\$ 1,825,565</u>	<u>\$ 1,584,130</u>	<u>\$ 124,623</u>	<u>\$ 19,968</u>	<u>\$ 1,728,721</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSESYEARS ENDED DECEMBER 31, 2016 AND 2015

<u>Expenses</u>	2016			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Clothing Donated	\$ 430,150			\$ 430,150
Clothing Inventory Sold	132,320			132,320
Salaries and Wages	226,043	\$ 106,657	\$ 87,958	420,658
Payroll Taxes	17,456	8,236	6,792	32,484
Employee Benefits	12,432	5,866	4,838	23,136
Professional Fees		38,981		38,981
Advertising			3,471	3,471
Depreciation	21,809	14,540		36,349
Emergency Assistance	84,552			84,552
Food Shelf	244,417			244,417
Insurance	7,312	4,874		12,186
Just Friends Expenses	15,197			15,197
Meals on Wheels Expenses	46,031			46,031
Occupancy	23,050	15,366		38,416
Office Expenses	17,648	22,060	4,412	44,120
Other Expenses	949	270	136	1,355
Other Program Expenses	20,313			20,313
Telephone	1,486	743	743	2,972
Total Expenses	<u>\$ 1,301,165</u>	<u>\$ 217,593</u>	<u>\$ 108,350</u>	<u>\$ 1,627,108</u>

<u>Expenses</u>	2015			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Clothing Donated	\$ 541,219			\$ 541,219
Clothing Inventory Sold	114,720			114,720
Salaries and Wages	216,190	\$ 91,459	\$ 102,076	409,725
Payroll Taxes	16,406	6,941	7,746	31,093
Employee Benefits	15,645	6,619	7,387	29,651
Professional Fees		39,519		39,519
Advertising			3,049	3,049
Depreciation	21,186	14,124		35,310
Emergency Assistance	84,068			84,068
Food Shelf	274,690			274,690
Insurance	7,379	4,919		12,298
Just Friends Expenses	21,873			21,873
Meals on Wheels Expenses	42,647			42,647
Occupancy	27,375	18,250		45,625
Office Expenses	17,800	22,250	4,450	44,500
Other Expenses	2,763	789	395	3,947
Other Program Expenses	14,434			14,434
Telephone	1,529	765	765	3,059
Total Expenses	<u>\$ 1,419,924</u>	<u>\$ 205,635</u>	<u>\$ 125,868</u>	<u>\$ 1,751,427</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWSYEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</u>		
Change in Net Assets	\$ 96,844	\$ 57,998
Adjustments to Reconcile Change in Net Assets to Net Cash from Operating Activities:		
Contributions Received for Long Term Purposes	(400)	
Depreciation	36,349	35,310
In-Kind Contributions Received	(833,241)	(890,996)
In-Kind Contributions Disbursed	817,461	919,801
(Increase) Decrease in Current Assets:		
Accounts Receivable	(3,169)	9,598
Capital Campaign Pledges Receivable	11,640	60,677
Beneficial Interest in Assets Held by Community Foundation	(1,006)	
Increase (Decrease) in Current Liabilities:		
Accounts Payable	10,081	(3,052)
Accrued Payroll	2,023	3,905
Accrued Vacation	(5,414)	993
Net Cash Flows from Operating Activities	<u>131,168</u>	<u>194,234</u>
<u>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</u>		
Purchases of Property and Equipment	(84,843)	(42,659)
<u>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</u>		
Payments on Long-Term Debt	(15,000)	(116,351)
Contributions Received for Long-Term Purposes	400	
Net Cash Flows from (used in) Financing Activities	<u>(14,600)</u>	<u>(116,351)</u>
Net Increase in Cash and Cash Equivalents	31,725	35,224
Cash and Cash Equivalents, Beginning of Year	496,469	461,245
Cash and Cash Equivalents, End of Year	<u>\$ 528,194</u>	<u>\$ 496,469</u>
<u>SUPPLEMENTAL DISCLOSURE</u>		
Interest Paid	<u>\$ 5,521</u>	<u>\$ 14,408</u>

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

1. Nature of the Organization

Hastings Family Service is a not-for-profit organization whose purpose is to assist individuals in need in the Hastings, Minnesota, area.

Hastings Family Service has established the following program services to benefit the residents of Hastings, Minnesota:

Food Shelf - To assist those in the community with food needs.

Rivertown Treasures - Makes available clothing and household items at no cost to those in need. Items are also available for sale at low cost to the public.

Meals on Wheels - To provide meals to individuals that are homebound.

Emergency Services - Programs to provide assistance with household utilities, rent, or mortgage payments.

Just Friends - Program to provide transportation to enhance the quality of life for people in the Hastings community.

Project Share - Program to provide food, clothing, and toys during the holiday seasons.

2. Summary of Significant Accounting Policies

Principles of Consolidation - The consolidated financial statements include the accounts of Hastings Family Service and its wholly owned and controlled affiliates (collectively, the "Organization"): Gobble Gait, LLC and Hastings Music Festival, LLC. All inter-entity transactions and balances have been eliminated. The primary purpose of these affiliates is to operate fundraising events for the benefit of the Organization.

Gobble Gait, LLC, hosts a Thanksgiving Day walk/run event, whose proceeds and related expenses are included in the Organization's consolidated financial statements. The Organization's consolidated financial statements include \$7,719 and \$8,814 of net assets that are board designated as Gobble Gait funds as of December 31, 2016 and 2015, respectively.

Hastings Music Festival, LLC, hosts an annual one-day event for which the proceeds and related expenses are included in the Organization's consolidated financial statements. There were no events in 2016 and 2015. The Organization's consolidated financial statements include \$0 of net assets that are board designated as Hastings Music Festival funds as of December 31, 2016 and 2015, respectively.

Basis of Presentation - The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America applicable to not-for-profit organizations. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and the changes therein are classified and reported as follows:

Unrestricted Net Assets - Unrestricted net assets are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted Net Assets - Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets - Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Organization.

Revenues and Expenses - Support and revenue are 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.

Cash and Cash Equivalents - For purposes of the consolidated statement of cash flows, the Organization considers all cash, money market funds, and other highly liquid investments with maturities of three months or less to be cash equivalents.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

2. Summary of Significant Accounting Policies (Continued)

The Organization's cash and cash equivalents have been placed with major financial institutions. At times, such amounts may exceed Federal Deposit Insurance Corporation ("FDIC") limits. The Organization closely monitors these balances and has not experienced credit losses.

Capital Campaign Cash - Capital campaign cash represents cash designated for use by the capital campaign fund.

Accounts Receivable - Accounts receivable represent amounts due for program services rendered and unconditional commitments from donors, which are all receivable in less than one year. No interest is accrued on accounts receivable. The Organization periodically reviews individual accounts, and as of December 31, 2016 and 2015, no allowance for uncollectible accounts was considered necessary.

Capital Campaign Pledges Receivable - Pledges receivable represent unconditional commitments from donors that are recorded at the pledged amount. The Organization periodically reviews individual accounts, and as of December 31, 2016 and 2015, no allowance for uncollectible accounts was considered necessary.

Inventory - Inventory consists of donated clothing and food items, which have primarily been received by the Organization as in-kind contributions. Inventory is valued at the lower of cost or fair value (cost is determined as fair value at the date of gift).

Property and Equipment - Property and equipment are recorded at cost or, if donated, at fair market value at the date of donation. Items of \$1,000 or less are expensed in the year purchased. Depreciation is computed using the straight-line method and is charged to expense over the estimated useful lives of the assets, which range from three years for computer equipment to thirty-nine years for building and building improvements. Costs of maintenance, repairs, and minor replacements are expensed as incurred.

Beneficial Interest in Assets Held by Community Foundation - The Organization established an endowment fund, known as the Hastings Family Service NFP Endowment Fund (the "Fund"), under a community foundation. The Organization granted variance power to the community foundation, which allows the community foundation to modify any condition or restriction on its distributions for any specified charitable purpose. The Fund is held and invested by the community foundation for the Organization's benefit and is reported at fair value in the consolidated statements of financial position.

Accrued Vacation - Accrued vacation represents employees' earned and unused vacation time. The Organization allows employees to carry over unused vacation time into the next year.

Contributions - Contributions, which may include unconditional promises to give ("pledges"), are recognized as revenues in the period received. Contributions are measured at their fair value and reported as increases in net assets. The Organization reports gifts of cash and other assets as restricted contributions when they are received with donor stipulations that limit the use of the donated assets. When the intent of the donor is that the assets are to remain in perpetuity and the Organization does not have the right to expend the original principal, the assets are reported as permanently restricted. When donor restrictions are met, temporarily restricted net assets are released to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Net assets are also released from donor restrictions when time restrictions are satisfied.

In-Kind Services - In-kind services are recognized at fair value if the services meet the recognition criteria prescribed by generally accepted accounting principles, which include a) requiring specialized skills; b) provided by someone with those skills; and c) would have to be purchased if they were not donated. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization to fulfill its purpose. No significant contributions of such services were received during the years ended December 31, 2016 and 2015. The Organization receives the support of approximately 400 volunteers per year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTSDECEMBER 31, 2016 AND 2015**2. Summary of Significant Accounting Policies (Continued)**

In-Kind Contributions - The Organization receives in-kind contributions of donated food, clothing, and other items that are used for program purposes. In-kind contributions revenue is recognized when the Organization has sufficient discretion over the use and disposition of the items to recognize a contribution in conformity with accounting principles generally accepted in the United States of America. In-kind contributions received through donations are valued and recorded as revenue at their fair value at the time the contribution is received. When the Organization distributes in-kind contributions as part of its own programs, it reports an expense, which is reported in the functional classification for the program in which the in-kind contributions were used. Undistributed in-kind contributions at year end are reported as inventory. Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation.

Sales Tax - The Organization collects and remits sales tax. The Organization's accounting policy is to include the tax collected and remitted in revenues and expenses.

Income Taxes - The Organization is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code and is not considered a private foundation. Management has evaluated for uncertain tax positions and has determined there are no uncertain tax positions as of December 31, 2016 and 2015. Tax returns for the past three years remain open for examination by tax jurisdictions.

Advertising - The Organization expenses advertising as incurred.

Functional Allocation of Expenses - The costs of providing the Organization's various programs and supporting services have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. When appropriate, costs are allocated on a direct costs basis to the various programs or supporting services. In some cases, expenses are incurred that support the work performed under more than one function. Such expenses are allocated based on estimates developed by management.

Use of Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates. Such estimates include inventory valuation, fair value of in-kind contributions, functional expense allocation, and depreciation.

Reclassification - Certain reclassifications have been made to the 2015 consolidated financial statements to conform to the 2016 presentation. These reclassifications had no impact on change in net assets or net asset balances.

Subsequent Events - The Organization has performed an evaluation of subsequent events through April 20, 2017, which is the date the consolidated financial statements were available to be issued.

3. Capital Campaign Pledges Receivable

In 2011, the Organization began a capital campaign to provide funding for a building purchase and subsequent remodeling. Capital campaign contributions and pledges received are considered temporarily restricted funds until they are spent on building costs or loan payments. Capital campaign pledges receivable as of December 31, 2016 and 2015, are expected to be collected as follows:

	<u>2016</u>	<u>2015</u>
Less Than One Year	\$ 19,990	\$ 20,272
One To Five Years	6,000	17,358
Total Capital Campaign Pledges Receivable	<u>\$ 25,990</u>	<u>\$ 37,630</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTSDECEMBER 31, 2016 AND 2015**4. Property and Equipment**

Property and equipment consists of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Land	\$ 302,400	\$ 302,400
Building	423,919	423,919
Building Improvements	620,653	542,610
Computer Equipment	1,082	3,221
Other Equipment	<u>77,147</u>	<u>70,347</u>
Total Property and Equipment	1,425,201	1,342,497
Less: Accumulated Depreciation	<u>(184,120)</u>	<u>(149,910)</u>
Total Property and Equipment, Net	<u>\$ 1,241,081</u>	<u>\$ 1,192,587</u>

5. Fair Value Measurements

Accounting standards define fair value as 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. Accounting standards also establish a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of input that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair value of the Organization's beneficial interest in assets held by the community foundation is based on the fair value of fund investments as reported by the community foundation. These are considered to be Level 3 measurements.

6. Long-Term Debt

In October 2012, the Organization secured a mortgage loan for \$520,000 due on demand, but if no demand is made then principal payments of \$80,000 are due annually, with the remaining balance due October 23, 2018. Accrued interest at a rate of 6.5% is due on demand, but if no demand is made then interest is due annually beginning in October 2013. As of December 31, 2016, the estimated maturities on the loan payable are as follows:

Year Ending December 31.

2017	\$ -
2018	<u>68,649</u>
Total Long-Term Debt	<u>\$ 68,649</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTSDECEMBER 31, 2016 AND 2015**7. Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes at December 31:

	<u>2016</u>	<u>2015</u>
Capital Campaign	\$ 22,249	\$ 74,729
Meals on Wheels	2,425	20,576
Homeless and Senior Support	10,000	10,000
Moving Forward	4,949	8,207
Medical and Dental	5,850	6,289
Housing Funds	7,172	4,110
Other	132	712
Total Temporarily Restricted Net Assets	<u>\$ 52,777</u>	<u>\$ 124,623</u>

8. Endowment

The Organization's endowment consists of donor-restricted funds established to support the overall operations of the Organization and certain unrestricted net assets designated for endowment by the board of directors. Net assets associated with this endowment are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of directors of the Organization has interpreted the Minnesota 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 fund 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 or distributions to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation or distribution is added to the fund. The remaining portion of the donor-restricted net assets that is not classified as permanently restricted net assets is classified as temporarily restricted 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 purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

From time to time, the fair value of assets associated with the donor-restricted endowment fund may fall below the level that the donor or UPMIFA requires the Organization to retain as funds of perpetual duration. When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. There were no such deficiencies as of December 31, 2016 and 2015.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTSDECEMBER 31, 2016 AND 2015**8. Endowment (Continued)**

Endowment net asset composition by type of fund are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>December 31, 2016</u>				
Board-Designated Endowment	\$ 12,169			\$ 12,169
Donor-Restricted Endowment		\$ 65	\$ 20,368	20,433
	<u>\$ 12,169</u>	<u>\$ 65</u>	<u>\$ 20,368</u>	<u>\$ 32,602</u>
<u>December 31, 2015</u>				
Board-Designated Endowment	\$ 11,628			\$ 11,628
Donor-Restricted Endowment			\$ 19,968	19,968
	<u>\$ 11,628</u>		<u>\$ 19,968</u>	<u>\$ 31,596</u>

The changes in endowment net assets for the years ended December 31, 2016 and 2015, were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, January 1, 2015	\$ 11,628		\$ 19,968	\$ 31,596
Investment Return				
Investment Income, Net of Fees				
Net Realized and Unrealized Gains				
Contributions				
Appropriation of Endowment Assets for Expenditure				
Endowment Net Assets, December 31, 2015	<u>\$ 11,628</u>		<u>\$ 19,968</u>	<u>\$ 31,596</u>
Investment Return				
Investment Income, Net of Fees	\$ (153)	\$ 210		\$ 57
Net Realized and Unrealized Gains	694	1,193		1,887
Contributions			\$ 400	400
Appropriation of Endowment Assets for Expenditure		(1,338)		(1,338)
Endowment Net Assets, December 31, 2016	<u>\$ 12,169</u>	<u>\$ 65</u>	<u>\$ 20,368</u>	<u>\$ 32,602</u>

Investment Objectives and Strategies

The Organization has adopted an investment policy to provide guidelines for investing endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to achieve long-term total returns through a combination of capital appreciation and income.

To achieve these objectives, the Organization has established an endowment fund under a community foundation.

Spending Policy

The Organization's spending policy is determined by the community foundation's spending policy.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

9. Retirement Plan

The Organization has a 403(b) retirement plan for employees that have completed one year of service. The Organization's retirement contributions were \$10,395 and \$11,652 for the years ended December 31, 2016 and 2015, respectively.

10. Beneficial Interest in Assets Held by Others

Hastings Family Service is the income beneficiary of a designated fund of The Saint Paul Foundation. The fund was created independently by donors and is administered by The Saint Paul Foundation. The Saint Paul Foundation has explicit variance power over this fund; therefore, Hastings Family Service has not recorded a beneficial interest in these assets, nor has it recorded any potential future distributions from the assets. The designated fund had a fair market value of \$34,047 and \$33,450 at December 31, 2016 and 2015, respectively. The Organization received income distributions from this designated fund of \$1,417 and \$1,362 for the years ended December 31, 2016 and 2015, respectively.