

INDEPENDENT AUDITOR'S REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS

HASTINGS FAMILY SERVICE

DECEMBER 31, 2014 AND 2013

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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, 2014 and 2013, 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 Consolidated 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 consolidated 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, 2014 and 2013, 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.

May 7, 2015



CONSOLIDATED STATEMENTS OF FINANCIAL POSITIONDECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 368,472	\$ 318,814
Cash and Cash Equivalents - Capital Campaign Cash	92,773	82,065
Accounts Receivable	19,135	38,070
Capital Campaign Pledges Receivable - Current Portion	61,906	76,127
Inventory - Clothing	77,269	49,144
Inventory - Food	47,030	36,894
Prepaid Expenses		3,191
Total Current Assets	<u>666,585</u>	<u>604,305</u>
<u>Property and Equipment</u>		
Land, Buildings and Equipment	1,299,838	1,297,711
Accumulated Depreciation	<u>(114,600)</u>	<u>(77,799)</u>
Property and Equipment, Net	1,185,238	1,219,912
<u>Other Assets</u>		
Capital Campaign Pledges Receivable	36,401	97,129
Total Assets	<u>\$ 1,888,224</u>	<u>\$ 1,921,346</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities</u>		
Accounts Payable	\$ 15,338	\$ 15,605
Accrued Payroll	13,992	12,745
Accrued Vacation	19,767	18,291
Current Portion of Long-Term Debt	<u>80,000</u>	<u>80,000</u>
Total Current Liabilities	129,097	126,641
<u>Long-Term Debt</u>		
Long-Term Debt	120,000	280,000
Total Liabilities	<u>249,097</u>	<u>406,641</u>
<u>Net Assets</u>		
Unrestricted Net Assets - Undesignated	1,441,578	1,251,460
Unrestricted Net Assets - Board Designated (Gobble Gait)	4,280	4,264
Unrestricted Net Assets - Board Designated (Hastings Music Festival)		89
Total Unrestricted Net Assets	<u>1,445,858</u>	<u>1,255,813</u>
Temporarily Restricted Net Assets - Capital Campaign	191,080	255,321
Temporarily Restricted Net Assets - Housing Funds	<u>2,189</u>	<u>3,571</u>
Total Temporarily Restricted Net Assets	193,269	258,892
Total Net Assets	<u>1,639,127</u>	<u>1,514,705</u>
Total Liabilities and Net Assets	<u>\$ 1,888,224</u>	<u>\$ 1,921,346</u>

See accompanying notes to financial statements.

CONSOLIDATED STATEMENTS OF ACTIVITIESYEARS ENDED DECEMBER 31, 2014 AND 2013

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<u>Support and Revenue</u>						
Clothes Closet Sales	\$ 89,118		\$ 89,118	\$ 92,956		\$ 92,956
Contributions	514,433		514,433	509,365	\$ 3,571	512,936
Capital Campaign Contributions		\$ 95,759	95,759		57,107	57,107
Capital Campaign Contributions Pledged					60,500	60,500
Government Grants	26,580		26,580	27,140		27,140
Other Grants and Income	2,334		2,334	8,408		8,408
Meals on Wheels	68,251		68,251	72,254		72,254
Just Friends Income	46,170		46,170	46,170		46,170
United Way Contribution	16,500		16,500	40,000		40,000
In-Kind Food Contributions	223,227		223,227	229,179		229,179
In-Kind Clothing Contributions	729,432		729,432	575,604		575,604
In-Kind Services and Other Support				6,410		6,410
Gobble Gait Fundraiser (less \$16,742 and \$25,374 of direct expenses, respectively)	100,262		100,262	92,479		92,479
Hastings Music Festival (less \$0 and \$46,467 of direct expenses, respectively)				5,001		5,001
Interest and Dividend Income	891		891	805		805
Net Assets Released from Restrictions	161,382	(161,382)		160,000	(160,000)	
Total Support and Revenue	1,978,580	(65,623)	1,912,957	1,865,771	(38,822)	1,826,949
<u>Expenses</u>						
Program Services	1,464,525		1,464,525	1,343,930		1,343,930
Management and General	201,623		201,623	191,989		191,989
Fundraising	122,387		122,387	110,990		110,990
Total Expenses	1,788,535		1,788,535	1,646,909		1,646,909
Increase (Decrease) in Net Assets	190,045	(65,623)	124,422	218,862	(38,822)	180,040
Net Assets, Beginning of Year	1,255,813	258,892	1,514,705	1,036,951	297,714	1,334,665
Net Assets, End of Year	<u>\$ 1,445,858</u>	<u>\$ 193,269</u>	<u>\$ 1,639,127</u>	<u>\$ 1,255,813</u>	<u>\$ 258,892</u>	<u>\$ 1,514,705</u>

See accompanying notes to financial statements.

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSESYEARS ENDED DECEMBER 31, 2014 AND 2013

2014	Program	Management	Fundraising	Total
<u>Expenses</u>	<u>Services</u>	<u>and General</u>		
Clothing Donated to Other Organizations	\$ 575,641			\$ 575,641
Clothing Inventory Sold	89,118			89,118
Salaries and Wages	212,430	\$ 81,373	\$ 92,469	386,272
Payroll Taxes	17,178	6,580	7,478	31,236
Employee Benefits	16,204	6,207	7,054	29,465
Professional Fees		41,548		41,548
Advertising			10,013	10,013
Depreciation	22,080	14,721		36,801
Emergency Assistance	66,967			66,967
Food Shelf	289,932			289,932
Insurance	7,249	4,832		12,081
Just Friends Expenses	48,792			48,792
Meals on Wheels Expenses	51,079			51,079
Occupancy	34,681	23,120		57,801
Office Expenses	17,605	22,006	4,401	44,012
Other Expenses	1,849	528	264	2,641
Other Program Expenses	12,303			12,303
Telephone	1,417	708	708	2,833
Total Expenses	\$ 1,464,525	\$ 201,623	\$ 122,387	\$ 1,788,535

2013	Program	Management	Fundraising	Total
<u>Expenses</u>	<u>Services</u>	<u>and General</u>		
Clothing Donated to Other Organizations	\$ 432,371			\$ 432,371
Clothing Inventory Sold	92,956			92,956
Salaries and Wages	212,893	\$ 76,925	\$ 87,858	377,676
Payroll Taxes	17,542	6,338	7,239	31,119
Employee Benefits	18,319	6,620	7,560	32,499
Professional Fees		31,532		31,532
Advertising			2,733	2,733
Depreciation	21,162	14,108		35,270
Emergency Assistance	71,502			71,502
Food Shelf	297,399			297,399
Insurance	6,733	4,488		11,221
Just Friends Expenses	37,202			37,202
Meals on Wheels Expenses	49,845			49,845
Occupancy	43,202	28,801		72,003
Office Expenses	16,885	21,106	4,221	42,212
Other Expenses	4,840	1,383	691	6,914
Other Program Expenses	19,703			19,703
Telephone	1,376	688	688	2,752
Total Expenses	\$ 1,343,930	\$ 191,989	\$ 110,990	\$ 1,646,909

See accompanying notes to financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWSYEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>Cash Flows from (used in) Operating Activities</u>		
Increase in Net Assets	\$ 124,422	\$ 180,040
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operations:		
Depreciation	36,801	35,270
In-Kind Contributions Received	(952,659)	(811,193)
In-Kind Contributions Disbursed	914,398	822,196
Decrease (Increase) in Current Assets:		
Accounts Receivable	18,935	(6,328)
Capital Campaign Pledges Receivable	74,949	76,575
Prepaid Expenses	3,191	(701)
Increase (Decrease) in Current Liabilities:		
Accounts Payable	(267)	(8,593)
Accrued Payroll	1,247	1,667
Accrued Vacation	1,476	239
Net Cash Flows from Operating Activities	<u>222,493</u>	<u>289,172</u>
<u>Cash Flows from (used in) Investing Activities</u>		
Purchases of Property and Equipment	(2,127)	(20,824)
Net Cash Flows used in Investing Activities:	<u>(2,127)</u>	<u>(20,824)</u>
<u>Cash Flows from (used in) Financing Activities</u>		
Payments on Long-Term Debt	(160,000)	(160,000)
Net Cash Flows used in Financing Activities:	<u>(160,000)</u>	<u>(160,000)</u>
Net Increase in Cash and Cash Equivalents	<u>60,366</u>	<u>108,348</u>
Cash and Cash Equivalents, Beginning of Year	400,879	292,531
Cash and Cash Equivalents, End of Year	<u>\$ 461,245</u>	<u>\$ 400,879</u>
<u>Supplemental Disclosures</u>		
Interest Paid	<u>\$ 21,515</u>	<u>\$ 34,302</u>

See accompanying notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

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 home bound.

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

Just Friends - Program to provide transportation and visits.

Holiday Assistance - 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 fund raising 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 \$4,280 and \$4,264 of net assets that are board designated as Gobble Gait funds as of December 31, 2014 and 2013, 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 was no event in 2014. The Organization's consolidated financial statements include \$0 and \$89 of net assets that are board designated as Hastings Music Festival funds as of December 31, 2014 and 2013, 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. As of December 31, 2014 and 2013, the Organization had board designated unrestricted net assets for Gobble Gait and Hastings Music Festival.

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. As of December 31, 2014 and 2013, the Organization had no permanently restricted net assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

2. Summary of Significant Accounting Policies (Continued)

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. Contributions are measured at their fair value and reported as increases in net assets.

Cash and Cash Equivalents - For purposes of the 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. The balances may, at times, exceed federally insured limits.

Financial instruments, which potentially subject the Organization to credit risk, consist primarily of cash and cash equivalents. 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, 2014 and 2013, 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, 2014 and 2013, 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.

Accrued Vacation - Accrued vacation represents employee 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. Contributions with donor imposed restrictions that are met in the same year as received are reported as unrestricted. 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. The Organization receives the support of approximately 450 volunteers per year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

2. Summary of Significant Accounting Policies (Continued)

In-Kind Contributions - The Organization receives in-kind contributions of donated food, clothing and other various 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, 2014 and 2013. 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, 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 2013 consolidated financial statements to conform to the 2014 presentation. These reclassifications had no impact on change in net assets or net asset balances.

Subsequent Events - Subsequent events are events or transactions that occur after the consolidated statement of financial position date but before consolidated financial statements are issued. The Organization recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial position, including the estimates inherent in the process of preparing the consolidated financial statements. The Organization's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial position but arose after the consolidated statement of financial position date and before the consolidated financial statements were available to be issued.

The Organization has performed an evaluation of subsequent events through May 7, 2015, which is the date the consolidated financial statements were available to be issued.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTSDECEMBER 31, 2014 AND 2013**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, 2014, are expected to be collected as follows:

Less Than One Year	\$ 61,906
One To Five Years	36,401
Total Capital Campaign Pledges Receivable	<u>\$ 98,307</u>

4. Property and Equipment

Property and equipment is summarized as follows:

	<u>2014</u>	<u>2013</u>
Land	\$ 302,400	\$ 302,400
Building	423,919	423,919
Building Improvements	502,156	502,156
Computer Equipment	3,221	3,221
Other Equipment	68,142	66,015
Total Property and Equipment	<u>1,299,838</u>	<u>1,297,711</u>
Less: Accumulated Depreciation	<u>(114,600)</u>	<u>(77,799)</u>
Total Property and Equipment, Net	<u>\$ 1,185,238</u>	<u>\$ 1,219,912</u>

5. 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, 2014, the estimated maturities on the loan payable are as follows:

<u>Year Ending December 31,</u>	
2015	\$ 80,000
2016	80,000
2017	40,000
Total Long-Term Debt	<u>\$ 200,000</u>

6. Temporarily Restricted Net Assets

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

	<u>2014</u>	<u>2013</u>
Capital Campaign	\$ 191,080	\$ 255,321
Housing Funds	2,189	3,571
Total Temporarily Restricted Net Assets	<u>\$ 193,269</u>	<u>\$ 258,892</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTSDECEMBER 31, 2014 AND 2013**6. Temporarily Restricted Net Assets (Continued)**

Temporarily restricted net assets were released for the following at December 31:

	<u>2014</u>	<u>2013</u>
Capital Campaign	\$ 160,000	\$ 160,000
Housing Funds	1,382	
Total Temporarily Restricted Net Assets Released	<u>\$ 161,382</u>	<u>\$ 160,000</u>

7. 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 \$10,775 and \$10,793, for the years ended December 31, 2014 and 2013, respectively.

8. Beneficial Interests in Assets Held by Others

Hastings Family Service is the income beneficiary of two designated funds of The Saint Paul Foundation. The Saint Paul Foundation has explicit variance power over these funds, therefore Hastings Family Service has not recorded any beneficial interest in these assets nor has it recorded any potential future distributions from the assets. The designated funds had a fair market value of \$68,257 and \$67,194 at December 31, 2014 and 2013, respectively. The Organization received income distributions from these designated funds of \$2,636 and \$2,651 for the years ended December 31, 2014 and 2013, respectively.