

Financial Statements

Bridging, Inc.
(a Nonprofit Corporation)
Bloomington, Minnesota

For the Years Ended
December 31, 2017 and 2016

Bridging, Inc.
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December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Bridging, Inc.
Bloomington, Minnesota

We have audited the accompanying financial statements of Bridging, Inc. (the Organization), a Minnesota nonprofit corporation, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 the Organization as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
April 23, 2018

FINANCIAL STATEMENTS

Bridging, Inc.
Statements of Financial Position
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 938,121	\$ 1,284,734
Restricted cash	-	18,619
Certificates of deposit	751,073	-
Program service receivables	95,028	177,938
Pledges receivable, current	14,500	107,000
Inventory	600,797	623,702
Prepaid expenses	67,278	75,735
Total Current Assets	<u>2,466,797</u>	<u>2,287,728</u>
Property and Equipment		
Land, building and improvements	4,757,073	4,733,223
Leasehold improvements	27,635	27,635
Office furniture and equipment	85,339	80,364
Vehicles	770,767	770,767
Warehouse equipment	261,553	212,795
Total Property and Equipment, Cost	<u>5,902,367</u>	<u>5,824,784</u>
Less Accumulated Depreciation	<u>(1,501,967)</u>	<u>(1,268,674)</u>
Total Property and Equipment, Net	<u>4,400,400</u>	<u>4,556,110</u>
Other Assets		
Pledges receivable	23,940	30,981
Website, net of amortization of \$287 and \$0 in 2017 and 2016, respectively	16,938	-
Total Other Assets	<u>40,878</u>	<u>30,981</u>
Total Assets	<u><u>\$ 6,908,075</u></u>	<u><u>\$ 6,874,819</u></u>

See Independent Auditor's Report and Notes to Financial Statements.

Bridging, Inc.
Statements of Financial Position (Continued)
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 47,204	\$ 37,387
Other accrued expenses	28,196	27,724
Compensated absences payable	58,862	55,036
Deferred revenue - program services	8,415	12,688
Tenant security deposits, current	-	2,489
Current portion of long-term debt, net of deferred financing costs of \$0 and \$11,097 for 2017 and 2016, respectively	-	521,695
Current portion of capital lease obligations	<u>127,906</u>	<u>118,490</u>
Total Current Liabilities	<u>270,583</u>	<u>775,509</u>
Long-Term Liabilities		
Tenant security deposits, long-term	9,648	10,903
Capital lease obligations	<u>214,297</u>	<u>341,843</u>
Total Long-Term Liabilities	<u>223,945</u>	<u>352,746</u>
Total Liabilities	<u>494,528</u>	<u>1,128,255</u>
Net Assets		
Unrestricted	6,337,645	5,517,246
Temporarily restricted	<u>75,902</u>	<u>229,318</u>
Total Net Assets	<u>6,413,547</u>	<u>5,746,564</u>
Total Liabilities and Net Assets	<u>\$ 6,908,075</u>	<u>\$ 6,874,819</u>

See Independent Auditor's Report and Notes to Financial Statements.

Bridging, Inc.
Statements of Activities
For the Years Ended December 31, 2017 and 2016

	2017		
	Unrestricted	Temporarily Restricted	Total
Revenues, Gains, and Other Support			
Foundation, corporation, civic and individual contributions	\$ 1,211,990	\$ 155,461	\$ 1,367,451
In-kind contributions	6,238,160	-	6,238,160
Special events revenues, net of direct expenses of \$88,628	557,604	2,500	560,104
Program service revenue	1,188,593	-	1,188,593
Furniture sales, net of cost of goods sold of \$194,117	25,812	-	25,812
Found It! thrift store sales, net of expenses of \$0	-	-	-
Rental income - Roseville building, net of expenses of \$229,633	48,994	-	48,994
Gain (loss) on disposal of property and equipment	-	-	-
Interest income	1,090	-	1,090
Miscellaneous	16,874	-	16,874
Net assets released from restrictions	311,377	(311,377)	-
Total Revenues, Gains, and Other Support	<u>9,600,494</u>	<u>(153,416)</u>	<u>9,447,078</u>
Expenses			
Program services	8,287,632	-	8,287,632
Supporting services			
Management and general	227,114	-	227,114
Fundraising	265,349	-	265,349
Total Expenses	<u>8,780,095</u>	<u>-</u>	<u>8,780,095</u>
Change in Net Assets	820,399	(153,416)	666,983
Net Assets, January 1	<u>5,517,246</u>	<u>229,318</u>	<u>5,746,564</u>
Net Assets, December 31	<u>\$ 6,337,645</u>	<u>\$ 75,902</u>	<u>\$ 6,413,547</u>

See Independent Auditor's Report and Notes to Financial Statements.

Bridging, Inc.
Statements of Activities (Continued)
For the Years Ended December 31, 2017 and 2016

	2016		
	Unrestricted	Temporarily Restricted	Total
Revenues, Gains, and Other Support			
Foundation, corporation, civic and individual contributions	\$ 1,933,592	\$ 225,451	\$ 2,159,043
In-kind contributions	6,416,138	-	6,416,138
Special events revenues, net of direct expenses of \$58,857	359,995	-	359,995
Program service revenue	1,142,927	-	1,142,927
Furniture sales, net of cost of goods sold of \$209,815	30,329	-	30,329
Found It! thrift store sales, net of expenses of \$68,498	(6,421)	-	(6,421)
Rental income - Roseville building, net of expenses of \$278,874	(999)	-	(999)
Gain (loss) on disposal of property and equipment	(1,434)	-	(1,434)
Interest income	20	-	20
Miscellaneous	12,333	-	12,333
Net assets released from restrictions	646,180	(646,180)	-
Total Revenues, Gains, and Other Support	<u>10,532,660</u>	<u>(420,729)</u>	<u>10,111,931</u>
Expenses			
Program services	8,284,311	-	8,284,311
Supporting services			
Management and general	221,112	-	221,112
Fundraising	348,541	-	348,541
Total Expenses	<u>8,853,964</u>	<u>-</u>	<u>8,853,964</u>
Change in Net Assets	1,678,696	(420,729)	1,257,967
Net Assets, January 1	<u>3,838,550</u>	<u>650,047</u>	<u>4,488,597</u>
Net Assets, December 31	<u>\$ 5,517,246</u>	<u>\$ 229,318</u>	<u>\$ 5,746,564</u>

See Independent Auditor's Report and Notes to Financial Statements.

Bridging, Inc.
Statements of Functional Expenses
For the Years Ended December 31, 2017 and 2016

	2017			
		Supporting Services		
	Program Services	Management and General	Fundraising	Total Expenses
Salaries and Related Expenses				
Staff salaries	\$ 1,050,893	\$ 147,285	\$ 154,949	\$ 1,353,127
Employee benefits	139,664	22,862	24,716	187,242
Payroll taxes	94,002	15,388	16,636	126,026
Total Salaries and Related Expenses	1,284,559	185,535	196,301	1,666,395
Expenses				
Donations to clients	6,217,091	-	-	6,217,091
In-kind expense	17,997	1,245	14,643	33,885
Product	110,465	-	-	110,465
Truck expense	55,061	-	-	55,061
Insurance	59,053	5,624	5,624	70,301
Rent	18,280	-	-	18,280
Postage	-	1,316	5,265	6,581
Printing	5,043	841	2,522	8,406
Office supplies	1,701	213	212	2,126
Warehouse supplies	39,023	-	-	39,023
Equipment leases	9,489	904	903	11,296
Computer support	29,713	4,631	4,244	38,588
Telephone	13,875	2,162	1,983	18,020
Bank/credit card fees	39,071	2,171	12,052	53,294
Dues and subscriptions	3,900	371	372	4,643
Marketing	23,770	2,264	3,377	29,411
Education	5,575	531	530	6,636
Professional fees	36,191	3,447	3,447	43,085
Maintenance	18,874	1,798	1,798	22,470
Rubbish removal	22,302	970	969	24,241
Utilities	37,932	3,613	3,612	45,157
Employee expense reimbursement	14,792	1,409	1,408	17,609
Volunteer recognition	10,790	-	-	10,790
Capital campaign	-	-	-	-
Interest	27,199	-	-	27,199
Bad debts	-	-	-	-
Miscellaneous	1,415	135	136	1,686
Total Expenses Before Depreciation	8,103,161	219,180	259,398	8,581,739
Amortization	267	11	9	287
Depreciation	184,204	7,923	5,942	198,069
Total Expenses	<u>\$ 8,287,632</u>	<u>\$ 227,114</u>	<u>\$ 265,349</u>	<u>\$ 8,780,095</u>

See Independent Auditor's Report and Notes to Financial Statements.

Bridging, Inc.
Statements of Functional Expenses (Continued)
For the Years Ended December 31, 2017 and 2016

	2016			
		Supporting Services		
	Program Services	Management and General	Fundraising	Total Expenses
Salaries and Related Expenses				
Staff salaries	\$ 955,420	\$ 144,886	\$ 145,106	\$ 1,245,412
Employee benefits	127,596	20,887	22,580	171,063
Payroll taxes	74,494	12,195	13,183	99,872
Total Salaries and Related Expenses	1,157,510	177,968	180,869	1,516,347
Expenses				
Donations to clients	6,273,977	-	-	6,273,977
In-kind expense	16,815	1,772	2,964	21,551
Product	143,567	-	-	143,567
Truck expense	38,133	-	-	38,133
Insurance	54,058	5,148	5,148	64,354
Rent	55,972	1,142	-	57,114
Postage	-	900	3,602	4,502
Printing	6,417	1,070	3,208	10,695
Office supplies	2,123	239	239	2,601
Warehouse supplies	32,310	-	-	32,310
Equipment leases	9,362	892	891	11,145
Computer support	23,625	3,682	3,375	30,682
Telephone	14,683	2,288	2,098	19,069
Bank/credit card fees	43,985	2,444	6,832	53,261
Dues and subscriptions	2,999	286	286	3,571
Marketing	15,004	1,429	6,550	22,983
Education	5,488	523	523	6,534
Professional fees	42,470	4,045	4,045	50,560
Maintenance	19,312	1,839	1,839	22,990
Rubbish removal	32,823	1,427	1,428	35,678
Utilities	33,075	3,150	3,150	39,375
Employee expense reimbursement	14,946	1,423	1,424	17,793
Volunteer recognition	7,317	-	-	7,317
Capital campaign	-	-	112,531	112,531
Interest	44,507	1,718	1,703	47,928
Bad debts	16,333	-	-	16,333
Miscellaneous	1,779	169	168	2,116
Total Expenses Before Depreciation	8,108,590	213,554	342,873	8,665,017
Amortization	-	-	-	-
Depreciation	175,721	7,558	5,668	188,947
Total Expenses	<u>\$ 8,284,311</u>	<u>\$ 221,112</u>	<u>\$ 348,541</u>	<u>\$ 8,853,964</u>

See Independent Auditor's Report and Notes to Financial Statements.

Bridging, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	\$ 666,983	\$ 1,257,967
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	233,293	219,888
Amortization	287	-
Deferred financing costs expensed	11,097	3,248
Bad debts	134	16,333
Loss on sale of fixed asset - Found It! Thrift store	-	1,118
Loss on disposal of property and equipment	-	316
Noncash donations to clients	6,217,091	6,273,977
Noncash contributions of furniture	(6,199,125)	(6,394,587)
Noncash contributions of property and equipment	(5,150)	-
Change in assets and liabilities:		
Restricted cash	18,619	701,238
Program service receivables	82,776	(72,757)
Pledges receivable	99,541	542,019
Inventory	4,939	7,706
Prepaid expenses	8,457	(10,723)
Security deposits, asset	-	16,577
Accounts payable	9,817	(8,287)
Other accrued expenses	472	(3,043)
Compensated absences payable	3,826	14,485
Deferred revenue - program services	(4,273)	(8,180)
Security deposits, liability	(3,744)	-
Net Cash Provided by Operating Activities	<u>1,145,040</u>	<u>2,557,295</u>
Cash Flows from Investing Activities		
Proceeds from disposal of property and equipment	-	21,082
Cash outlay for property and equipment	(72,433)	(677,570)
Cash outlay for intangible assets	(17,225)	-
Purchase of investments	(751,073)	-
Net Cash Used by Investing Activities	<u>(840,731)</u>	<u>(656,488)</u>
Cash Flows from Financing Activities		
Payments on notes payable - mortgage	(532,792)	(1,415,961)
Payments on capital lease obligations	(118,130)	(111,743)
Net Cash Used by Financing Activities	<u>(650,922)</u>	<u>(1,527,704)</u>
Change in Cash and Cash Equivalents	(346,613)	373,103
Beginning Cash and Cash Equivalents	<u>1,284,734</u>	<u>911,631</u>
Ending Cash and Cash Equivalents	<u><u>\$ 938,121</u></u>	<u><u>\$ 1,284,734</u></u>

See Independent Auditor's Report and Notes to Financial Statements.

Bridging, Inc.
Statements of Cash Flows (Continued)
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for:		
Interest	<u>\$ 17,244</u>	<u>\$ 65,970</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>
Supplemental Schedule of		
Noncash Investing and Financing Activities		
Disposal of fully depreciated property and equipment	<u>\$ -</u>	<u>\$ 33,608</u>
Equipment acquired under capital leases	<u>\$ -</u>	<u>\$ 76,011</u>

See Independent Auditor's Report and Notes to Financial Statements.

Note 1: Summary of Significant Accounting Policies

A. Nature of Activities

Bridging, Inc. (the Organization) was organized in 1992 as a nonprofit corporation and is exempt from income taxes under Section 501(c)(3) of the United States Internal Revenue Code and Minnesota state law. The Organization works to provide families and individuals transitioning out of homelessness and poverty with a gift of quality furniture and household goods to stabilize and improve lives while effectively using community resources. In 2014, the Organization opened Found It!, a thrift store that sells items donated to the Organization that do not fit the criteria of items to be distributed to clients, and the operations of the thrift store were terminated in 2016.

B. Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recorded when earned and expenses are recorded when a liability is incurred. Contributions received are recorded as an increase in unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets

Unrestricted net assets are those resources over which the Organization has discretionary control. Designated amounts represent revenues that the Board of Directors has set aside for a particular purpose.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those resources subject to donor imposed restrictions, which will be satisfied by actions of the Organization or passage of time. The Organization has elected to present temporarily restricted contributions, which are fulfilled in the same fiscal year, as unrestricted net assets.

Permanently Restricted Net Assets

Permanently restricted net assets are those resources subject to donor imposed restrictions that they be maintained permanently by the Organization. There were no permanently restricted net assets as of December 31, 2017 and 2016.

C. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

D. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

Bridging, Inc.
Notes to the Financial Statements
December 31, 2017 and 2016

Note 1: Summary of Significant Accounting Policies (Continued)

E. Restricted Cash

In accordance with the provisions of the mortgage payable obtained during 2015, the Organization is required to maintain a real estate tax escrow and a deposit account for all capital campaign funds received. The Organization must make monthly deposits into the real estate escrow sufficient to make timely real estate tax payments. The capital campaign account is restricted for loan payments and expenses related to the Project. The mortgage was paid in full during 2017, and cash is no longer required to be restricted for that purpose. See note 4 for further details on mortgage payoff. Restricted cash balances as of December 31 are as follows:

	2017	2016
Real estate tax escrow	\$ -	\$ 18,619

F. Program Service Receivable and Allowance for Doubtful Accounts

Program service receivables are uncollateralized. The Organization reduces such receivables by a valuation allowance that reflects management's estimate of the amounts that will not be collected because of the inability, failure or refusal of its donor or agency to make payments. The Organization determines its allowance for doubtful accounts based on an analysis of the receivables detail, historical write-off experience and current economic conditions, recoveries and trends. There was no allowance for doubtful accounts as of December 31, 2017 and 2016.

G. Pledges Receivable

Pledges receivable represent amounts committed by donors that have not been received by the Organization. Pledges are recorded at the amount management expects to collect from outstanding balances. Management provides for probable uncollected amounts through a charge to earnings and a credit to a valuation allowance. The Organization reduces such receivables by a valuation allowance that reflects management's estimate of the amounts that will not be collected because of the inability, failure or refusal of its donor to make payments. The Organization determines its allowance for doubtful accounts based on an analysis of the receivables detail, historical write-off experience and current economic conditions, recoveries and trends. There was no allowance for doubtful accounts as of December 31, 2017 and 2016.

H. Inventory

The Organization maintains multiple warehouses of donated furniture and household inventory to be distributed to clients as soon as practicable after they have been received. The Organization values its inventory using estimates from published valuation guides in addition to management's evaluation of the condition of the inventory. Based on management's evaluation, each inventory item is assigned a value which is applied consistently to each inventory item.

I. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the financial statements.

Bridging, Inc.
Notes to the Financial Statements
December 31, 2017 and 2016

Note 1: Summary of Significant Accounting Policies (Continued)

J. Property and Equipment

Property and equipment are recorded at cost or estimated value on the date of contribution. Assets acquired through capital lease agreements are capitalized at their fair market value as of the date of the lease inception. The Organization capitalizes all property and equipment acquisitions with a value of \$500 or greater and an estimated useful life greater than one year. Property and equipment is being depreciated using the straight-line method based on estimated useful lives as follows:

<u>Assets</u>	<u>Useful Lives in Years</u>
Land improvements, building and building improvements	39
Leasehold improvements	7 - 39
Office furniture and equipment	3 - 7
Vehicles	5
Warehouse equipment	3 - 7

Upon retirement or other disposition, the cost and related accumulated depreciation of disposed assets are removed from the accounts and any resultant gain or loss is recognized in operations.

Repairs and maintenance are charged to expense as incurred. Renewals and improvements, which extend the useful life of assets, are capitalized and depreciated over future periods.

K. Deferred Financing costs

Issuance costs of obtaining financing are deferred and amortized to interest expense over the related debt term using the straight-line method. Notes payable have been presented net of deferred financing costs.

L. Impairment of Long-Lived Assets

The Organization reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amounts of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

M. Deferred Revenue - Program Services

Deferred revenue consists of payments received in advance that relate to services to be rendered in a future period and are deferred and recognized as revenue in the period earned. All deferred revenue is classified as current and will be recognized over the next year.

N. Support and Revenue Recognition

Support is recognized when the donor makes a promise to give to the Organization and there is sufficient evidence in the form of verifiable documentation that a promise was made and received.

Revenue is recognized when services have been performed. Deferred revenue represents amounts received in advance of services being performed.

Bridging, Inc.
Notes to the Financial Statements
December 31, 2017 and 2016

Note 1: Summary of Significant Accounting Policies (Continued)

O. In-Kind Goods and Services

Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their values in the period received.

Several individuals volunteer their time and perform a variety of tasks that assist the Organization, but do not meet the criteria for recognition as contributed services and have not been reported in these financial statements.

P. Income Taxes

The Organization is exempt from income tax under section 501(c)(3) of the Internal Revenue Code. Contributions to the Organization are tax deductible as the Organization qualifies under Section 170(c) of the Internal Revenue Code.

The Organization incurred unrelated business income tax related to the rental of space in their Roseville building in 2016. There was no unrelated business income tax related to the Roseville building during 2017. Tax expense as of December 31, 2017 and 2016 was \$0 and \$0, respectively.

During the years ended December 31, 2017 and 2016, the Organization had not incurred any interest or penalties on its tax returns. The Organization's tax returns are subject to possible examination by the taxing authorities. For federal tax purposes the tax returns essentially remain open for possible examination for a period of three years after the date on which those returns are filed.

Q. Functional Allocation of Expenses

The costs of providing the various programs and supporting activities of the Organization have been allocated between program or supporting services based upon the best estimates of management.

R. Subsequent Events

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through April 23, 2018, the date the financial statements were available to be issued.

Note 2: Certificates of Deposit

The Organization has invested in three certificates of deposit during the year ended 2017 and no certificates of deposit during the year ended 2016. One is invested at Home Federal Bank, bearing interest of 1 percent and no maturity date. Another is invested at Premier Bank Rochester, bearing interest of .60 percent and no maturity date. The third certificate of deposit is invested at Great Western Bank, bears interest of 1.55 percent, and automatically renews annually. The value of the certificates of deposit at December 31, 2017 and 2016 is \$751,073 and \$0, respectively.

Note 3: Prepaid Expenses

Prepaid expenses consist of the following at December 31, 2017 and 2016:

	2017	2016
Prepaid insurance	\$ 44,308	\$ 63,348
Prepaid software support	7,864	9,775
Building improvements	8,911	-
Other prepaid expenses	6,195	2,612
Total	<u>\$ 67,278</u>	<u>\$ 75,735</u>

Bridging, Inc.
Notes to the Financial Statements
December 31, 2017 and 2016

Note 4: Line of Credit

On June 4, 2015, the Organization obtained a revolving line of credit from Western Bank. The revolving line of credit allows borrowing up to \$100,000 with an interest rate at 1 percent over the prime rate. The line of credit expired on December 1, 2017 and was not renewed. As of December 31, 2017 and 2016, the Organization had no outstanding balance on this revolving line of credit.

Note 5: Long-Term Debt

In August 2017, the Organization paid off the remaining balance of the mortgage, and the deferred financing costs were fully amortized. The Organization has no other outstanding loans. As of December 31, 2017 and 2016, long-term debt consisted of the following:

Description	2017	2016
In June 2015, the Organization entered into a 4.03% note payable to Western Bank in the amount of \$3,248,000. Payments of \$17,305 including interest are due monthly through June 2020. The loan is secured by the land and the building.	-	532,792
Deferred financing costs	-	(11,097)
Total	-	521,695
Less current maturities	-	(521,695)
Total long-term debt, net of deferred financing costs	\$ -	\$ -

Note 6: Lease Income

The Company leases its property to various businesses. The leases commenced prior to their purchase of the building and through amendments will expire on various dates through 2020. The lease payments include monthly fees to cover payment of the real estate taxes and mortgage insurance premiums. The total net lease income for the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
Rental income - Roseville	\$ 278,627	\$ 277,875
Less:		
Direct management fees	114,100	131,926
Property tax	66,326	88,748
Depreciation	35,224	30,525
Mortgage interest	2,752	25,872
Loan fee interest	11,097	1,803
Bad debt	134	-
Net lease income	\$ 48,994	\$ (999)

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Note 6: Lease Income

As of December 31, 2017, future minimum lease payments to be received over the remaining term of the lease are as follows:

<u>Year Ended</u>	<u>Amount</u>
2018	\$ 84,831
2019	71,837
2020	<u>10,840</u>
Total	<u><u>\$ 167,508</u></u>

Note 7: Leases - Capital

The Company has acquired certain vehicles under three long-term leasing agreements classified as capital leases, with various expiration dates ranging from 2019 to 2021. The cost of the vehicles under the capital leases totaled \$770,767 and \$728,228 at December 31, 2017 and 2016, respectively. The capital lease obligations are payable in monthly installments ranging from \$1,270 to \$6,105 including interest ranging from 3.69 percent to 10.32 percent.

Future minimum capital lease payments under capital leases are as follows:

<u>Year</u>	<u>Gross Lease Payments</u>	<u>Less Amount Representing Interest</u>	<u>Principal Portion</u>
2018	\$ 145,942	\$ 18,036	\$ 127,906
2019	108,166	7,856	100,310
2020	89,278	3,469	85,809
2021	<u>28,479</u>	<u>301</u>	<u>28,178</u>
Total	<u><u>\$ 371,865</u></u>	<u><u>\$ 29,662</u></u>	<u><u>\$ 342,203</u></u>

The following is a summary of property and equipment held under capital leases as of December 31:

	<u>2017</u>	<u>2016</u>
Vehicles	\$ 770,767	\$ 728,228
Less accumulated depreciation	<u>(441,762)</u>	<u>(278,749)</u>
	<u><u>\$ 329,005</u></u>	<u><u>\$ 449,479</u></u>

Depreciation expense on assets recorded under the capital lease for the years ended December 31, 2017 and 2016 was \$163,013 and \$111,730, respectively, and is included in total depreciation expense. Interest expense on the capital lease was \$27,198 and \$25,738 for the years ended December 31, 2017 and 2016, respectively.

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Note 8: Leases - Operating

The Organization leased office and warehouse space in Roseville, Minnesota. The lease commenced on June 6, 2006 and expired on January 31, 2016. The lease had been extended to a month-to-month basis contract after January 31, 2016 until the new Roseville warehouse was ready for occupancy. Terms of the lease agreement were monthly lease payments of \$7,942 through December 31, 2011, \$8,393 through January 31, 2013, \$8,123 through January 31, 2014, \$8,303 through January 31, 2015, and \$8,484 through April 2016 when they vacated, with a security deposit of \$12,000. The Organization also leased retail space in Bloomington, Minnesota to operate its thrift store, Found It!. The lease commenced on August 1, 2014 and expired on August 31, 2016. Terms of the lease agreement were monthly lease payments of \$2,863, with a security deposit of \$4,577.

The Organization also leases certain office equipment. The lease commenced on July 1, 2013 and will expire on June 30, 2018. Terms of the lease agreement are monthly lease payments of \$215.

Future minimum lease payments are as follows:

<u>Year Ended</u>	<u>Amount</u>
2018	\$ 10,341
2019	9,052
2020	5,265
2021	<u>1,001</u>
Total	<u><u>\$ 25,659</u></u>

The Organization's total rent expense during 2017 and 2016 was \$43,938 and \$98,421, respectively.

Note 9: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods:

	<u>2017</u>	<u>2016</u>
Temporarily restricted net assets, January 1	\$ 229,318	\$ 650,047
Additions to assets temporarily restricted for purpose	157,961	225,451
Expenses incurred to satisfy donor restrictions	<u>(311,377)</u>	<u>(646,180)</u>
Temporarily restricted net assets, December 31	<u><u>\$ 75,902</u></u>	<u><u>\$ 229,318</u></u>

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Note 10: In-Kind Contributions

The Organization received the following in-kind contributions during the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Donated furniture and household items	\$ 6,199,125	\$ 6,394,587
Equipment	6,000	-
Professional fees	3,899	8,042
Printing	8,236	7,043
Public relations services	4,489	4,590
Miscellaneous services	-	1,876
Public relations supplies	7,562	-
Warehouse supplies	1,200	-
Office supplies	<u>7,649</u>	<u>-</u>
Total	<u><u>\$ 6,238,160</u></u>	<u><u>\$ 6,416,138</u></u>

The Organization also received estimated volunteer services of 78,680 hours from 6,225 volunteers and 80,592 hours from 5,749 volunteers in 2017 and 2016, respectively. These hours are not recorded as they do not meet the definition of recorded services.

Note 11: In-Kind Expenses

In-kind expenses during the years ended December 31, 2017 and 2016 are associated with the following natural expense categories:

	<u>2017</u>	<u>2016</u>
Advertising	\$ 12,051	\$ 4,590
Miscellaneous	-	1,876
Office supplies	7,649	-
Printing	8,236	7,043
Professional fees	3,899	8,042
Equipment	850	-
Warehouse supplies	<u>1,200</u>	<u>-</u>
Total	<u><u>\$ 33,885</u></u>	<u><u>\$ 21,551</u></u>

In-kind expenses have been included as a separate line item on the statements of functional expenses.

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Note 12: Depreciation Expense

For the years ended December 31, 2017 and 2016, depreciation expense is shown on the statements of activities in the following categories:

	<u>2017</u>	<u>2016</u>
Program services expense	\$ 184,204	\$ 175,721
Rental income - Roseville building	35,224	30,525
Management and general expense	7,923	7,558
Fundraising expense	5,942	5,668
Found It! thrift store sales	<u>-</u>	<u>416</u>
Total	<u><u>\$ 233,293</u></u>	<u><u>\$ 219,888</u></u>

Note 13: Defined Contribution Plan

The Organization provides a defined contribution plan for its employees whereby employees can make elective deferral contributions up to amounts as defined in the plan document. The Organization may make discretionary matching contributions for employee deferral contributions. Plan eligibility included working at least 1,000 hours annually and having a month of service. On December 1, 2012 the Plan was amended. Plan eligibility now includes working at least 1,000 hours annually with no eligibility service requirement. The matching contribution was \$44,602 and \$37,402 for the years ended December 31, 2017 and 2016, respectively.