

**NEIGHBORHOOD HOUSE
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022**



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**NEIGHBORHOOD HOUSE
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Neighborhood House
Saint Paul, Minnesota

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Neighborhood House (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neighborhood House as of June 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Neighborhood House and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Neighborhood House's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibility

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Neighborhood House's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Neighborhood House's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
February 20, 2024

**NEIGHBORHOOD HOUSE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2023 AND 2022**

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,100,826	\$ 1,819,482
Investments	2,663,139	2,509,028
Accounts Receivable	1,386,444	217,310
Governmental Grants and Contracts Receivable	301,849	294,031
Contributions Receivable, Net	1,993,708	293,467
Prepaid Expenses and Other Assets	323,517	322,243
Total Current Assets	7,769,483	5,455,561
OTHER ASSETS		
Contributions Receivable, Net	1,238,836	481,033
Right of Use Asset	7,727,668	-
Leasehold Improvements and Equipment, Net	196,130	8,282,373
Beneficial Interest in Trust	213,736	206,290
Endowment Investments - Restricted	810,465	810,465
Total Other Assets	10,186,835	9,780,161
Total Assets	\$ 17,956,318	\$ 15,235,722
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 230,871	\$ 190,011
Accrued Expenses	416,159	297,049
Notes Payable	15,236	14,465
Deferred Revenue	49,582	28,227
Total Current Liabilities	711,848	529,752
NONCURRENT LIABILITIES		
Notes Payable, Net of Current	89,728	105,043
Total Liabilities	801,576	634,795
NET ASSETS		
Without Donor Restrictions:		
Undesignated	9,642,470	9,845,565
Board-Designated for:		
Boyesen Operating Reserve Fund	397,704	401,659
Currie Education Scholarship Fund	315,487	318,671
F.A. Hijikata Capital Reserve Fund	640,736	647,301
Operating Reserve Fund	1,033,875	1,048,959
Total Without Donor Restrictions	12,030,272	12,262,155
With Donor Restrictions	5,124,470	2,338,772
Total Net Assets	17,154,742	14,600,927
Total Liabilities and Net Assets	\$ 17,956,318	\$ 15,235,722

See accompanying Notes to Financial Statements.

**NEIGHBORHOOD HOUSE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023**

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, SUPPORT, AND GAINS			
Contributions	\$ 2,328,446	\$ 4,778,618	\$ 7,107,064
Nonfinancial Contributions	1,281,065	-	1,281,065
Governmental Grants and Contracts	2,519,678	-	2,519,678
City Lease Payments	486,553	-	486,553
Rental Income	168,260	-	168,260
Partnership Fees	18,585	-	18,585
Program Service Fees	18,564	-	18,564
Miscellaneous	43,578	-	43,578
Change in Beneficial Interest in Trust	-	7,446	7,446
Net Assets Released from Restrictions:	2,088,965	(2,088,965)	-
Total Revenue, Support, and Gains	<u>8,953,694</u>	<u>2,697,099</u>	<u>11,650,793</u>
EXPENSES			
Program Services:			
Basic Needs	3,651,850	-	3,651,850
Education	1,133,370	-	1,133,370
Youth and Community	2,037,269	-	2,037,269
Total Program Services	<u>6,822,489</u>	-	<u>6,822,489</u>
Management and General	1,071,459	-	1,071,459
Development	1,530,067	-	1,530,067
Total Expenses	<u>9,424,015</u>	-	<u>9,424,015</u>
CHANGE IN NET ASSETS BEFORE GAIN FROM INVESTMENTS	(470,321)	2,697,099	2,226,778
Investment Income	<u>238,438</u>	<u>88,599</u>	<u>327,037</u>
CHANGE IN NET ASSETS	(231,883)	2,785,698	2,553,815
Net Assets - Beginning of Year	<u>12,262,155</u>	<u>2,338,772</u>	<u>14,600,927</u>
NET ASSETS - END OF YEAR	<u><u>\$ 12,030,272</u></u>	<u><u>\$ 5,124,470</u></u>	<u><u>\$ 17,154,742</u></u>

See accompanying Notes to Financial Statements.

**NEIGHBORHOOD HOUSE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022**

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, SUPPORT, AND GAINS			
Contributions	\$ 2,753,589	\$ 1,741,517	\$ 4,495,106
Nonfinancial Contributions	1,423,727	-	1,423,727
Governmental Grants and Contracts	1,217,485	-	1,217,485
City Lease Payments	356,715	-	356,715
Rental Income	90,565	-	90,565
Partnership Fees	22,769	-	22,769
Program Service Fees	14,542	-	14,542
Miscellaneous	8,074	-	8,074
Change in Beneficial Interest in Trust	-	(62,000)	(62,000)
Net Assets Released from Restrictions:	1,687,691	(1,687,691)	-
Total Revenue, Support, and Gains	<u>7,575,157</u>	<u>(8,174)</u>	<u>7,566,983</u>
EXPENSES			
Program Services:			
Basic Needs	3,415,543	-	3,415,543
Education	765,330	-	765,330
Youth and Community	2,004,675	-	2,004,675
Total Program Services	<u>6,185,548</u>	<u>-</u>	<u>6,185,548</u>
Management and General	687,292	-	687,292
Development	1,165,152	-	1,165,152
Total Expenses	<u>8,037,992</u>	<u>-</u>	<u>8,037,992</u>
CHANGE IN NET ASSETS BEFORE LOSS FROM INVESTMENTS	(462,835)	(8,174)	(471,009)
Investment Loss	<u>(419,647)</u>	<u>(104,307)</u>	<u>(523,954)</u>
CHANGE IN NET ASSETS	(882,482)	(112,481)	(994,963)
Net Assets - Beginning of Year	<u>13,144,637</u>	<u>2,451,253</u>	<u>15,595,890</u>
NET ASSETS - END OF YEAR	<u>\$ 12,262,155</u>	<u>\$ 2,338,772</u>	<u>\$ 14,600,927</u>

See accompanying Notes to Financial Statements.

**NEIGHBORHOOD HOUSE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2023**

2023

	Program Services				Management and General	Development	Total
	Basic Needs	Education	Youth and Community	Total			
Salaries and Wages	\$ 956,840	\$ 842,772	\$ 939,594	\$ 2,739,206	\$ 378,771	\$ 684,318	\$ 3,802,295
Employee Benefits	132,195	116,654	149,218	398,067	61,033	88,251	547,351
Payroll Taxes	74,069	63,690	71,959	209,718	27,811	50,861	288,390
Professional Fees and Contract Services	21,259	17,196	80,307	118,762	446,297	535,449	1,100,508
Program Supplies	224,954	36,566	24,853	286,373	7,885	18,978	313,236
In-Kind Expenses	1,277,787	330	398	1,278,515	-	2,550	1,281,065
Direct Participant Assistance	934,604	197	1,000	935,801	32	-	935,833
Grant and Scholarships Expense	-	9,000	-	9,000	-	-	9,000
Equipment and Technology Expense	4,194	35,297	28,019	67,510	55,201	22,734	145,445
Travel	1,482	5,900	9,984	17,366	1,397	1,323	20,086
Other Operating Expenses	23,313	5,768	72,751	101,832	93,032	125,603	320,467
Facilities, Occupancy, and Depreciation	1,153	-	659,186	660,339	-	-	660,339
Total	\$ 3,651,850	\$ 1,133,370	\$ 2,037,269	\$ 6,822,489	\$ 1,071,459	\$ 1,530,067	\$ 9,424,015

See accompanying Notes to Financial Statements.

**NEIGHBORHOOD HOUSE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2022**

	2022						
	Program Services				Management and General	Development	Total
	Basic Needs	Education	Youth and Community	Total			
Salaries and Wages	\$ 963,175	\$ 542,641	\$ 854,716	\$ 2,360,532	\$ 258,667	\$ 617,579	\$ 3,236,778
Employee Benefits	133,004	72,301	120,576	325,881	78,937	85,612	490,430
Payroll Taxes	74,594	40,703	64,661	179,958	19,930	47,449	247,337
Professional Fees and Contract Services	40,294	21,022	216,412	277,728	273,065	269,204	819,997
Program Supplies	136,650	28,408	11,167	176,225	5,346	14,435	196,006
In-Kind Expenses	1,406,154	440	-	1,406,594	-	17,133	1,423,727
Direct Participant Assistance	596,702	-	-	596,702	90	-	596,792
Grant and Scholarships Expense	192	9,250	-	9,442	10,345	-	19,787
Equipment and Technology Expense	12,429	38,533	17,211	68,173	7,604	4,943	80,720
Travel	2,119	2,253	4,593	8,965	40	82	9,087
Other Operating Expenses	49,176	9,513	60,487	119,176	33,268	108,715	261,159
Facilities, Occupancy, and Depreciation	1,054	266	654,852	656,172	-	-	656,172
Total	\$ 3,415,543	\$ 765,330	\$ 2,004,675	\$ 6,185,548	\$ 687,292	\$ 1,165,152	\$ 8,037,992

See accompanying Notes to Financial Statements.

**NEIGHBORHOOD HOUSE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022**

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 2,553,815	\$ (994,963)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	361,374	360,573
(Gain) Loss from Investments	(279,229)	523,954
Change in Beneficial Interest in Trust	(7,446)	62,000
(Increase) Decrease in Assets:		
Accounts Receivable	(3,634,996)	(442,836)
Prepaid Expenses	(1,274)	(26,245)
Increase (Decrease) in Liabilities:		
Accounts Payable	40,860	63,354
Accrued Payroll and Related	119,110	61,743
Deferred Revenue	21,355	(29,787)
Net Cash Used by Operating Activities	(826,431)	(422,207)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of Investments	505,899	1,476,999
Purchase of Investments	(380,781)	(1,345,744)
Purchase of Leasehold Improvements and Equipment	(2,799)	(37,459)
Net Cash Provided by Investing Activities	122,319	93,796
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Notes Payable	(14,544)	(13,711)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(718,656)	(342,122)
Cash and Cash Equivalents - Beginning of Year	1,819,482	2,161,604
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,100,826	\$ 1,819,482

See accompanying Notes to Financial Statements.

**NEIGHBORHOOD HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 1 PRINCIPAL ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The mission of Neighborhood House (the Organization) is to help people, families and organizations develop the skills, knowledge, and confidence to thrive in diverse communities. Founded in 1897 on Saint Paul's historic West Side, the Organization has a long history within the settlement house tradition of helping immigrants and low-income individuals integrate into society, connect with community, and achieve a better quality of life. The Organization provides services to more than 18,000 participants annually. The Organization is a multi-cultural, multi-lingual center with programs in basic needs, education, and youth leadership.

Our Basic Needs programs includes our culturally competent Food Shelves, Housing Stability programs, and Family Centers.

Education programs help adults learn English as well as prepare for GED and citizenship exams. Youth literacy program partners with St. Paul Public School students who are behind grade level in reading, providing small group and one on one instruction to help students achieve grade level reading skills. Early childhood learning classes focus on school readiness and family literacy.

Youth Leadership programs help young people develop the life skills, positive self-esteem, and resilience needed to become engaged students, creative leaders, and productive citizens. Services include our youth activities, homework help, and summer camp.

The Organization brings the community together through events and volunteer opportunities. Our home, the Wellstone Center, serves as a gathering place for over 100,000 people every year.

The Organization is supported primarily through contributions, foundation grants, governmental grants and reimbursements, and facility rentals.

Financial Statement Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment for uses for operating, scholarship and capital purposes.

**NEIGHBORHOOD HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

**NOTE 1 PRINCIPAL ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Financial Statement Presentation (Continued)

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and released from restrictions when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash and Cash Equivalents

The Organization considers all highly liquid investments purchased with original maturities of three months or less and any certificates of deposit that do not contain material early withdrawal penalties to be cash equivalents. Cash and cash equivalents held in brokerage accounts are considered investments rather than cash equivalents.

Accounts Receivable

Accounts receivable are stated at net realizable value. Payment is required 30 days after receipt of the invoice. Accounts more than 90 days past due are individually analyzed for collectability. Accordingly, bad debts are provided for using the reserve method based upon prior experience and management's assessment of the collectability of existing specific accounts. When all collection efforts have been exhausted, the accounts are written off against the related allowance. Management has determined that no allowance is necessary as of June 30, 2023 and 2022.

Government Grants and Contracts

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. The Organization was awarded cost-reimbursable grants of \$1,157,271 and \$826,121 that have not been recognized at June 30, 2023 and 2022, respectively, because qualifying expenditures have not yet been incurred.

Expenditures under government grants and contracts are subject to review by the granting authority. If, as a result of such a review, expenditures are determined to be unallowable, the disallowance will be recorded at the time the assessment for refund is made.

**NEIGHBORHOOD HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

**NOTE 1 PRINCIPAL ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Contributions

The Organization recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

Contributed Services

Contributed services are recorded as contributions, at their fair value, when the service creates or enhances a nonfinancial asset or the service requires specialized skills that would need to be purchased if not provided by donation. During 2023 and 2022, no contributed services were received.

Service Fees

Partnership fees and program services fees are recognized in the month the services are provided; both are considered an over-time recognition. Partnership fees are charged to other organization for services provided monthly for management of various programs.

Investments

Investments of the Organization are recorded at fair market value. The Organization invests in a variety of investment vehicles. In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, changes in the values of investments will occur in the near term and such changes could materially affect the amounts reported.

Leasehold Improvements and Equipment

Prior to ASC 842, the Organization's investment in the leased building is carried at cost and recorded as a leasehold improvement. Equipment is carried at cost, with the exception of donated equipment, which is recorded at its fair market value at the date of the gift. The Organization capitalizes all items over \$2,500, which provide a future benefit. Leasehold improvements are amortized over estimated useful lives of 3 to 40 years using the straight-line method. Equipment is depreciated over estimated useful lives of 3 to 7 years using the straight-line method. Maintenance and repairs are expensed as incurred. Major renewals or betterments that extend the lives of property and equipment are capitalized. Management evaluates these assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

**NEIGHBORHOOD HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

**NOTE 1 PRINCIPAL ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Beneficial Interests in Charitable Trusts Held by Others

The Organization has been named as an irrevocable beneficiary of a perpetual trust held and administered by independent trustees. The trust was created independently by a donor and is administered by outside agents designated by the donors. Therefore, the Organization has neither possession nor control over the assets of the trusts. At the date the Organization receives notice of a beneficial interest, a contribution with donor restrictions is recorded in the statements of activities, and a beneficial interest in trusts held by others is recorded in the statements of financial position at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the expected distributions to be received under the agreement. Thereafter, beneficial interests in the trusts are reported at fair value in the statements of financial position, with changes in fair value recognized in the statements of activities.

Concentrations

The Organization places its cash with several financial institutions. At times, the amount on deposit exceeds the insured limit of the institutions and exposes the Organization to a credit risk.

Functional Expenses

The costs of providing programs and supporting services have been summarized on a functional basis in the statements of activities and the statements of functional expenses. Whenever possible, expenses are recorded in functional categories when incurred. Other expenses have been allocated among program and supporting services based on an analysis of personnel time and estimates of space used for the related activities as determined by management. Certain categories of expenses are allocated to each function based on the number of personnel within those functions, including depreciation, occupancy costs, use of certain leased assets, information technology costs and other utilities costs.

Fair Value Measurements

The Organization accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement. Investments are stated at fair value and are recorded on the trade date. The fair value of all debt and equity securities with a readily determinable fair value are based on quotations obtained from national securities exchanges. The Organization also accounts for certain assets at fair value under applicable industry guidance.

The Organization has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

**NEIGHBORHOOD HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

**NOTE 1 PRINCIPAL ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Fair Value Measurements (Continued)

Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Organization has the ability to access.

Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability (examples include certain private equity investments, long-term promises to give, split-interest agreements, and long-term grants payable).

Leases

The Organization determines if an arrangement is a lease at inception. Leases are reported on the statements of financial position as a right-of-use (ROU) asset and lease liability. ROU assets represent the Organization's right to use an underlying asset for a lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. The Organization has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or ROU assets on the statements of financial position.

The individual lease contracts do not provide information about the rate implicit in the lease. Therefore, the Organization has elected to use a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of lease liabilities. The Organization has elected not to separate nonlease components from lease components and instead accounts for each separate lease component and the nonlease component as a single lease component.

As of June 30, 2023, the Organization has various month to month leases for office space with payments totaling \$1,480 per month. The Organization paid approximately \$18,000 for rent for the years ended June 30, 2023 and 2022.

The Organization has two copier leases. The first lease was entered into April 2019 and terminates March 2024. This lease has monthly rental payments of \$554 per month. The second lease was entered into in July 2021 and terminates June 2025. This lease has monthly rental payments of \$180 per month. The Organization determined the copier leases were immaterial and chose not to record as a ROU asset and liability.

NEIGHBORHOOD HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

**NOTE 1 PRINCIPAL ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Leases (Continued)

The Organization also has a lease agreement with the city of St. Paul (see Note 12) for which a Right of Use Asset has been recorded to reflect the Organization's investment in the leased asset. The lease is classified as a financing lease. See Note 12 for further details.

Subsequent to year-end, the Organization entered into a lease agreement for office space. The lease is for the period August 1, 2023 through July 31, 2033, with two options to renew the term of the lease for a period of three years. The lease has escalating rental payments, ranging from \$134,820 to \$168,525 annually.

Income Taxes

The Organization is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and applicable Minnesota statutes, except to the extent it has taxable income from activities that are not related to its exempt purpose. Unrelated business income is taxed at the corporate income tax rate. The Organization did not have any unrelated business income in 2023. Management of the Organization believes that it has appropriate support for any tax positions taken, and accordingly, does not have any uncertain tax positions that are material to the financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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.

Adoption of New Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (ASC 842)*. The new standard increases transparency and comparability among organizations by requiring the recognition of ROU assets and lease liabilities on the statement of financial position. Most prominent of the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The Organization adopted the requirements of the guidance effective July 1, 2022 and has elected to apply the provisions of this standard to the beginning of the period of adoption.

Subsequent Events

We have evaluated subsequent events through February 20, 2024, the date the financial statements were available to be issued.

**NEIGHBORHOOD HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 2 LIQUIDITY AND AVAILABILITY

Neighborhood House manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets to fund near-term operating needs, and
- Maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

The Organization has a liquidity policy to maintain current financial assets less current liabilities at a minimum of 30 days operating expenses. Neighborhood House has a policy to target a year-end balance of reserves of undesignated net assets without donor restrictions at a 30 to 45 days of expected expenditures. To achieve these targets, the entity forecasts its future cash flows and monitors its liquidity quarterly and monitors its reserves annually.

The Organization receives significant contributions restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditure.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position date, comprise the following:

	<u>2023</u>	<u>2022</u>
Cash and Cash Equivalents	\$ 1,100,826	\$ 1,819,482
Investments	3,473,604	3,319,493
Accounts and Pledges Receivable	4,920,837	1,285,841
Less: Net Assets With Donor Restrictions	<u>(5,194,470)</u>	<u>(2,338,772)</u>
Total	<u>\$ 4,300,797</u>	<u>\$ 4,086,044</u>

NOTE 3 CONTRIBUTIONS RECEIVABLE

Contributions receivable are estimated to be collected as follows at June 30:

	<u>2023</u>	<u>2022</u>
Within One Year	\$ 1,993,708	\$ 293,467
In One to Five Years	<u>1,392,980</u>	<u>481,033</u>
Total	3,386,688	774,500
Less: Present Value Discount	<u>(154,144)</u>	-
Total	<u>\$ 3,232,544</u>	<u>\$ 774,500</u>

Governmental grants and contracts receivable and other receivables as of June 30, 2023 are due in the next year.

NEIGHBORHOOD HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 4 INVESTMENTS

The Organization uses an investment advisor to manage its investment portfolio within guidelines set by the Organization. Investments consist of the following:

	<u>2023</u>	<u>2022</u>
Money Market Funds	\$ 190,166	\$ 120,459
Equity Securities	2,573,611	2,325,701
Real Estate	34,456	189,888
Fixed Income	675,371	683,445
Total	<u>\$ 3,473,604</u>	<u>\$ 3,319,493</u>

A reconciliation to the statements of financial position follows:

	<u>2023</u>	<u>2022</u>
Investments	\$ 2,663,139	\$ 2,509,028
Endowment Investments - Restricted	810,465	810,465
Total	<u>\$ 3,473,604</u>	<u>\$ 3,319,493</u>

The following tables present the fair value hierarchy for the balances of the assets measured at fair value on a recurring basis as of June 30:

	<u>2023</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Money Market Funds	\$ 190,166	\$ -	\$ -	\$ 190,166
Equity Securities	2,573,611	-	-	2,573,611
Real Estate	34,456	-	-	34,456
Fixed Income	-	675,371	-	675,371
Beneficial Interest in Trust	-	-	213,736	213,736
Total	<u>\$ 190,166</u>	<u>\$ -</u>	<u>\$ 213,736</u>	<u>\$ 403,902</u>

	<u>2022</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Money Market Funds	\$ 120,459	\$ -	\$ -	\$ 120,459
Equity Securities	2,325,701	-	-	2,325,701
Real Estate	189,888	-	-	189,888
Fixed Income	-	683,445	-	683,445
Beneficial Interest in Trust	-	-	206,290	206,290
Total	<u>\$ 120,459</u>	<u>\$ -</u>	<u>\$ 206,290</u>	<u>\$ 326,749</u>

Beneficial Interest in Trust is based on a perpetual stream of income as an asset valued at 10% of the fair value of the trust assets. The majority of the underlying trust assets are valued using Level 1 inputs. There were no purchases, sales, or transfers out of Level 3 investments for the years ended June 30, 2023 and 2022.

**NEIGHBORHOOD HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 5 LEASEHOLD IMPROVEMENTS AND EQUIPMENT

Prior to ASC 842, the Organization recorded its investment in the leased property as leasehold improvements. At June 30, 2022, leasehold improvements and equipment consisted of the following:

	<u>2023</u>	<u>2022</u>
Leasehold Improvements	\$ 218,501	\$ 13,940,931
Equipment	939,455	936,656
Total	<u>1,157,956</u>	<u>14,877,587</u>
Less: Accumulated Depreciation and Amortization	961,826	6,595,214
Leasehold Improvements and Equipment, Net	<u>\$ 196,130</u>	<u>\$ 8,282,373</u>

Depreciation expense totaled \$360,573 for the year ended June 30, 2022.

Subsequent to implementation of ASC 842, the Organization records this investment as a Right of Use Asset. See Note 12.

NOTE 6 UNEMPLOYMENT FUND DEPOSIT

The Organization has elected to opt out of the state of Minnesota's tax-rated unemployment system and become a direct reimbursing employer. As a reimbursing employer, the Organization pays dollar-for-dollar for benefits paid to its former employees should there be a claim. The Organization uses Unemployment Services Trust (UST) to manage assets set aside for payment of claims and to monitor claims. UST is a grantor trust created by and for nonprofit organizations. The Organization could be required to make additional payments if claims exceeded the accumulated contributions. The unemployment fund deposit balances at June 30, 2023 and 2022 of \$146,171 and \$146,740, respectively, were included in prepaid expenses.

NOTE 7 LINE OF CREDIT

The Organization has a \$500,000 bank line of credit that matures September 6, 2023, with an interest rate that adjusts monthly based on *The Wall Street Journal* prime rate minus 0.25% (8.00% and 4.50% at June 30, 2023 and 2022, respectively). The line of credit is secured by the board-designated operating reserve fund. Subsequent to year-end, the Organization renewed their line of credit though September 6, 2025 with the same terms. At June 30, 2023 and 2022, there were no outstanding advances on the line of credit.

**NEIGHBORHOOD HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 8 NOTES PAYABLE

During the year ended June 30, 2020, the Organization secured financing to pay its portion of a pension termination from Bank Cherokee in the amount of \$155,000. The terms of the loan are that the initial interest rate is fixed at 3.83% through September 17, 2024, at which time it becomes variable at a rate of the five-year Treasury Index plus 2.25%. The loan matures September 17, 2029. The terms of the loan require monthly payments of \$1,561 which started October 17, 2019 through September 17, 2024, at which time the payments will be adjusted for the variable interest rate adjustments. As of June 30, 2023 and 2022, \$104,964 and \$119,508 was outstanding, respectively.

Future principal payments are required as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2024	\$ 15,236
2025	15,532
2026	16,110
2027	16,738
2028	17,390
Thereafter	23,958
Total	<u>\$ 104,964</u>

Subsequent to year-end, the Organization entered into a \$750,000 promissory note effective March 15, 2024, with a maturity date of March 15, 2028. This note has an annual interest rate of 4%. Each year, on March 15, \$30,000 of interest is due. On March 15, 2028, \$30,000 of interest and the \$750,000 principal payment is due.

NOTE 9 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following:

	<u>2023</u>	<u>2022</u>
Subject to Expenditure for Specified Purpose:		
Subject to Expenditure for Specified Purpose	\$ 440,137	\$ 455,079
Subject to the Passage of Time	3,560,977	774,500
Perpetual in Nature:		
Beneficial Interest in Trust	213,736	206,290
Endowment Earnings Subject to UPMIFA Spending	99,155	92,438
Endowment to be Held in Perpetuity	810,465	810,465
Total Net Assets with Donor Restrictions	<u>\$ 5,124,470</u>	<u>\$ 2,338,772</u>

Net assets released from restrictions consisted of the following for the years ended June 30:

	<u>2023</u>	<u>2022</u>
Expiration of Time Restrictions	\$ 774,500	\$ 210,000
Satisfaction of Purpose Restrictions	1,314,465	1,477,691
Total Net Assets Released from Donor Restrictions	<u>\$ 2,088,965</u>	<u>\$ 1,687,691</u>

**NEIGHBORHOOD HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 10 ENDOWMENT FUND

The Organization's endowment fund consists of a fund established to support general operations. The endowment is a donor-restricted endowment fund.

Interpretation of Relevant Law

Our board of directors 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 date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At June 30, 2023, there were no such donor stipulations. As a result of this interpretation, we retain in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts including promises to give at fair value) donated to the Endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added.

Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA. We consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

Endowment net asset composition by type of fund follows:

	2023		
	Without Donor Restriction	With Donor Restrictions	Total
Board-Designated Endowment Fund	\$ 2,387,802	\$ -	\$ 2,387,802
Donor-Restricted Endowment Fund	-	909,620	909,620
Total	<u>\$ 2,387,802</u>	<u>\$ 909,620</u>	<u>\$ 3,297,422</u>
	2022		
	Without Donor Restriction	With Donor Restrictions	Total
Board-Designated Endowment Fund	\$ 2,416,590	\$ -	\$ 2,416,590
Donor-Restricted Endowment Fund	-	902,903	902,903
Total	<u>\$ 2,416,590</u>	<u>\$ 902,903</u>	<u>\$ 3,319,493</u>

**NEIGHBORHOOD HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 10 ENDOWMENT FUND (CONTINUED)

Interpretation of Relevant Law (Continued)

Changes in endowment net assets for the years ended June 30 were as follows:

	2023		
	Without Donor Restriction	With Donor Restrictions	Total
Endowment Net Assets - Beginning of Year	\$ 2,416,590	\$ 902,903	\$ 3,319,493
Contributions	-	-	-
Appropriation of Endowment Assets for Expenditure	(265,920)	(81,882)	(347,802)
Investment Income	237,132	88,599	325,731
Endowment Net Assets - End of Year	<u>\$ 2,387,802</u>	<u>\$ 909,620</u>	<u>\$ 3,297,422</u>
	2022		
	Without Donor Restriction	With Donor Restrictions	Total
Endowment Net Assets - Beginning of Year	\$ 2,962,359	\$ 1,007,210	\$ 3,969,569
Contributions	-	-	-
Appropriation of Endowment Assets for Expenditure	(126,122)	-	(126,122)
Investment Income	(419,647)	(104,307)	(523,954)
Endowment Net Assets - End of Year	<u>\$ 2,416,590</u>	<u>\$ 902,903</u>	<u>\$ 3,319,493</u>

Fund Deficiency

From time to time, the fair value of assets associated with the endowment fund may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2023 and 2022.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to maximize return with a reasonable and prudent level of risk. The Organization expects its endowment fund, over time, to provide an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Neighborhood House targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**NEIGHBORHOOD HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 10 ENDOWMENT FUND (CONTINUED)

Spending Policy and How the Investment Objectives Relate to Spending Policy

Endowment fund investment income is available for current operations under the spending rate method. The board has designated that 5% of the past three years trailing average of the fund's investments will be available for current year operations (spending rate). In establishing this policy, the board of directors considered the long-term expected return on its endowment. Accordingly, over the long-term, the Organization expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 11 RETIREMENT PLAN

The Organization offers employees a 403(b) retirement plan that has a sliding contribution scale based on years of service and one-to-one match. Contributions to this plan were \$72,818 in 2023 and \$40,375 in 2022.

NOTE 12 THE PAUL AND SHEILA WELLSTONE CENTER FOR COMMUNITY BUILDING

The Organization's administration, as well as a catalog of programs, are based at The Paul and Sheila Wellstone Center for Community Building (the Wellstone Center). The 93,000 square foot facility includes two gymnasiums for recreation and large group gatherings, a fitness center, a walking track, classrooms for adult and early childhood education, a large (free) food market, meeting rooms, a 265-seat performance space, two computer labs, a teen resource center, a teaching kitchen, a commercial grade kitchen with dining room, a 169-stall parking structure, tenant and office spaces, as well as other amenities. Programs are offered at the Wellstone Center by the Organization, the city of Saint Paul Parks and Recreation, and other tenant organizations. Additionally, the facility is available for use by other nonprofit organizations, schools, government agencies, and community members.

Lease Agreement

The Organization and the city of Saint Paul (the City) entered into a lease agreement in July 2004 for the Wellstone Center. The Organization and the City jointly maintain offices and operate programs at the Wellstone Center, which is owned by the City.

The initial term of the lease is for 20 years commencing January 1, 2006. The Organization has the option to renew for an additional 20-year period. Additionally, the Organization has the option to renew for two additional 10-year periods. The Organization is not required to pay any rent to the City for the use and occupancy of the Wellstone Center.

Although the city of Saint Paul owns the property and facility, the Organization raised funds for the \$25 million project. Payments made by the Organization for the building have been capitalized as leasehold improvements (2022) or a right-of-use asset (2023) and are being amortized over the term of the lease, including the first renewal option.

**NEIGHBORHOOD HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

**NOTE 12 THE PAUL AND SHEILA WELLSTONE CENTER FOR COMMUNITY BUILDING
(CONTINUED)**

The Organization operates and manages the facility, pays all expenses, and is reimbursed by the City for its portion of the expenses. The Organization's share of operating expenses is 61.9% and the City's share is 38.1% annually. The City agreed to pay \$486,553 in 2023 and \$356,715 in 2022. Amounts received in advance are recorded as deferred revenue in the statements of financial position.

NOTE 13 VOLUNTEER HOURS (UNAUDITED)

A large number of dedicated volunteers assist the Organization in an array of activities such as English language classes, food shelf, youth activities, facility operations, and administrative support. In 2023, 444 volunteers contributed approximately 11,964 hours (\$380,443) to the Organization. In 2022, 316 volunteers contributed approximately 11,557 hours (\$358,029) to the Organization. The volunteer hours have not been recorded in the financial statements because they do not meet the requirements established by GAAP.

NOTE 14 CONTRIBUTED NONFINANCIAL ASSETS

For the years ended June 30, 2023 and 2022, contributed nonfinancial assets recognized within the statements of activities included:

	<u>2023</u>	<u>2022</u>
Donated Food	\$ 1,241,400	\$ 1,364,907
Program Supplies	14,539	33,694
Space Rental	25,126	25,126
Total In-Kind Contributions	<u>\$ 1,281,065</u>	<u>\$ 1,423,727</u>

All donated services and assets were utilized by the Organization's programs and supporting services. There were no donor-imposed restrictions associated with the donated services and assets.

In 2023, 646,563 pounds of food were donated; valued at \$1.92 per pound. In 2022, 762,518 pounds of food were donated; valued at \$1.79 per pound.

The Organization receives use of donated facilities for its program operations and supporting services. The Organization recognizes in-kind contribution revenue and a corresponding expense in an amount approximating the estimated fair value at the time of the donation. Fair value is estimated using the average price per square foot of rental listings in the Organization's service area. The contributed rent expense is allocated based on percentage of time and effort of staff members.

Contributed program supplies received by the Organization are recorded as in-kind contribution revenue and an expense when the supplies are used. Donated supplies are valued at the wholesale prices that would be received for selling similar products.

**NEIGHBORHOOD HOUSE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 15 EMPLOYEE RETENTION CREDIT

During the year ended June 30, 2023, the Organization applied for and recorded an Employee Retention Credit (ERC) of \$1,223,117, part of federal COVID-19 relief for employers, on eligible employee wages for 2020 and 2021. This credit is included in Governmental Grants revenue, which is recognized when all conditions of such grants are fulfilled or there is reasonable assurance they will be fulfilled. This grant is receivable as of June 30, 2023, and included in Accounts Receivable.

Eligibility and conditions for the ERC program may be audited by the Internal Revenue Service. The amount of liability, if any, from potential noncompliance cannot be determined with certainty; management is of the opinion that any audit will not have a material adverse effect on the Organization's financial position.



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