

**FAMILY SERVICE ROCHESTER, INC.
ROCHESTER, MINNESOTA**

**FINANCIAL STATEMENTS
DECEMBER 31, 2022**

FAMILY SERVICE ROCHESTER, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Family Service Rochester, Inc.
Rochester, Minnesota

Opinion

We have audited the financial statements of Family Service Rochester, Inc., which comprise the statement of financial position as of December 31, 2022, and the related statement of activity and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Family Service Rochester, Inc. as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Family Service Rochester, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Family Service Rochester, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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 auditor's 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.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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 Family Service Rochester, Inc.'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 Family Service Rochester, Inc.'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.

Report on Summarized Comparative Information

We have previously audited Family Service Rochester, Inc.'s 2021 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated March 8, 2022. In our opinion, the summarized comparative financial information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, within the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplemental Schedule of Revenues and Expenses - Title III-B Chore Program is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Smith, Schafn and Associates, Ltd.

FINANCIAL STATEMENTS

FAMILY SERVICE ROCHESTER, INC.

STATEMENTS OF FINANCIAL POSITION
December 31, 2022 and 2021

ASSETS	2022	2021
Current Assets		
Cash and cash equivalents	\$ 2,347,902	\$ 6,774,070
Investments - Certificate of Deposits		498,267
Investments, at fair value	3,768,004	
Accounts receivable, less allowance for doubtful accounts of \$32,000 in 2022 and 2021	2,001,143	800,528
Pledges receivable	97,900	144,177
Prepaid expenses	37,771	29,151
Total Current Assets	8,252,720	8,246,193
Property and Equipment, at cost		
Land	639,800	639,800
Building	1,516,647	1,516,647
Building improvements	1,164,482	1,128,422
Furniture and equipment	300,753	300,753
Vehicles	46,853	46,853
Total Property and Equipment	3,668,535	3,632,475
Less: Accumulated depreciation	634,704	525,151
Property and Equipment - Net	3,033,831	3,107,324
Other Assets		
Capital contribution - Contrarian Holdings, LLC	21,038	
Beneficial interest in trust	610,459	612,651
Total Other Assets	631,497	612,651
TOTAL ASSETS	\$ 11,918,048	\$ 11,966,168

See Notes to the Financial Statements

LIABILITIES AND NET ASSETS	2022	2021
Current Liabilities		
Accounts payable	\$ 70,217	\$ 66,685
Accrued wages and payroll taxes	282,880	254,618
Accrued vacation	362,589	272,662
Deferred revenue	77,941	135,604
	<hr/>	<hr/>
Total Current Liabilities	793,627	729,569
Net Assets		
Without donor restrictions:		
Undesignated:		
General	7,094,423	6,790,322
Invested in property and equipment	3,033,831	3,107,324
Board designated for capital improvement		277,179
Total without donor restrictions	10,128,254	10,174,825
With donor restrictions	996,167	1,061,774
	<hr/>	<hr/>
Total Net Assets	11,124,421	11,236,599
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TOTAL LIABILITIES AND NET ASSETS	\$ 11,918,048	\$ 11,966,168
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FAMILY SERVICE ROCHESTER

STATEMENT OF ACTIVITY AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2022

(With Comparative Totals for the Year Ended December 31, 2021)

	2022		Totals	2021 Totals
	Without Donor Restrictions	With Donor Restrictions		
Public Support				
United Way	\$ 119,259	\$ 97,900	\$ 217,159	\$ 273,110
Contributions	179,313	3,050	182,363	658,387
Total Public Support	298,572	100,950	399,522	931,497
Revenues				
Purchase of service fees	6,176,484		6,176,484	5,995,444
Program service fees	2,025,483		2,025,483	1,939,965
Grants	1,524,702		1,524,702	1,084,447
Total Revenues	9,726,669		9,726,669	9,019,856
Total Support and Revenues	10,025,241	100,950	10,126,191	9,951,353
Net Assets Released from Restrictions	174,156	(174,156)		
Total	10,199,397	(73,206)	10,126,191	9,951,353
Expenses				
Program services				
Senior independence	1,070,851		1,070,851	1,069,036
Clinical services	2,936,669		2,936,669	2,398,002
Family involvement strategies	958,514		958,514	903,961
Child welfare	3,379,091		3,379,091	3,179,949
Family access center	374,457		374,457	308,789
Total Program Services	8,719,582		8,719,582	7,859,737
Supporting services				
Fundraising	125,830		125,830	92,498
Administrative and general	1,187,882		1,187,882	988,575
Total Supporting Services	1,313,712		1,313,712	1,081,073
Total Expenses	10,033,294		10,033,294	8,940,810
Change in Net Assets Before Non-Operating Income (Expenses)	166,103	(73,206)	92,897	1,010,543
Unrealized (loss) in beneficial interest in Peterson Trust		(2,192)	(2,192)	(1,808)
Unrealized (loss) on investments	(293,645)		(293,645)	
Investment and other income	80,971	9,791	90,762	25,858
Change in Net Assets	(46,571)	(65,607)	(112,178)	1,034,593
Net Assets - January 1	10,174,825	1,061,774	11,236,599	10,202,006
Net Assets - December 31	\$ 10,128,254	\$ 996,167	\$ 11,124,421	\$ 11,236,599

See Notes to the Financial Statements

FAMILY SERVICE ROCHESTER

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows From Operating Activities		
Cash received for services	\$ 8,447,151	\$ 9,129,852
Contributions received	435,924	943,812
Interest income received	90,762	25,858
Cash paid to suppliers	(3,099,708)	(2,782,768)
Cash paid to employees	(6,689,692)	(6,056,424)
Net Cash Provided (Used) By Operating Activities	<u>(815,563)</u>	1,260,330
Cash Flows From Investing Activities		
Purchase of investments	(4,061,649)	
Proceeds from sale of investments	508,142	460,842
Capital contribution - Contrarian Holdings, LLC	(21,038)	
Building improvements and equipment purchases	(36,060)	(57,560)
Net Cash Provided (Used) By Investing Activities	<u>(3,610,605)</u>	403,282
Net Increase (Decrease) in Cash and Cash Equivalents	(4,426,168)	1,663,612
Cash and Cash Equivalents - January 1	6,774,070	5,110,458
Cash and Cash Equivalents - December 31	\$ 2,347,902	\$ 6,774,070

**Reconciliation of Change in Net Assets to
Net Cash Provided (Used) By Operating Activities**

Change in Net Assets	\$ (112,178)	\$ 1,034,593
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	109,553	114,473
Bad debt expense	21,240	22,285
Donated securities	(9,875)	(5,244)
Unrealized loss on beneficial interest in trust	2,192	1,808
Unrealized/realized loss on investments	293,645	
(Increase) decrease in operating assets		
Receivables	(1,175,578)	56,611
Prepaid expenses	(8,620)	27,977
Increase (decrease) in operating liabilities		
Accounts payable	3,532	(78,818)
Accrued expenses	118,189	15,701
Deferred revenue	(57,663)	70,944
Net Cash Provided (Used) By Operating Activities	<u>\$ (815,563)</u>	<u>\$ 1,260,330</u>

Supplemental Disclosure of Non-Cash Investing and Financing Activities

Non Cash Transactions		
Donated securities	\$ 9,875	\$ 5,244

See Notes to the Financial Statements

FAMILY SERVICE ROCHESTER

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2022

(With Compariative Totals for the Year Ended December 31, 2021)

	Program Services			
	Senior Independence	Clinical Services	Family Involvement Strategies	Child Welfare
Professional salaries	\$ 306,669	\$ 1,933,903	\$ 569,254	\$ 2,289,061
Clerical salaries	106,828	68,787	15,164	116,126
Program salaries	67,722	75,182	93,393	32,862
Group health and workers' compensation insurance	80,136	306,379	94,139	351,676
Retirement plan	9,888	35,871	24,184	74,565
Payroll taxes	34,351	149,336	49,721	175,239
Total salaries and related expenses	605,594	2,569,458	845,855	3,039,529
Program and office supplies	45,799	39,152	7,128	27,587
Telephone and postage	7,589	35,201	9,563	28,410
Equipment and repairs	3,939	13,581	3,517	10,500
Purchase of meals	208,351			
Utilities and building maintenance	7,231	21,392	10,400	24,463
Insurance	2,400	8,405	4,334	11,332
Mileage payments	7,706	30,172	6,359	31,271
Bad debts (recoveries)	694	20,912		
Conferences, conventions and meetings	10,925	35,409	11,632	29,778
Memberships, marketing and advertising	11,235	16,655	3,918	16,795
Contracted services	122,950	12,637	1,102	2,155
MIS support	16,846	78,106	41,356	121,163
Professional fees	66	8,221	79	231
Miscellaneous	10,520	18,712	1,446	4,294
Total expenses before depreciation	1,061,845	2,908,013	946,689	3,347,508
Depreciation expense	9,006	28,656	11,825	31,583
TOTAL EXPENSES	\$ 1,070,851	\$ 2,936,669	\$ 958,514	\$ 3,379,091

See Notes to the Financial Statements

Family Access Center		Supporting Services					Totals	
		Administrative and					2022	2021
	Total	Fundraising	General	Total				
\$ 127,401	\$ 5,226,288	\$ 85,172	\$ 614,709	\$ 699,881	\$ 5,926,169	\$ 5,317,678		
7,036	313,941	1,046	148,465	149,511	463,452	450,688		
149,101	418,260				418,260	303,759		
32,926	865,256	15,711	99,336	115,047	980,303	839,252		
4,281	148,789	3,552	28,083	31,635	180,424	184,784		
21,059	429,706	5,923	55,098	61,021	490,727	443,247		
341,804	7,402,240	111,404	945,691	1,057,095	8,459,335	7,539,408		
1,589	121,255	553	5,175	5,728	126,983	107,830		
3,771	84,534	2,767	6,553	9,320	93,854	87,263		
1,933	33,470	535	6,588	7,123	40,593	49,539		
	208,351				208,351	214,199		
1,547	65,033	1,264	25,542	26,806	91,839	79,709		
774	27,245	428	10,814	11,242	38,487	35,956		
98	75,606	98	750	848	76,454	68,431		
(366)	21,240				21,240	22,285		
6,724	94,468	744	32,522	33,266	127,734	69,425		
2,362	50,965	2,833	8,359	11,192	62,157	88,522		
148	138,992	115	4,484	4,599	143,591	136,591		
8,862	266,333	3,399	30,309	33,708	300,041	232,016		
17	8,614	6	34,772	34,778	43,392	27,146		
2,586	37,558	219	51,913	52,132	89,690	68,017		
371,849	8,635,904	124,365	1,163,472	1,287,837	9,923,741	8,826,337		
2,608	83,678	1,465	24,410	25,875	109,553	114,473		
<u>\$ 374,457</u>	<u>\$ 8,719,582</u>	<u>\$ 125,830</u>	<u>\$ 1,187,882</u>	<u>\$ 1,313,712</u>	<u>\$ 10,033,294</u>	<u>\$ 8,940,810</u>		

FAMILY SERVICE ROCHESTER, INC.

NOTES TO FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

Organization

Family Service Rochester, Inc. is organized to support and enhance the dignity and quality of individual and family life in our community. In pursuit of this mission, the Organization provides a broad range of social services, including: Handyworker/Chore: Nonmedical services designed to support seniors and those with a disability to remain living in their home. Meals on Wheels: Dietetically correct noon meal and friendly visit daily to support seniors and those with a disability to remain living in their home. Outpatient Mental Health Counseling: Psychotherapy provided in the office to address mental health and relationship concerns. Family Based in Home Counseling: Psychotherapy provided in a family's home to address mental health and relationship concerns. Domestic Violence Treatment Programs: Programs delivered to address partner violence with an eye towards the safety of victims. Case Management Services in the areas of Child Maltreatment, Domestic Violence, Children's Mental Health, and Senior Services: Services provided by social workers and other professionals to address to address child well-being and family stability.

Cash and Cash Equivalents

The Organization considers all demand deposits and investments with an original maturity of three months or less to be cash equivalents.

Investments

The Organization uses fair value measurements to record fair value adjustments to certain investments and to determine fair value disclosures. The Organization follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements.

In accordance with this standard, the Organization categorizes its investments, 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. Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities.

Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants and would use in pricing the asset.

The investments in non-negotiable bank certificates of deposit are not subject fair value measurement.

FAMILY SERVICE ROCHESTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Organization and Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The financial statements have been prepared in accordance with Generally Accepted Accounting Principles (GAAP). All income and expenses are recorded as they are earned or incurred.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts.

Depreciation

Property and equipment are stated at cost. Maintenance and repairs are charged directly to expense. Improvements that extend the useful lives of equipment are capitalized. Depreciation is recorded using the straight-line method over periods based on the following useful lives:

	<u>Estimated Useful Lives</u>
Building	40 Years
Building improvements	10 - 15 Years
Furniture and equipment	5 - 10 Years
Vehicles	5 Years

Health Insurance Funds / Capital Contribution – Contrarian Holding, LLC

Effective January 1, 2023, Family Service’s health insurance plan included a self-insured component which includes a \$40,000 specific stop loss which limits each individual health claim against the self-insured funds. Contrarian Holdings, LLC required a capital contribution of \$21,038 which represents capital prepayment for Health Insurance enrollment.

Deferred Revenue

Deferred revenue represents funds received for specific programs that have a measurable performance or other barrier, and a right of return, and are not recognized until the conditions on which they depend have been substantially met.

Contributions

Contributions received are recorded as without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor’s restriction. Support that is restricted by the donor is reported as an increase in net assets without donor restriction if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restriction are reclassified to net assets without donor restriction and reported in the statement of activity as net assets released from restrictions. Contributions of non-cash assets are recorded at their fair values in the period received. If donors stipulate how long the assets must be used, the contributions are recorded as with donor restriction. In the absence of such stipulations, contributions of non-cash assets are recorded as without donor restriction.

FAMILY SERVICE ROCHESTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Organization and Summary of Significant Accounting Policies (Continued)

Contributions (Continued)

Many individuals have contributed a significant amount of time to the activities of the Organization. The Organization does not recognize these contributed services as revenues unless 1) the services received create or enhance existing facilities; or 2) require specialized skills and are provided by individuals possessing those skills. No contributed services were recognized by the Organization during the years ended December 31, 2022 and 2021.

Revenue Recognition

Revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the Organization and are recognized either over time or at a point in time. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred through a point in time in relation to total actual charges incurred. The Organization believes that this method provides a useful depiction of the provision of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Revenue for performance obligations satisfied at a point in time are recognized when goods or services are provided to customers, and it is not required to provide additional goods or services.

Revenues are recognized based on the Organization's estimate of the transaction price the Organization expects to collect as a result of satisfying its performance obligations. Service revenues are recognized in the period services are provided based on these estimates. Revenues consist primarily of payments from government and commercial health plans for the services provided to clients. A usual and customary fee schedule is maintained for the Organizations services; however, actual collectible revenue is normally recognized at a discount from the fee schedule.

Revenues associated with Medicare and Medicaid programs are estimated based on (a) the payment rates that are established by statute or regulation for the portion of payment rates paid by government payor and (b) for the portion not paid by the primary government payor, estimates of the amount ultimately collectible from the other government programs providing secondary coverage, the clients commercial health plan secondary coverage, or the client.

Under Medicare's bundled payment rate system, services covered by Medicare are subject to estimating risk, whereby reimbursements from Medicare can vary significantly depending upon certain client characteristics and other variable factors. The Organization's revenue recognition is estimated based on its judgement regarding its ability to collect, which depends upon its ability to effectively capture, document and bill for Medicare's base payment rate as well as these other variable factors.

Medicaid payments, when Medicaid coverage is secondary, can also be difficult to estimate. For many states Medicaid payment terms and methods differ from Medicare, and may prevent accurate estimation of individual payment amounts prior to billing.

Revenues associated with commercial health plans are estimated based on contractual terms for the client under healthcare plans which the Organization has formal agreements, non-contracted health plan coverage terms if known, estimated secondary collections, historical collection experience historical trends of refunds and payor payment adjustments, inefficiencies in the Organization's billing and collection processes can result in denied claims for payments, delays in collections due to payor payment inefficiencies, and regulatory compliance matters.

FAMILY SERVICE ROCHESTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Organization and Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Commercial revenue recognition also involves significant estimating risks. With many larger commercial insurers, the Organization has several different contracts and payment arrangements, and these contracts often include only a subset of the Organization's centers. In certain circumstances, it may not be possible to determine which contract, if any should be applied prior to billing. In addition, for services provided by non-contracted centers, final collection may require specific negotiation of a payment amount, typically at a significant discount from the Organization's usual and customary rates.

For non-Medicare revenues, we record gross revenue on an accrual basis based upon the date of service at amounts equal to our estimated transaction price for service provided. Price concessions, including contractual adjustments for the difference between our standard rates and the amounts estimated to be realizable from patients and third parties for services provided, are recorded as decreases to the transaction price and reduce service revenues.

The Organization has elected to apply the optional exemption in FASB ASC 606-10-50-14(a) because all of the Organization's performance obligations related to contracts with a duration of less than one year. Under this exemption, the Organization is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. Any unsatisfied or partially unsatisfied performance obligations at the end of the year are completed within days or weeks of the end of the year.

Concentrations of Credit Risk

The Organization maintains cash and certificate of deposit balances at several financial institutions insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) At times, such deposits are in excess of the FDIC insurance limit. As of December 31, 2022 cash balances in excess of the federally insured limit totaled approximately \$1,850,000.

The Organization provides care and extends credit to individuals in the Rochester, Minnesota geographic area. It performs credit evaluations of its patient's financial condition prior to admittance and generally requires no collateral from its customers.

Advertising

The Organization expenses the costs of advertising the first time the advertising takes place.

Tax Status

The Organization is exempt from income taxes as a public charity under Section 501(c) (3) of the Internal Revenue Code.

The Organization's federal information returns are subject to examination by the IRS, generally for three years after they were filed.

FAMILY SERVICE ROCHESTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Organization and Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Financial Statement Presentation

The Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Leases

When, at inception of an agreement, it is concluded an agreement includes a lease component, the Organization records an operating lease or finance lease based on the agreement. In evaluating contracts to determine if they qualify as a lease, the Organization considers factors such as if they have obtained substantially all of the rights to the underlying asset through exclusivity, if they can direct the use of the asset by making decisions about how and what purpose the asset will be used and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

Operating leases are included in property and equipment as operating lease right-of-use (ROU) assets and current and long-term operating lease liabilities on the balance sheets. Finance leases are included in property and equipment, other current liabilities, and other long-term liabilities on the balance sheets.

ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the Organization's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The operating lease ROU asset also includes any lease payments made prior to the lease commencement date and excludes lease incentives. The 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 lease payments is recognized on a straight-line basis over the lease term.

In determining the discount rate used to measure the right-of-use asset and lease liability, the Organization has elected to use the rate implicit in the lease or the risk-free rate based on information available at the commencement date for the lease term when determining the present value of lease payments.

The Organization's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The lease agreements have lease and non-lease components, which are generally accounted for separately. For certain leases, the Organization accounts for the lease and non-lease components as a single lease component. For arrangements accounted for as a single lease component, there may be variability in future lease payments as the amount of the non-lease components is typically revised from one period to the next. These variable lease payments are passed on from the lessor in proportion to a specific factor, are recognized in operating expenses in the period in which the obligation for those payments was incurred.

FAMILY SERVICE ROCHESTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Organization and Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 period. Actual results could differ from the estimates.

Prior Year Comparative Totals

The financial statements include certain prior year summarized comparative financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's 2021 financial statements, from which the summarized information was derived.

Reclassification

Certain reclassification have been made to the 2021 financial statements to conform with the presentation in the 2022 financial statements.

Change in Accounting Principle

During the year, the Organization adopted FASB Accounting Standards Update (ASU) No 2020-07, *Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets*, which increases the transparency around contributed nonfinancial assets, also known as in-kind gifts, including how those gifts are used and valued by the Organization. This update does not change existing recognition and measurement of in-kind gifts but requires additional presentation and disclosures related to contributed nonfinancial assets. This update requires the Organization to present contributed nonfinancial assets as a separate line in the statement of activities, apart from contributions of cash or financial assets. Disclosure requirements include disaggregation of the amount of nonfinancial assets recognized within the statement of activities, qualitative detail and policy on if the contributed nonfinancial assets were monetized or utilized, description of programs that utilized contributed nonfinancial assets, donor restrictions on contributed nonfinancial assets, and detail on the valuation techniques used to arrive at a fair value of contributed nonfinancial assets. Adoption of this standard did not have a significant impact on the financial statements, with the exception of increased disclosure, and has been applied retrospectively.

During 2022, the Organization adopted FASB Accounting Standards Update (ASU) No 2016-02, ASC 842 *Leases* which requires the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet and replaces existing lease guidance within accounting principles generally accepted in the United States of America. 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 ASU 2016-02 with a date of initial application of January 1, 2021, and recognized and measured leases existing at, or entered into after, using a modified retrospective method, with certain practical expedients available.

There was no significant impact to the Organization as a result of adopting the new leasing standard.

FAMILY SERVICE ROCHESTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Liquidity and Availability

Available Resources and Liquidity

Financial assets as of December 31, 2022 and 2021, available for general expenditure within one year of the statement of financial position date, were comprised of the following:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 2,347,902	\$ 6,774,070
Certificates of deposit		498,267
Investments, at fair value	3,768,004	
Accounts receivable, less allowance	2,001,143	800,528
Total financial assets	8,117,049	8,072,865
Board designated for capital improvements		(277,179)
Restricted by donors for use in future periods	(287,808)	(304,946)
Total financial assets available for general expenditures within one year	<u>\$ 7,829,241</u>	<u>\$ 7,490,740</u>

Financial assets are considered available for general expenditure if there are no restrictions limiting their use, or if the restriction will be achieved through general operations of the Organization within one year of the statement of financial position date.

The Organization's board designated funds are subject to board approval prior to being available to use within the next year. Although the board does not currently intend to spend from the board designated funds, these amounts could be made available if necessary.

As part of the Organization's liquidity management plan, cash in excess of short-term needs is invested in savings, money market funds and certificates of deposit.

3. Investments

Beneficial Interest in Trust

The Organization is a charitable beneficiary of the Carl and Ihla Petersen Trust. The principal of the trust cannot be invaded and the Organization has an irrevocable right to receive a portion of the income from the trust's assets in perpetuity. The Organization receives 16.67% of the annual income distribution from the trust. The investments of the Trust consist of certificates of deposit. Fair value measurements for the Trust would be considered level 3 inputs. The fair value of the Organization's interest in the Petersen Trust was \$610,459 and \$612,651 for the years ending December 31, 2022 and 2021, respectively. Investment income received from the Petersen Trust for the year ended December 31, 2022 and 2021 was \$9,651 and \$11,458.

FAMILY SERVICE ROCHESTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Investments (Continued)

Certificates of Deposit

	<u>2022</u>	<u>2021</u>
Current Non-negotiable Certificates of Deposit	<u>\$</u>	<u>\$ 498,267</u>

4. Fair Value Measurements

The fair value measurements and disclosures topic of the FASB Accounting Standards Codification defined fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in those circumstances. In that regard, the standard establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The standard establishes a three-level hierarchy for fair value measurements based upon the inputs to the valuation of an asset or liability.

- Level 1 – Valuation is based on quoted market prices in active markets for identical assets and liabilities.
- Level 2 – Valuation is determined from quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active or by model-based techniques in which all significant inputs are observable in the market. The fair value of investment securities for which quoted market prices are not available were generally determined based on matrix pricing. Matrix pricing is a mathematical technique that utilizes observable market inputs including, for example, yield curves credit ratings and prepayment speeds.
- Level 3 – Valuation is derived from model-based techniques in which at least one significant input is unobservable and based on the Organization's own estimates about the assumptions that market participants would use to value the asset or liability.

When available, the Organization attempts to use quoted market prices to determine fair value and classifies such items as Level 1 or Level 2. If quoted market prices are not available, fair value is often determined using model-based techniques. Assets and liabilities value using model-based techniques are classified as either Level 2 or Level 3, depending on the extent of observable market inputs (Level 2) or unobservable (Level 3).

Assets subject to recurring fair value measurements in the statements of financial position at December 31, 2022 are summarized as follows:

FAMILY SERVICE ROCHESTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Fair Value Measurements (Continued)

Investments at December 31, 2022 are as follows:

	December 31, 2022			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Investments in Securities:				
Fixed Income	\$ 2,926,455	\$	\$	\$ 2,926,455
Equities	797,873			797,873
Money market	43,676			43,676
Total	\$ 3,768,004	\$	\$	\$ 3,768,004

	December 31, 2022		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Fixed income	\$ 3,060,167	\$ 2,926,455	\$ (133,712)
Equities	890,648	797,873	(92,775)
Money market	43,676	43,676	
Total	\$ 3,994,491	\$ 3,768,004	\$ (226,487)

Investments return at December 31, 2022 and 2021 summarized as follows:

	2022	2021
Interest and dividends	\$ 77,786	\$ 25,001
Realized and unrealized (loss)	(295,837)	(1,710)
Less: investment fees	(10,951)	
	\$ (229,002)	\$ 23,291

FAMILY SERVICE ROCHESTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Pledges Receivable

The Organization recognizes unconditional pledges to the Organization, through the United Way of Olmsted County, in the year the pledges are made. Donor pledges paid in cash to the United Way during a fall campaign are received in February of the subsequent year and pledges collected through payroll withholdings are received in quarterly installments. The United Way pledges monthly contributions through June 30 of the following year.

	<u>2022</u>	<u>2021</u>
Monthly funding for January 1, 2022 through June 30, 2022	\$ 97,900	\$
Monthly funding for January 1, 2021 through June 30, 2021		<u>144,177</u>
Total	<u>\$ 97,900</u>	<u>\$ 144,177</u>

6. Net Assets with Donor Restrictions

Summary of Net Assets with Donor Restrictions

Net Assets with Donor Restrictions were available for the following purposes:

	December 31, 2021	Additions	Restrictions Released	December 31, 2022
Meals on Wheels	\$ 294,908	\$ 9,791	\$ 24,651	\$ 280,048
Beyond the Yellow Ribbon	8,333	3,050	3,623	7,760
Rochester Area Fatherhood Network	1,705		1,705	
United Way Olmsted County Award - January 1 through June 30	144,177	97,900	144,177	97,900
Investment in perpetuity, the income from which is expendable to support Meals on Wheels	612,651	(2,192)		<u>610,459</u>
	<u>\$ 1,061,774</u>	<u>\$ 108,549</u>	<u>\$ 174,156</u>	<u>\$ 996,167</u>

FAMILY SERVICE ROCHESTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Vulnerability Due to Concentration of Funding Sources

The Organization received approximately 62% of its unrestricted support and revenues from Federal, State and local governments during the year ended December 31, 2022. A significant reduction in the level of this support, if it were to occur, could have a negative effect on the Organization's programs and activities.

8. Functional Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include utilities, building maintenance, insurance and depreciation, which are allocated on a square footage basis, as well as payroll and benefits, office supplies, telephone, equipment and repairs, MIS support, and others, which are allocated on the percent of budgeted full-time employees by program or supporting function.

9. Retirement Plan

The Organization has a tax deferred annuity plan covering substantially all employees. The Organization contributes an amount equal to the employee's contribution up to a maximum of 5% of the employee's gross income. Employer contributions for December 31, 2022 and 2021 were \$180,424 and \$184,784, respectively.

10. Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 8, 2023, the date the financial statements were available to be issued.

SUPPLEMENTAL SCHEDULE

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FAMILY SERVICE ROCHESTER, INC.

SUPPLEMENTAL SCHEDULE OF REVENUES AND EXPENSES
 TITLE III-B CHORE PROGRAM
 For the Year Ended December 31, 2022
 (With Comparative Totals for the Year Ended December 31, 2021)

	2022 Funding				2021
	CHORE	Homemaker	Rice	Total	
Revenues					
Federal grant (passed through Southern Minnesota Area Agency on Aging)	\$ 13,087	\$ 8,800	\$ 14,000	\$ 35,887	\$ 46,887
Program income					
Participant fees	48,620	29,972	3,439	82,031	75,641
Non-Federal share	187,458	39,866	52,157	279,481	308,513
Total revenues	249,165	78,638	69,596	397,399	431,041
Expenses					
Personnel	43,966	30,214	35,720	109,900	131,191
In-kind	162,236	41,861	23,524	227,621	235,878
Travel	1,063	730	936	2,729	2,464
Communications and utilities	33,413		1,821	35,234	42,499
Printing and supplies	1,143	785	945	2,873	3,685
Other costs	7,344	5,048	6,650	19,042	15,324
Total expenses	249,165	78,638	69,596	397,399	431,041
Excess of revenues over expenses	\$	\$	\$	\$	\$

	2022 Funding			2021
	ARP	Mental Health	Total	
Revenues				
Federal grant (passed through Southern Minnesota Area Agency on Aging)	\$ 28,048	\$ 12,000	\$ 40,048	\$ 36,172
Program income				
Participant fees	9,503	6,574	16,077	188
Non-Federal share	61,539	16,959	78,498	5,928
Total revenues	99,090	35,533	134,623	42,288
Expenses				
Personnel	38,494	32,213	70,707	34,752
In-kind	51,399	970	52,369	
Travel		110	110	288
Communications and utilities	7,697		7,697	
Printing and supplies	500	152	652	135
Other costs	1,000	2,088	3,088	7,113
Total expenses	99,090	35,533	134,623	42,288
Excess of revenues over expenses	\$	\$	\$	\$