

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

**FINANCIAL STATEMENTS
DECEMBER 31, 2024**

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, 2024, 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, 2024, 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 2023 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated March 19, 2024. In our opinion, the summarized comparative financial information presented herein as of and for the year ended December 31, 2023, 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, 2024 and 2023

ASSETS	2024	2023
Current Assets		
Cash and cash equivalents	\$ 3,258,960	\$ 3,876,282
Investments, at fair value	5,445,261	4,094,160
Accounts receivable, less allowance for credit losses of \$24,000 in 2024 and \$32,000 in 2023	891,991	1,137,029
Pledges receivable	13,000	35,000
Prepaid expenses	68,958	36,077
Total Current Assets	<u>9,678,170</u>	<u>9,178,548</u>
Property and Equipment, at cost		
Land	639,800	639,800
Building	1,516,647	1,516,647
Building improvements	1,176,382	1,172,882
Furniture and equipment	427,998	330,327
Vehicles	46,853	46,853
Total Property and Equipment	<u>3,807,680</u>	<u>3,706,509</u>
Less: Accumulated depreciation	<u>868,323</u>	<u>746,869</u>
Property and Equipment - Net	<u>2,939,357</u>	<u>2,959,640</u>
Other Assets		
Capital contribution - Contrarian Holdings, LLC	57,179	57,179
Beneficial interest in trust	624,062	613,778
Total Other Assets	<u>681,241</u>	<u>670,957</u>
TOTAL ASSETS	<u><u>\$ 13,298,768</u></u>	<u><u>\$ 12,809,145</u></u>

See Notes to the Financial Statements

LIABILITIES AND NET ASSETS	2024	2023
Current Liabilities		
Accounts payable	\$ 91,945	\$ 51,527
Accrued wages and payroll taxes	276,714	323,142
Accrued vacation	299,733	267,517
Accrued claims	59,825	67,952
Deferred revenue	213,599	121,434
	<hr/>	<hr/>
Total Current Liabilities	941,816	831,572
Net Assets		
Without donor restrictions:		
Undesignated:		
General	8,537,854	8,100,573
Invested in property and equipment	2,939,357	2,959,640
Total without donor restrictions	11,477,211	11,060,213
With donor restrictions	879,741	917,360
	<hr/>	<hr/>
Total Net Assets	12,356,952	11,977,573
	<hr/>	<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$ 13,298,768	\$ 12,809,145
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FAMILY SERVICE ROCHESTER

STATEMENT OF ACTIVITY AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2024

(With Comparative Totals for the Year Ended December 31, 2023)

	2024			2023 Totals
	Without Donor Restrictions	With Donor Restrictions	Totals	
Public Support				
United Way	\$ 24,892	\$ 13,000	\$ 37,892	\$ 91,229
Contributions	231,020	2,800	233,820	327,388
Total Public Support	255,912	15,800	271,712	418,617
Revenues				
Purchase of service fees/medical assistance	3,505,767		3,505,767	6,596,716
Program service fees	2,089,208		2,089,208	2,227,075
Grants	2,581,515		2,581,515	1,964,400
Total Revenues	8,176,490		8,176,490	10,788,191
Total Support and Revenues	8,432,402	15,800	8,448,202	11,206,808
Net Assets Released from Restrictions	83,663	(83,663)		
Total	8,516,065	(67,863)	8,448,202	11,206,808
Expenses				
Program services				
Senior independence	1,513,077		1,513,077	1,257,633
Clinical services	3,300,175		3,300,175	3,320,093
Family involvement strategies	1,045,053		1,045,053	1,046,586
Child welfare	597,527		597,527	3,242,893
Family access center	428,343		428,343	404,960
Total Program Services	6,884,175		6,884,175	9,272,165
Supporting services				
Fundraising	128,024		128,024	144,600
Administrative and general	1,529,455		1,529,455	1,327,604
Total Supporting Services	1,657,479		1,657,479	1,472,204
Total Expenses	8,541,654		8,541,654	10,744,369
Change in Net Assets Before				
Non-Operating Income (Expenses)	(25,589)	(67,863)	(93,452)	462,439
Unrealized gain in beneficial interest in Peterson Trust		10,285	10,285	3,319
Investment income, net	425,710	19,959	445,669	380,377
Other income	16,877		16,877	7,017
Change in Net Assets	416,998	(37,619)	379,379	853,152
Net Assets - January 1	11,060,213	917,360	11,977,573	11,124,421
Net Assets - December 31	\$ 11,477,211	\$ 879,741	\$ 12,356,952	\$ 11,977,573

See Notes to the Financial Statements

FAMILY SERVICE ROCHESTER

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2024 and 2023

	2024	2023
Cash Flows From Operating Activities		
Cash received for services	\$ 8,504,357	\$ 11,678,719
Contributions received	285,555	476,473
Interest income received	268,479	163,377
Cash paid to suppliers	(2,910,801)	(3,436,645)
Cash paid to employees	(5,539,619)	(7,182,331)
Net Cash Provided By Operating Activities	<u>607,971</u>	<u>1,699,593</u>
Cash Flows From Investing Activities		
Purchase of investments	(1,637,197)	(1,302,904)
Proceeds from sale of investments	488,321	1,205,806
Capital contribution - Contrarian Holdings, LLC		(36,141)
Building improvements and equipment purchases	(76,417)	(37,974)
Net Cash (Used) By Investing Activities	<u>(1,225,293)</u>	<u>(171,213)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(617,322)	1,528,380
Cash and Cash Equivalents - January 1	<u>3,876,282</u>	<u>2,347,902</u>
Cash and Cash Equivalents - December 31	<u>\$ 3,258,960</u>	<u>\$ 3,876,282</u>

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

Change in Net Assets	\$ 379,379	\$ 853,152
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	121,454	112,168
Credit loss expense	9,336	17,079
Donated securities	(8,157)	(5,044)
Unrealized (gain) on beneficial interest in trust	(10,285)	(3,319)
Unrealized/realized (gain) on investments	(194,067)	(224,017)
(Increase) decrease in operating assets		
Receivables	257,702	909,935
Prepaid expenses	(32,881)	1,694
Increase (decrease) in operating liabilities		
Accounts payable	15,664	(18,690)
Accrued expenses	(22,339)	13,142
Deferred revenue	92,165	43,493
Net Cash Provided By Operating Activities	<u>\$ 607,971</u>	<u>\$ 1,699,593</u>

Supplemental Disclosure of Non-Cash Investing and Financing Activities

Non Cash Transactions		
Donated securities	\$ 8,157	\$ 5,044
Property and equipment included in accounts payable	24,754	

See Notes to the Financial Statements

FAMILY SERVICE ROCHESTER

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2024

(With Comparative Totals for the Year Ended December 31, 2023)

	Program Services			
	Senior Independence	Clinical Services	Family Involvement Strategies	Child Welfare
Professional salaries	\$ 762,834	\$ 2,236,623	\$ 736,790	\$ 391,516
Group health and workers' compensation insurance	140,219	321,507	96,445	46,376
Retirement plan	12,391	61,853	24,561	7,289
Payroll taxes	55,370	164,993	55,589	28,064
Total salaries and related expenses	970,814	2,784,976	913,385	473,245
Program and office supplies	45,860	76,356	13,067	34,214
Telephone and postage	12,174	36,296	8,522	5,150
Equipment and repairs	2,283	9,819	2,508	10,860
Purchase of meals	244,747			
Utilities and building maintenance	8,300	27,918	10,534	5,373
Insurance	4,418	14,212	5,288	2,841
Mileage payments	15,242	37,891	11,755	3,803
Credit loss	609	8,687		
Conferences, conventions and meetings	16,365	58,025	8,636	5,916
Memberships, marketing and advertising	11,839	18,856	4,703	4,560
Contracted services	111,846	23,778	3,018	9,751
MIS support	41,408	132,604	45,931	23,780
Professional fees	70	210	75	35
Miscellaneous	14,022	27,501	2,925	9,953
Total expenses before depreciation	1,499,997	3,257,129	1,030,347	589,481
Depreciation expense	13,080	43,046	14,706	8,046
TOTAL EXPENSES	\$ 1,513,077	\$ 3,300,175	\$ 1,045,053	\$ 597,527

See Notes to the Financial Statements

Family Access Center		Supporting Services			Totals	
		Administrative and		Total	2024	2023
Total	Fundraising	General				
\$ 305,569	\$ 4,433,332	\$ 85,006	\$ 998,942	\$ 1,083,948	\$ 5,517,280	\$ 7,195,473
40,101	644,648	17,782	122,979	140,761	785,409	1,140,417
8,087	114,181	4,149	45,823	49,972	164,153	207,935
22,788	326,804	5,570	70,694	76,264	403,068	531,754
376,545	5,518,965	112,507	1,238,438	1,350,945	6,869,910	9,075,579
2,823	172,320	533	4,898	5,431	177,751	153,103
3,922	66,064	1,952	10,627	12,579	78,643	99,134
911	26,381	278	8,120	8,398	34,779	33,270
	244,747				244,747	232,107
3,086	55,211	827	33,525	34,352	89,563	88,228
1,803	28,562	393	16,247	16,640	45,202	40,729
1,033	69,724	423	1,864	2,287	72,011	100,648
40	9,336				9,336	17,079
7,867	96,809	1,735	26,543	28,278	125,087	169,482
2,190	42,148	4,343	9,508	13,851	55,999	61,555
1,586	149,979	152	19,876	20,028	170,007	124,645
18,372	262,095	3,359	46,779	50,138	312,233	299,461
30	420	5	39,972	39,977	40,397	40,922
3,269	57,670	174	36,691	36,865	94,535	96,259
423,477	6,800,431	126,681	1,493,088	1,619,769	8,420,200	10,632,201
4,866	83,744	1,343	36,367	37,710	121,454	112,168
\$ 428,343	\$ 6,884,175	\$ 128,024	\$ 1,529,455	\$ 1,657,479	\$ 8,541,654	\$ 10,744,369

FAMILY SERVICE ROCHESTER, INC.

NOTES TO FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

Organization

Family Service Rochester, Inc. was founded in 1965 to support and enhance the dignity and quality of individual family life in our community. In pursuit of this mission, the Organization provides services that address mental health, child wellbeing, family stability, and senior independence. The Organization's Clinical Services division provides psychotherapy to address mental health concerns with services being delivered in family's homes, outpatient settings, and within schools. The Organization's Aging Services division provides nonmedical services such as Meals on Wheels, handywork/chore services, transportation, and housekeeping to support seniors to remain living in their home. The Organization's Child Welfare division provides social work services to mitigate child abuse and neglect while enhancing family stability to a broad range of populations.

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.

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.

Concentrations of Credit Risk

The Organization maintains cash 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, 2024, cash balances in excess of the federally insured limit totaled approximately \$1,020,000.

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.

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.

FAMILY SERVICE ROCHESTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Accounts Receivable

Accounts receivable are carried at their outstanding principal amounts, less an allowance for credit loss accounts based on what management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for credit loss expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. All accounts receivable are expected to be collected within one year of the statement of financial position date.

The Organization maintains an allowance for credit losses on its accounts receivables, which represents an estimate of expected losses over the remaining contractual life of its receivables. The allowance for credit losses under the CECL methodology is determined using the loss rate approach and is measured on a collective (pool) basis when similar risk characteristics exist. The loss rate percentages used are based on the history of credit loss expense, the aging of accounts receivable, and the expectation of payments, with adjustments for current economic conditions and forecasts of future economic conditions. Where accounts receivable do not share risk characteristics, they are evaluated on an individual basis. Amounts are deemed past due when they exceed the payment terms agreed to by the customer. Past due amounts are charged off to the allowance for credit losses when reasonable collection efforts have been exhausted and the amounts are deemed uncollectible. Adjustments to the allowance are recorded as "credit loss expense" in operating expenses, on the statement of activity and changes in net assets .

Depreciation

Property and equipment acquisitions over \$5,000 are capitalized and are stated at original 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 \$57,179 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.

FAMILY SERVICE ROCHESTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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.

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, 2024 and 2023.

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.

FAMILY SERVICE ROCHESTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Revenue Recognition (Continued)

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.

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.

Financial Statement Presentation

Financial statement presentation follows FASB ASC 958. Under FASB ASC 958, the Organization is required to report information regarding its financial position and activities, based on the existence or absence of donor-imposed restrictions as either:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor-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. The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

FAMILY SERVICE ROCHESTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Advertising

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

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.

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 statement of financial position. Finance leases are included in property and equipment, other current liabilities, and other long-term liabilities on the statement of financial position.

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.

The organization elected to apply the short-term lease exemption to one class of underlying assets: office equipment. In 2024, there were a small number of leases within this class of underlying assets that qualify for the exemption.

FAMILY SERVICE ROCHESTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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.

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 2023 financial statements, from which the summarized information was derived.

Reclassification

Certain reclassifications have been made to the 2023 financial statements to conform with the presentation in the 2024 financial statements.

FAMILY SERVICE ROCHESTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Liquidity and Availability

Available Resources and Liquidity

Financial assets as of December 31, 2024 and 2023, available for general expenditure within one year of the statement of financial position date, were comprised of the following:

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 3,258,960	\$ 3,876,282
Investments, at fair value	5,445,261	4,094,160
Accounts receivable, less allowance	891,991	1,137,029
Total financial assets	9,596,212	9,107,471
Restricted by donors for use in future periods	(253,197)	(291,866)
Total financial assets available for general expenditures within one year	<u>\$ 9,343,015</u>	<u>\$ 8,815,605</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 and money market funds.

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 \$624,063 and \$613,778 for the years ending December 31, 2024 and 2023, respectively. Investment income received from the Petersen Trust for the year ended December 31, 2024 and 2023 was \$10,778 and \$7,208.

Other Investments

	<u>2024</u>	<u>2023</u>
Capital contribution - Contrarian Holdings, LLC	\$ 57,179	\$ 57,179

FAMILY SERVICE ROCHESTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. 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>2024</u>	<u>2023</u>
Monthly funding for January 1, 2024 through June 30, 2024	\$ 13,000	\$
Monthly funding for January 1, 2023 through June 30, 2023		25,000
Fundraising contribution		<u>10,000</u>
Total	<u>\$ 13,000</u>	<u>\$ 35,000</u>

5. 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).

FAMILY SERVICE ROCHESTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Fair Value Measurements (Continued)

Assets subject to recurring fair value measurements in the statements of financial position at December 31, 2024 and 2023 are summarized as follows:

Investments at December 31, 2024 and 2023 are as follows:

	December 31, 2024			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Investments in Securities:				
Fixed Income	\$ 3,124,769	\$	\$	\$ 3,124,769
Equities	1,891,883			1,891,883
Money market	428,609			428,609
Total	\$ 5,445,261	\$	\$	\$ 5,445,261

	December 31, 2023			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Investments in Securities:				
Fixed Income	\$ 3,063,890	\$	\$	\$ 3,063,890
Equities	1,007,051			1,007,051
Money market	23,219			23,219
Total	\$ 4,094,160	\$	\$	\$ 4,094,160

	December 31, 2024			
	Cost	Fair Value	Unrealized Appreciation (Depreciation)	
Fixed income	\$ 3,171,944	\$ 3,124,769	\$ (47,175)	
Equities	1,689,739	1,891,883	202,144	
Money market	428,609	428,609		
Total	\$ 5,290,292	\$ 5,445,261	\$ 154,969	

	December 31, 2023			
	Cost	Fair Value	Unrealized Appreciation (Depreciation)	
Fixed income	\$ 3,119,105	\$ 3,063,890	\$ (55,215)	
Equities	910,211	1,007,051	96,840	
Money market	23,219	23,219		
Total	\$ 4,052,535	\$ 4,094,160	\$ 41,625	

FAMILY SERVICE ROCHESTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Fair Value Measurements (Continued)

Investments return at December 31, 2024 and 2023 summarized as follows:

	<u>2024</u>	<u>2023</u>
Interest and dividends	\$ 267,126	\$ 170,292
Realized and unrealized gain	194,067	224,017
Less: investment fees	(15,524)	(13,932)
	<u>\$ 445,669</u>	<u>\$ 380,377</u>

6. Accounts Receivable

Accounts receivable as of December 31, 2024 and 2023 consisted of the following:

	<u>2024</u>	<u>2023</u>
Accounts receivable	\$ 915,991	\$ 1,169,029
Less - allowance for credit losses	24,000	32,000
Net Accounts Receivable	<u>\$ 891,991</u>	<u>\$ 1,137,029</u>

The following table represents a roll-forward of the allowance for credit losses for the years ended December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Allowance for credit losses, beginning of year	\$ 32,000	\$ 32,000
Provisions	1,336	17,079
Write offs	(9,336)	(17,079)
Allowance for credit losses, end of year	<u>\$ 24,000</u>	<u>\$ 32,000</u>

7. 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.

FAMILY SERVICE ROCHESTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Vulnerability Due to Concentration of Funding Sources

The Organization received approximately 42% and 59% of its unrestricted support and revenues from Federal, State and local governments during the years ended December 31, 2024 and 2023, respectively. 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.

9. 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, 2023	Additions	Restrictions Released	December 31, 2024
Meals on Wheels	\$ 268,984	\$ 19,959	\$ 55,774	\$ 233,169
Beyond the Yellow Ribbon	9,598	2,800	2,889	9,509
United Way Olmsted County Award - January 1 through June 30	25,000	13,000	25,000	13,000
Investment in perpetuity, the income from which is expendable to support Meals on Wheels	613,778	10,285		624,063
	<u>\$ 917,360</u>	<u>\$ 46,044</u>	<u>\$ 83,663</u>	<u>\$ 879,741</u>

10. 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, 2024 and 2023 were \$164,153 and \$207,935, respectively.

11. Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 18, 2025, 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, 2024

(With Comparative Totals for the Year Ended December 31, 2023)

	2024 Funding					2023
	Olmsted County		Rice County		Total	
	CHORE	Homemaker	CHORE	Homemaker		
Revenues						
Federal grant (passed through Southern Minnesota Area Agency on Aging)	\$ 9,172	\$ 12,715	\$ 6,291	\$ 7,709	\$ 35,887	\$ 35,886
Program income						
Participant fees	36,006	82,540	1,064	7,491	127,101	100,182
Non-Federal share	209,905	72,237	20,788	20,177	323,107	237,303
Total revenues	255,083	167,492	28,143	35,377	486,095	373,371
Expenses						
Personnel	105,309	94,145	16,264	25,523	241,241	169,185
In-kind	92,824	58,876	6,018	4,834	162,552	162,006
Travel	1,885	1,607	130	207	3,829	1,475
Contractual	41,148		2,723		43,871	23,880
Supplies	1,735	1,583	331	530	4,179	1,035
Other costs	12,182	11,281	2,677	4,283	30,423	15,790
Total expenses	255,083	167,492	28,143	35,377	486,095	373,371
Excess of revenues over expenses	\$	\$	\$	\$	\$	\$

	2024 Funding				2023
	ARP	Mental Health		Total	
		Caregiver			
Revenues					
Federal grant (passed through Southern Minnesota Area Agency on Aging)	\$ 44,931	\$ 12,000	\$ 53,899	\$ 110,830	\$ 110,828
Program income					
Participant fees	15,383	2,090	3,182	20,655	30,015
Non-Federal share	61,288	15,218	36,548	113,054	123,325
Total revenues	121,602	29,308	93,629	244,539	264,168
Expenses					
Personnel	61,620	27,359	76,887	165,866	156,329
In-kind	53,482	318	12,211	66,011	80,388
Travel		131	1,409	1,540	724
Contractual	6,000			6,000	15,637
Supplies	500	150		650	338
Other costs		1,350	3,122	4,472	10,752
Total expenses	121,602	29,308	93,629	244,539	264,168
Excess of revenues over expenses	\$	\$	\$	\$	\$