

Financial Statements

Little Brothers - Friends of the Elderly

Minneapolis, Minnesota

For the Years Ended
June 30, 2018 and 2017

Little Brothers - Friends of the Elderly
Table of Contents
June 30, 2018 and 2017

	<u>Page No.</u>
Independent Auditor's Report	3
Financial Statements	
Statements of Financial Position	5
Statements of Activities	6
Statements of Functional Expenses	8
Statements of Cash Flows	10
Notes to the Financial Statements	11



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Little Brothers - Friends of the Elderly
Minneapolis, Minnesota

We have audited the accompanying financial statements of Little Brothers - Friends of the Elderly (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Little Brothers - Friends of the Elderly as of June 30, 2018 and 2017 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
November 15, 2018

FINANCIAL STATEMENTS

Little Brothers - Friends of the Elderly
 Statements of Financial Position
 June 30, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 683,195	\$ 506,023
Accounts receivable	2,576	505
Pledges receivable, current	14,809	60,494
Prepaid expense	28,881	26,042
Total Current Assets	729,461	593,064
Investments	472,386	427,963
Property and Equipment		
Land and improvements	33,574	33,574
Building and improvements	304,846	304,846
Office equipment	19,481	12,156
Total Property and Equipment, Cost	357,901	350,576
Accumulated Depreciation	(296,020)	(286,185)
Total Property and Equipment, Net	61,881	64,391
Noncurrent Assets		
Pledges receivable, noncurrent	7,455	12,556
Total Assets	\$ 1,271,183	\$ 1,097,974
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 14,925	\$ 32,770
Accrued payroll and related expenses	31,717	27,209
Security deposits	2,000	2,000
Total Liabilities	48,642	61,979
Net Assets		
Unrestricted net assets		
Unrestricted	268,172	16,404
Board designated - operating reserves	350,000	542,413
Board designated - capital reserves	100,000	-
Board designated - other reserves	35,000	-
Total Unrestricted	753,172	558,817
Temporarily Restricted	11,955	62,741
Permanently Restricted	457,414	414,437
Total Net Assets	1,222,541	1,035,995
Total Liabilities and Net Assets	\$ 1,271,183	\$ 1,097,974

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

Little Brothers - Friends of the Elderly
 Statements of Activities
 For the Year Ended June 30, 2018
 (With Comparative Totals For the Year Ended June 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
Support and Revenue					
Contributions and grants	\$ 397,601	\$ 929	\$ -	\$ 398,530	\$ 383,300
Bequests	387,521	-	-	387,521	250,740
Special events, net of direct expenses of \$5,923	(4,874)	-	-	(4,874)	23,929
Investment income	1,507	-	42,977	44,484	68,734
Other income	24,000	-	-	24,000	27,001
In-kind contributions	56,553	-	-	56,553	17,264
Total Support and Revenue	<u>862,308</u>	<u>929</u>	<u>42,977</u>	<u>906,214</u>	<u>770,968</u>
Net Assets Released From Restrictions					
Release of time restrictions funds	<u>51,715</u>	<u>(51,715)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>914,023</u>	<u>(50,786)</u>	<u>42,977</u>	<u>906,214</u>	<u>770,968</u>
Expenses					
Program services	476,999	-	-	476,999	452,001
Supporting services					
Management and general	104,733	-	-	104,733	105,294
Fundraising	137,936	-	-	137,936	70,239
Total Expenses	<u>719,668</u>	<u>-</u>	<u>-</u>	<u>719,668</u>	<u>627,534</u>
Net Change in Net Assets	194,355	(50,786)	42,977	186,546	143,434
Net Assets, Beginning of the Year	<u>558,817</u>	<u>62,741</u>	<u>414,437</u>	<u>1,035,995</u>	<u>892,561</u>
Net Assets, End of the Year	<u>\$ 753,172</u>	<u>\$ 11,955</u>	<u>\$ 457,414</u>	<u>\$ 1,222,541</u>	<u>\$ 1,035,995</u>

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

Little Brothers - Friends of the Elderly
 Statements of Activities
 For the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue				
Contributions and grants	\$ 365,371	\$ 17,929	\$ -	\$ 383,300
Bequests	205,928	44,812	-	250,740
Special events, net of direct expenses of \$3,707	23,929	-	-	23,929
Investment income	-	-	68,734	68,734
Other income	27,001	-	-	27,001
In-kind contributions	17,264	-	-	17,264
Total Support and Revenue	<u>639,493</u>	<u>62,741</u>	<u>68,734</u>	<u>770,968</u>
Net Assets Released From Restrictions				
Satisfaction of time restrictions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>639,493</u>	<u>62,741</u>	<u>68,734</u>	<u>770,968</u>
Expenses				
Program services	452,001	-	-	452,001
Supporting services				
Management and general	105,294	-	-	105,294
Fundraising	70,239	-	-	70,239
Total Expenses	<u>627,534</u>	<u>-</u>	<u>-</u>	<u>627,534</u>
Net Change in Net Assets	11,959	62,741	68,734	143,434
Net Assets, Beginning of the Year	<u>546,858</u>	<u>-</u>	<u>345,703</u>	<u>892,561</u>
Net Assets, End of the Year	<u>\$ 558,817</u>	<u>\$ 62,741</u>	<u>\$ 414,437</u>	<u>\$ 1,035,995</u>

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

Little Brothers - Friends of the Elderly
Statements of Functional Expenses
For the Year Ended June 30, 2018
 (With Comparative Totals For the Year Ended June 30, 2017)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2018 Total</u>	<u>2017 Total</u>
Personnel Costs					
Salaries	\$ 254,370	\$ 47,776	\$ 79,212	\$ 381,358	\$ 344,143
Benefits	27,856	12,585	9,570	50,011	42,645
Payroll taxes	19,404	3,092	5,911	28,407	29,481
Total Personnel Costs	<u>301,630</u>	<u>63,453</u>	<u>94,693</u>	<u>459,776</u>	<u>416,269</u>
Expenses					
Occupancy	23,810	4,171	2,683	30,664	28,069
Office	34,190	1,944	21,160	57,294	34,479
Professional fees	18,426	20,497	7,235	46,158	82,092
Travel	7,946	-	526	8,472	4,548
Program participants	66,209	1,117	6,526	73,852	25,006
Interest	-	139	-	139	-
Telephone	8,458	1,034	2,545	12,037	12,225
Training	14,988	2,346	2,503	19,837	16,303
Miscellaneous	386	1,205	13	1,604	668
Total Expenses Before Depreciation	<u>476,043</u>	<u>95,906</u>	<u>137,884</u>	<u>709,833</u>	<u>619,659</u>
Depreciation	<u>956</u>	<u>8,827</u>	<u>52</u>	<u>9,835</u>	<u>7,875</u>
Total Expenses	<u><u>\$ 476,999</u></u>	<u><u>\$ 104,733</u></u>	<u><u>\$ 137,936</u></u>	<u><u>\$ 719,668</u></u>	<u><u>\$ 627,534</u></u>

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

Little Brothers - Friends of the Elderly
 Statements of Functional Expenses
 For the Year Ended June 30, 2017

	Program Services	Management and General	Fundraising	2017 Total
Personnel Costs				
Salaries	\$ 275,707	\$ 33,997	\$ 34,439	\$ 344,143
Benefits	34,694	3,900	4,051	42,645
Payroll taxes	23,711	2,818	2,952	29,481
Total Personnel Costs	<u>334,112</u>	<u>40,715</u>	<u>41,442</u>	<u>416,269</u>
Expenses				
Occupancy	20,761	5,390	1,918	28,069
Office	22,734	1,712	10,033	34,479
Professional fees	16,894	55,291	9,907	82,092
Travel	2,380	136	2,032	4,548
Program participants	23,954	76	976	25,006
Telephone	10,583	789	853	12,225
Training	14,320	581	1,402	16,303
Miscellaneous	209	13	446	668
Total Expenses Before Depreciation	<u>445,947</u>	<u>104,703</u>	<u>69,009</u>	<u>619,659</u>
Depreciation	<u>6,054</u>	<u>591</u>	<u>1,230</u>	<u>7,875</u>
Total Expenses	<u>\$ 452,001</u>	<u>\$ 105,294</u>	<u>\$ 70,239</u>	<u>\$ 627,534</u>

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

Little Brothers - Friends of the Elderly
 Statements of Cash Flows
 For the Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows From Operating Activities		
Change in net assets	\$ 186,546	\$ 143,434
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	9,835	7,875
Unrealized and realized gains on investments	(22,196)	-
Change in assets:		
Accounts receivable	(2,071)	794
Pledges receivable	50,786	(73,050)
Prepaid expenses	(2,839)	18,863
Change in liabilities:		
Accounts payable	(17,845)	20,313
Accrued payroll and related expenses	4,508	(9,798)
Net Cash Provided by Operating Activities	206,724	108,431
 Cash Flows From Investing Activities		
Purchases of investments	(22,227)	(115,966)
Purchases of equipment	(7,325)	(4,324)
Net Cash Used for Investing Activities	(29,552)	(120,290)
 Net Increase (Decrease) in Cash and Cash Equivalents	177,172	(11,859)
 Cash and Cash Equivalents at Beginning of Period	506,023	517,882
 Cash and Cash Equivalents at End of Period	\$ 683,195	\$ 506,023
 Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for:		
Interest	\$ 139	\$ -

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

Little Brothers - Friends of the Elderly
Notes to the Financial Statements
June 30, 2018 and 2017

Note 1: Summary of Significant Accounting Policies

A. Nature of Activities

Little Brothers - Friends of the Elderly (Minneapolis/St. Paul) (LBFE), is a nonprofit, volunteer-based organization whose mission is to relieve isolation and loneliness among the elderly while promoting independence and wellbeing. LBFE identifies isolated adults, 65 years and older, with unmet social needs in the Twin Cities area, and provides and/or connects them to neighborhood services to foster their independence and quality of life, thereby reducing healthcare and long-term care costs for the greater community.

LBFE's core service is Companionship, which brings older adult participants and volunteers together to form a mutually rewarding relationship. The following programs provide support to this program:

Visiting and Advocacy – Dedicated volunteers promote companionship and friendship to relieve isolation and loneliness of older adults. Elders receive regular visits and a minimum of six hours of interaction every month from trained volunteers who are carefully matched according to interests, personality, cultural needs and geography. Visits occur in the elders' homes or in the community.

Friendship and Flowers – Homebound elders receive a short visit plus flowers and cookies once a month by a volunteer to help decrease their isolation while increasing their communication and social skills. Some of these volunteers are families with children thereby providing a mutually rewarding intergenerational experience.

Family Companions brings elders into the homes of volunteer families once a month for visits. Volunteer families are matched with elders and together they share a meal and activities for a home-centered intergenerational experience. Activities may include playing cards or a game, biking, going for a walk, making a trip to the zoo or arboretum, etc.

Social Engagements incorporates gathering in friendship activities, holiday dinners, events and recreation designed to give older adults opportunities to meet with peers and volunteers, to build their informal support system and connections to the community, while also having fun and experiencing new things. LBFE sponsors and co-hosts luncheons, hobby-type groups, games, outings and other activities.

Outreach and Community Connections focuses on providing neighborhood based services, referrals and advocacy to other adults in the community who are not currently associated with LBFE's other programs.

For 45 years Little Brothers - Friends of the Elderly, Minneapolis/St. Paul Chapter (LBFE), has connected older adults to our community by providing home visits, advocacy and social activities free of charge for seniors who are isolated and alone. Because of the increasing numbers and needs of elders in our community, and upon the recommendation of key stakeholders, LBFE transformed its service delivery from paid staff to volunteer-based. By engaging new strategies to recruit, train and support volunteers to deliver our visiting and advocacy services, LBFE is achieving lower service delivery costs and the methodology to provide higher quality service to significantly more isolated seniors.

The success of these efforts after 24 months is already reflected in a 35% increase in the number of volunteers/elder visits, 115% increase in volunteer hours (7,002 to 15,050), and a 111% increase in the value of those services (\$176,450 to \$371,591).

Little Brothers - Friends of the Elderly
Notes to the Financial Statements
June 30, 2018 and 2017

Note 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets of LBFE and related changes are classified and reported as follows:

Unrestricted Net Assets – Those resources over which the Board of Directors has discretionary control.

Temporarily Restricted Net Assets - Those resources subject to donor imposed restrictions which will be satisfied by actions of LBFE or passage of time. Donor restricted contributions whose restrictions are met in the same reporting period are reported as revenues of the temporarily restricted net asset class, and a release to unrestricted net assets is made to reflect the expiration of such restrictions.

Permanently Restricted Net Assets - Those resources subject to a donor-imposed restriction that they be maintained permanently by LBFE.

LBFE had permanently restricted net assets for the years ended June 30, 2018 and 2017 of \$457,414 and \$414,437, respectively.

C. Cash Equivalents

LBFE considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

D. Concentrations of Credit Risk

LBFE places substantially all of its cash and liquid investments with high-quality financial institutions and limits the amount of credit exposure to any one financial institution; however, cash balances may periodically exceed federally insured limits.

E. Investments

Investments are generally recorded at fair value based upon quoted market prices, when available, or estimates of fair value. Investment income or loss and unrealized gains or losses are included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by the donor or law.

F. Accounts and Pledges Receivable

Accounts and pledges receivable are stated at the amount management expects to collect from outstanding balances. Management of the Organization periodically evaluates uncollected pledges receivable based on aging and individual balances and provides for bad debts on the allowance method, if necessary. Management also records a discount on pledges receivable based on a collection schedule set by donors.

Little Brothers - Friends of the Elderly
Notes to the Financial Statements
June 30, 2018 and 2017

Note 1: Summary Of Significant Accounting Policies (Continued)

G. Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives. Normal repair and maintenance expenses are charged to operations as incurred. LBFE capitalizes property and equipment additions in excess of \$1,000.

Assets are depreciated using the straight-line and accelerated methods over the following useful lives:

Buildings and improvements	5 – 20 years
Equipment and furnishings	5 – 10 years

Depreciation expense was \$9,835 and \$7,875 for the years ended June 30, 2018 and 2017, respectively.

H. Income Tax Status

The Internal Revenue Service has determined that LBFE is exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Code. LBFE is also exempt from state income taxes. However, any unrelated business income may be subject to taxation. Because LBFE is a public charity, contributions to it may be deductible for tax purposes.

Management believes that it is not reasonably possible for any tax position benefits to increase or decrease significantly over the next 12 months. As of June 30, 2018 and 2017, respectively, there were no income tax related accrued interest or penalties recognized in either the statement of financial position or the statement of activities.

The Company files informational returns in the U.S. federal jurisdiction and in the Minnesota state jurisdiction. U.S. federal returns and Minnesota returns prior to fiscal year 2015 are closed. No returns are currently under examination in any jurisdiction.

I. Use of Estimates

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

J. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses, except for certain items accounted for on a direct allocation basis, are allocated among the program and supporting service categories based on management estimates.

K. Reclassification

Prior period financial statement amounts have been reclassified to conform to current period presentation. Net assets have not been affected by this change.

Little Brothers - Friends of the Elderly
Notes to the Financial Statements
June 30, 2018 and 2017

Note 1: Summary Of Significant Accounting Policies (Continued)

L. New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09) as a new Topic, Accounting Standards Codification Topic 606. The amendments are intended to provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices and improve disclosure requirements. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers: Deferral of the Effective Date*, which deferred the effective date of ASU 2014-09 by one year. This ASU is effective for annual reporting periods beginning after December 15, 2018, and shall be applied using either a full retrospective or modified retrospective approach. Early adoption is permitted. The new guidance is effective for the Organization for the year ended June 30, 2020. The Organization is currently evaluating the impact on the results of operations, financial condition and cash flows and has not determined the impact on its consolidated financial statements at this time.

In March 2016, the FASB issued ASU No. 2016-02, *Leases*, as a new topic, Accounting Standards Codification 842. The objective of ASU No. 2016-02 is to increase transparency and comparability among organizations by reorganizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. ASU No. 2016-02 is effective for annual reporting periods beginning after December 15, 2019, and shall be applied using either a full retrospective or modified retrospective approach. Early adoption is permitted. The new guidance is effective for the Organization for the year ended June 30, 2021 is currently evaluating the impact on the results of operations, financial condition and cash flows and has not determined the impact on its consolidated financial statements at this time.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about liquidity and availability of resources, expenses and investment return, and cash flows. This ASU is effective for annual reporting periods beginning after December 15, 2017, and shall be applied retrospectively. Early adoption is permitted. The new guidance is effective for the Organization for the year ended June 30, 2019. The Organization is currently evaluating the impact on the results of operations, financial condition and cash flows, and has not determined the impact on its consolidated financial statements at this time.

M. Subsequent Events

Subsequent events were evaluated through November 15, 2018, which is the date the financial statements were available to be issued.

Note 2: Unemployment Fund

The Organization has elected to opt out of participation in the Minnesota Unemployment Insurance Program and is self-insured for unemployment claims through Unemployment Services Trust (UST). Payments to UST are accumulated and used to pay future claims. An expense is recorded as claims are paid by UST. LBFE believes there is no significant liability for claims incurred but not reported at June 30, 2018. LBFE could be required to make additional payments if claims exceeded the accumulated contributions. The fund balance as of June 30, 2018 and 2017 was \$25,213 and \$23,406, respectively.

Little Brothers - Friends of the Elderly
Notes to the Financial Statements
June 30, 2018 and 2017

Note 3: Pledges Receivable

The balances of all promises to give at June 30, 2018 and 2017 were \$22,264 and \$73,050, respectively.

	2018	2017
Less than One Year	\$ 14,809	\$ 60,494
One to Five Years	7,947	13,697
Total Pledges Receivable	22,756	74,191
Less: Discount to Present Value of 4% in 2018 and 2017	(492)	(1,141)
Net Pledges Receivable	22,264	73,050
Less: Current Portion	(14,809)	(60,494)
Long-term Portion	\$ 7,455	\$ 12,556

Note 4: Operating Lease Commitments

In January 2014, LBFE entered into an operating lease agreement for office equipment. The lease terms are for 60 monthly payments of \$132. Future payments as of June 30, 2018 are as follows:

For the Fiscal Year Ended June 30,	Amount
2019	\$ 858
Total	\$ 858

Note 5: Retirement Plan

LBFE offers a 401(k) plan that is available to all employees meeting eligibility requirements. LBFE makes a 4% base contribution for all eligible participants. The Organization made contributions of \$14,068 and \$11,468 for the years ended June 30, 2018 and 2017, respectively.

Little Brothers - Friends of the Elderly
Notes to the Financial Statements
June 30, 2018 and 2017

Note 6: In-kind Contributions and Expenses

LBFE's in-kind contributions are made up of contributed food and gifts. The value of these contributions was based on an evaluation of the market value of such items. In-kind contributions were \$56,553 and \$17,264 for the years ended June 30, 2018 and 2017, respectively.

In addition, LBFE receives donated services from a variety of unpaid volunteers whose services effectively reduce personnel-related program expenses. No values have been recognized in the accompanying statements of activities because the criteria for recognition of such volunteer effort under ASC Subtopic 958-605 *Not-for-Profit Entities Revenue Recognition* have not been satisfied. In the year ended June 30, 2018, 683 volunteers recorded a total of 15,050 volunteer hours. In the year ended June 30, 2017, 618 volunteers recorded a total of 9,983 hours. Management estimates the value of these services to be \$371,591 and \$240,990 for the years ended June 30, 2018 and 2017, respectively.

Note 7: Fair Value Measurements

Fair value measurement accounting literature establishes a fair value hierarchy based on the priority of the inputs to the valuation methodologies used to measure fair value. 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 hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets in an active market that LBFE has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for identical or similar assets or liabilities in inactive markets
- Inputs other than quoted prices that are observable for the asset or liability
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Little Brothers - Friends of the Elderly
Notes to the Financial Statements
June 30, 2018 and 2017

Note 7: Fair Value Measurements (Continued)

Financial assets recorded in the Statement of Financial Position are categorized based on the inputs to the valuation technique as follows for the year ended June 30, 2018 and 2017:

	<u>Level 1</u>	<u>Total</u>
June 30, 2018		
Certificate of deposit	\$ 50,183	\$ 50,183
Equity securities		
Large-cap	<u>422,203</u>	<u>422,203</u>
Total	<u>\$ 472,386</u>	<u>\$ 472,386</u>
	<u>Level 1</u>	<u>Total</u>
June 30, 2017		
Cash and money market funds	\$ 50,061	\$ 50,061
Equity securities		
Large-cap	<u>377,902</u>	<u>377,902</u>
Total	<u>\$ 427,963</u>	<u>\$ 427,963</u>

Note 8: Temporarily Restricted Net Assets

LBFE had temporarily restricted net asset at June 30, 2018 and 2017 of \$11,955 and \$62,741, respectively, which are related to time restrictions on pledges from donors.

Note 9: Permanently Restricted Net Assets - Endowments

LBFE holds certain funds in permanently restricted net assets. These funds were received from donors with a permanent restriction designation and are to be held in perpetuity with the income and related investments gains to be used for purposes as determined by the Board of Directors.

As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

Little Brothers - Friends of the Elderly
Notes to the Financial Statements
June 30, 2018 and 2017

Note 9: Permanently Restricted Net Assets - Endowments (Continued)

Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds.

1. The duration and preservation of the fund.
2. The purposes of the Organization and the donor restricted endowment fund.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the Organization.
7. The investment policies of the Organization.

Endowment Composition and Changes in Endowment Net Assets

Endowment net asset compositions by type of fund as of June 30, 2018 and 2017 consisted of permanently restricted net assets of \$457,414 and \$414,437, respectively. There were no temporarily restricted, unrestricted, or board designated endowment funds at year-end.

Changes in endowment net assets for the year ended June 30, 2018 and 2017 are as follows:

	2018	
	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	\$ 414,437	\$ 414,437
Investment Return:		
Investment income	42,977	42,977
Endowment Net Assets, End of Year	\$ 457,414	\$ 457,414

Little Brothers - Friends of the Elderly
Notes to the Financial Statements
June 30, 2018 and 2017

Note 9: Permanently Restricted Net Assets - Endowments (Continued)

	2017	
	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	\$ 345,703	\$ 345,703
Investment Return:		
Investment income	68,734	68,734
Endowment Net Assets, End of Year	\$ 414,437	\$ 414,437

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. After the fiscal year ended June 30, 2015, LBFE became aware of donations from two donors received during prior periods that appear to have been intended as permanently restricted endowments. In order to honor what LBFE now believes was the intent of the donors, all investment earnings of this account are permanently restricted until the endowment reaches a balance of \$1,339,626.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that the Organization must hold in perpetuity or for a donor specified period(s) as well as board designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to ensure the safety of the principal by assuming a low level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately 5-8 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long term rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization does not have a formal spending policy relating to endowments, but the board does review the fund periodically, and the finance committee does approve distributions from the endowment funds.