THE ARC MINNESOTA

Saint Paul, Minnesota

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Year Ended December 31, 2018

THE ARC MINNESOTA

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Arc Minnesota
Saint Paul, Minnesota

We have audited the accompanying financial statements of The Arc Minnesota (the "Organization"), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, cash flows and functional expenses for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2018, 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.

Emphasis of a Matter Paragraph

As discussed in Note 13 to the financial statements, seven Arc Chapters from around the state of Minnesota merged, creating new Bylaws and Articles of Incorporation to form The Arc Minnesota, Inc. This change has been applied retrospectively, by including all accounts of these merged chapters in the beginning net assets balance in the statement of activities and in the beginning cash balance in the statement of cash flows. Our opinion is not modified with respect to this matter.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
June 26, 2019

THE ARC MINNESOTA

STATEMENT OF FINANCIAL POSITION
As of December 31, 2018

ASSETS

		2018
CURRENT ASSETS		
Cash and cash equivalents	$	227,386
Receivables		
Accounts receivable		142,713
Contributions receivable, net		38,333
Grants and contracts receivable		309,917
Interest receivable		9,471
Inventory		144,540
Prepaid expenses		303,078
Total Current Assets		1,175,438
OTHER ASSETS		
Investments		2,392,887
Beneficial interest in assets held by others		353,298
Deposits and other assets		71,770
Equipment and improvements, net		
Thrift business leasehold improvements and equipment		2,281,197
Office equipment and furniture		1,325,560
Less: Accumulated depreciation		(2,968,144)
Total equipment and improvements, net		638,613
Total Other Assets		3,456,568
TOTAL ASSETS	$	4,632,006

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	$	554,126
Line of credit payable		50,449
Deferred revenue		184,110
Other current liabilities		33,046
Total Current Liabilities		821,731
OTHER LIABILITIES		
Deferred rent		100,493
Total Liabilities		922,224
NET ASSETS		
Without donor restrictions		
Designated by Board of Directors		2,933,997
Undesignated		139,873
Total unrestricted		3,073,870
With donor restrictions		635,912
Total Net Assets		3,709,782
TOTAL LIABILITIES AND NET ASSETS	$	4,632,006

THE ARC MINNESOTA

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Revenue			
Membership dues	$ 50,210	$ -	$ 50,210
Fair share revenue	19,142	-	19,142
Program service fees	207,072	-	207,072
Investment income/(loss), net of fees	(40,040)	(20,971)	(61,011)
State contracts	1,338,586	-	1,338,586
Other	4,726	-	4,726
Total Revenue	1,579,696	(20,971)	1,558,725
Support			
Contributions	859,735	-	859,735
Bequests	6,159	-	6,159
Grants	371,155	30,000	401,155
United Way	172,235	-	172,235
In-kind contributions	26,299	-	26,299
Special events, net of total benefits provided to donors of $169,830	773,977	-	773,977
Autos for Arc, net	7,919	-	7,919
Value Village Thrift Stores			
Retail sales, net amounts recognized as donated goods of $1,731,080	6,301,005	-	6,301,005
Donated goods and services received	1,731,080	-	1,731,080
Cost of goods sold	(109,974)	-	(109,974)
Cost of retail sales	(7,154,802)	-	(7,154,802)
Total Support	2,984,788	30,000	3,014,788
Net Assets Released From Restrictions			
Contributions	23,881	(23,881)	-
Grants	82,000	(82,000)	-
Total Satisfaction of Restrictions	105,881	(105,881)	-
Total Support and Revenue	4,670,365	(96,852)	4,573,513
EXPENSES			
Program Services			
Public policy & systems advocacy	2,198,637	-	2,198,637
Individual advocacy & support	1,488,425	-	1,488,425
Planning services	564,727	-	564,727
Public engagement	281,462	-	281,462
Total Program Services	4,533,251		4,533,251
Support Services			
Management and general	356,121	-	356,121
Fundraising	742,798	-	742,798
Capital campaign	86,250	-	86,250
Total Support Services	1,185,169	-	1,185,169
Total Expenses before full support payment	5,718,420	-	5,718,420
Unallocated support payments to national associations	21,846	-	21,846
Total Expenses	5,740,266	-	5,740,266
CHANGE IN NET ASSETS	(1,069,901)	(96,852)	(1,166,753)
NET ASSETS - Beginning of year	4,143,771	732,764	4,876,535
NET ASSETS - END OF YEAR	$ 3,073,870	$ 635,912	$ 3,709,782

THE ARC MINNESOTA

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018

	Program Services					Supporting Services						
	Public Policy and Systems Advocacy	Individual Advocacy and Support	Planning Services	Public Engagement	Total Program Services	Management and General	Fundraising	Capital Campaign	Total Supporting Services	Subtotal	Cost of Retail Sales	Total Expenses
Salaries	$ 1,032,854	$ 684,863	$ 298,043	$ 156,135	$ 2,171,895	$ 105,784	$ 366,400	$ 20,434	$ 492,618	$ 2,664,513	$ 3,228,546	$ 5,893,059
Payroll taxes	111,580	75,536	32,872	17,221	237,209	25,090	40,412	2,254	67,756	304,965	193,987	498,952
Employee benefits	232,032	152,947	66,560	34,869	486,408	50,913	81,826	4,563	137,302	623,710	515,693	1,139,403
Total Salaries and Related Expenses	1,376,466	913,346	397,475	208,225	2,895,512	181,787	488,638	27,251	697,676	3,593,188	3,938,226	7,531,414
Professional fees and contract services	189,229	107,115	52,788	18,704	367,836	90,507	55,726	26,923	173,156	540,992	288,183	829,175
Supplies	35,178	32,002	2,954	9,079	79,213	8,679	48,424	4,767	61,870	141,083	94,277	235,360
Occupancy	142,231	105,458	39,870	11,819	299,378	5,640	35,309	981	41,930	341,308	2,049,146	2,390,454
Insurance	12,312	9,834	3,849	1,141	27,136	16,623	3,409	95	20,127	47,263	18,155	65,418
Telephone	50,938	40,659	15,128	4,850	111,575	2,511	13,428	4,933	20,872	132,447	2,097	134,544
Postage and shipping	6,681	4,605	1,960	1,811	15,057	266	10,584	46	10,896	25,953	13,309	39,262
Printing and publications	11,854	5,853	1,015	5,852	24,574	708	23,689	22	24,419	48,993	17,901	66,894
Advertising	298	273	235	2,553	3,359	14	7,083	2	7,099	10,458	106,346	116,804
Equipment and maintenance	75,662	66,117	24,855	7,368	174,002	3,552	26,739	18,877	49,168	223,170	294,080	517,250
Travel and transportation	43,695	14,323	6,269	2,214	66,501	6,908	5,751	1,935	14,594	81,095	64,553	145,648
Conferences and staff development	16,170	2,542	1,747	1,442	21,901	2,382	1,395	16	3,793	25,694	2,092	27,786
Staff recruitment and recognition	2,950	2,282	863	1,836	7,931	37,806	1,732	21	39,559	47,490	4,928	52,418
Client support funding	150,784	144,032	-	-	294,816	-	5,000	-	5,000	299,816	-	299,816
Chapter support fees	34,426	-	-	-	34,426	-	-	-	-	34,426	-	34,426
Financial charges and other fees	7,156	6,081	3,003	891	17,131	1,250	4,902	74	6,226	23,357	191,599	214,956
Miscellaneous	1,252	(699)	(918)	(275)	(640)	(4,398)	(818)	(21)	(5,237)	(5,877)	343	(5,534)
	780,816	540,477	153,618	69,285	1,544,196	172,448	242,353	58,671	473,472	2,017,668	3,147,009	5,164,677
Total expenses before depreciation and full support payment	2,157,282	1,453,823	551,093	277,510	4,439,708	354,235	730,991	85,922	1,171,148	5,610,856	7,085,235	12,696,091
Depreciation	41,355	34,602	13,634	3,952	93,543	1,886	11,807	328	14,021	107,564	69,567	177,131
Total Expenses Before Full Support Payment	$ 2,198,637	$ 1,488,425	$ 564,727	$ 281,462	$ 4,533,251	$ 356,121	$ 742,798	$ 86,250	$ 1,185,169	$ 5,718,420	$ 7,154,802	$ 12,873,222

THE ARC MINNESOTA

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2018

		2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	(1,166,753)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation		177,131
Realized and unrealized loss on investments		179,716
Donation of stock		(65,626)
Changes in assets and liabilities:		
Receivables		19,873
Inventory		(45,175)
Prepaid expenses		51,514
Deposits and other assets		3,540
Accounts payable, accrued expenses and other liabilities		38,365
Deferred revenue		(2,283)
Deferred rent		8,425
Net cash flows from operating activities		(801,273)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of equipment and improvements		(409,712)
Purchases of investments		(382,952)
Proceeds from sales or maturities of investments		285,977
Net cash flows from investing activities		(506,687)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit		818,000
Repayments on line of credit		(767,551)
Net cash flows from financing activities		50,449
Net Change in Cash and Cash Equivalents		(1,257,511)
CASH AND CASH EQUIVALENTS - Beginning of year		1,484,897
CASH AND CASH EQUIVALENTS - END OF YEAR	$	227,386
Supplemental cash flow disclosures		
Cash paid for interest	$	5,442

NOTE 1 - ORGANIZATION AND PROGRAM DESCRIPTIONS

The Arc Minnesota (the "Organization") is a nonprofit corporation committed to pursuing lasting community change that supports people with intellectual and developmental disabilities in creating a good life.

On January 1, 2018, chapters of The Arc across Minnesota merged as one organization to support more people with intellectual and developmental disabilities and their families. This merger was the result of several years of thoughtful discussion about how to ensure access to quality programs and services across Minnesota and improve outreach to underserved communities. The goals of the merger are to create a sustainable and innovative organization that supports 33 previously unserved counties across the state of Minnesota, and to grow and diversify programs and services for currently served geographies. The Arc chapters (regional location) participating in the merger include Greater Twin Cities (St. Paul), Midstate (St. Cloud), Minnesota State Chapter (St. Paul), Range (Eveleth), Southeastern (Rochester), Southwest (Mankato), and West Central (Moorhead). In 2018 the Organization incurred one-time costs of approximately $440,000 associated with the merger for strategic investments around the state to strengthen the operations statewide. See Note 13.

The Organization is one of the first Arc chapters in the nation, founded in 1946. The Organization's membership is comprised of parents, people with disabilities, professionals and concerning persons, who by working together to promote opportunities for people with disabilities to lead productive and fulfilling lives.

Programs and services span all stages of life, from birth through the senior years, and include advocacy, family education, community inclusion programs, transition programs, public awareness, networks of family support, access to health care, housing, and employment and multicultural outreach.

The Organization is dependent upon the Minnesota United Way, contributions and bequests from the general public, service contracts with MN Department of Human Services and operation of its Value Village thrift stores. The Organization operates Value Village thrift stores as a funding source for program services, selling donated goods primarily to residents of the Minneapolis/St. Paul metropolitan area. Any major reduction in the level of support from these sources, if it were to occur, would likely have a significant effect on the Organization's programs and activities.

The Organization is affiliated with The ARC U.S. and paid them affiliation fees of $21,546 during 2018.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The more significant accounting policies are summarized below:

General - These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of transactions into two classes of net assets as follows:

Without Donor Restricted - Those resources absent of donor restrictions, over which the Board of Directors has discretionary control. Designated amounts represent those net assets which the Board has set aside for a particular purpose. See Note 7 for detail of board designated net assets.

With Donor Restricted - Those resources subject to donor imposed restrictions which will be satisfied by actions of the Organization and/or the passage of time or donor imposed restrictions, which stipulate that they are maintained permanently by the Organization.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in without donor restricted net assets unless their use is restricted by explicit donor stipulation or by law. For donor restricted revenue for which the restrictions are met in the same year received, they are recorded in net assets without donor restrictions. Expirations of restrictions on net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications to net assets without donor restrictions.

Government Contracts and Grants - Funds provided by government agencies are recognized as revenue as they are earned in accordance with the agreement. Any funding received before it is earned is recorded as a deferred revenue. Expenses incurred before cash is received are recorded as receivables.

Membership Dues Revenue - Membership dues are recognized ratably over the membership term. The unearned portion of membership dues is recorded as deferred revenue.

Cash and Cash Equivalents - The Organization considers all highly liquid assets with a maturity of three months or less when purchased to be cash equivalents. Cash consists of cash on hand and in deposit and checking accounts. Cash in excess of FDIC and similar insurance coverage is subject to the usual banking risks of funds in excess of those limits.

Accounts Receivable - Receivables are reported at the amount the Organization expects to collect on balances outstanding at year end. Accounts are considered delinquent when they become 30 days past due. The Organization has not experienced difficulty in collections on accounts receivable and no bad debt was recorded during 2018. Management of the Organization periodically evaluates uncollected accounts receivable based on an aging and balances due. The allowance method is used for providing for bad debts. No allowance was considered necessary for accounts receivable at December 31, 2018. The Organization does not charge interest on accounts receivable balances that are past due.

Contributions and Grants Receivable - Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional and irrevocable. Contributions that are restricted by the donor are reported as increases in net assets without donor restricted only if the restrictions expire during the year in which the contributions are recognized. All other donor restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of restrictions and when restrictions expire on restricted contributions received in previous years. Upon expiration of the donor restriction, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in subsequent years are recorded at their net realizable value based on the net present value of the amounts expected to be collected. At December 31, 2018, all contributions receivable are due within one year. Periodically, management evaluates uncollected contributions and grants receivable based on an aging and balances due. The allowance method is used for providing for bad debts. The balance for the allowance for uncollectible contributions receivable was $2,739 at December 31, 2018.

Contract Revenue – Contract revenue is recognized when earned. Revenue is earned when eligible expenditures, as defined in each grant agreement or contract, are made. Expenditures under government contracts are subject to review by the contracting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the Organization will record such disallowance at the time the final assessment is made. Any funding received before it is earned is recorded as a deferred revenue. Expenses incurred before cash is received are recorded as receivables.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Value Village Thrift Stores Revenue - Revenue, recognized by Value Village Thrift Stores, is derived mainly through the sale of contributed inventory.

Inventory - The Organization has inventories of donated and purchased goods to be sold within their Value Village Thrift Stores. Donated merchandise inventory and materials are recorded at fair value at the point of such items being offered for sale. Prior to being offered for sale, donated items are not valued due to significant uncertainties concerning their fair value. The donated inventory balance at December 31, 2018 is estimated based on donor counts, average pounds per donor and sales in the first weeks of January 2019. Purchased merchandise inventory is carried at cost.

Inventories at December 31, 2018 are as follows:

	2018
Donated inventory	$ 132,999
Inventory for resale	11,541
Total	$ 144,540

Equipment and Improvements - Equipment and improvements are presented at original cost or fair market value at the date of the donation. Equipment and improvements with a useful life greater than one year are capitalized. Repairs and maintenance costs are expensed when incurred. The Organization capitalizes additions in excess of $1,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from three to ten years. If the assets are sold, retired or otherwise disposed of in the ordinary course of business, the cost and related accumulated depreciation are removed from the books. Any gains or losses on property and equipment retirements are reflected in the statement of activities.

Deferred Revenue - Deferred revenue represents prepayments of sponsorship or special events revenue, advance payments of grants and contracts and unearned membership dues revenue.

Donated Services - Many individuals have donated time and services to advance the Organization's programs and objectives. The value of these services has not been recorded in the financial statements because they do not meet the definition of recognition under accounting principles, generally accepted in the United States of America.

Investments and Investment Return - The Organization’s investments are presented in the financial statements at fair value based on quoted market prices. Investments are designated by the Board for endowment and future program activities or are donor restricted for endowment. Changes in fair value are recorded as unrealized gains (losses). Realized gains (losses) are recorded upon the sale of the investments. Investment gains pertaining to certain restricted net assets are recorded as with donor restrictions in accordance with the applicable gift instruments. Interest income is recognized under the accrual basis and dividend income is recognized on the dividend date.

Investments are exposed to various risks such as interest rate, market and credit risks. It is reasonably possible that changes in values of investments will occur in the near term and that such changes could materially affect the amounts reported.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Expenses - Advertising expenses approximated $116,804 for the year ended December 31, 2018. Advertising costs are expensed when incurred.

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

Income Taxes - The Internal Revenue Service has determined that the Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. It is also exempt from state income tax. However, any unrelated business income may be subject to taxation. The Organization's tax returns are subject to review and examination by federal and state authorities. The Organization is not currently under examination by any taxing jurisdiction.

The Organization follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the Organization for uncertain tax positions as of December 31, 2018.

Presentation of Taxes Collected From Customers - Sales taxes are imposed on most of the Organization's sales to nonexempt customers. The Organization collects the taxes from customers and remits the entire amounts to the governmental authorities. The Organization's accounting policy is to exclude the taxes collected and remitted from revenues and expenses.

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.

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. Accordingly, certain expenses have been allocated to store expenses and among the programs and supporting services benefited based on the time spent on the specific activity. Salaries and related expenses are allocated based on job descriptions and management estimates. Expenses, other than salaries and related expenses not directly identifiable to store expenses, program or support services, are allocated based on management estimates.

Subsequent Events - The Organization has evaluated subsequent events through June 26, 2019, which is the date that the financial statements were approved and available to be issued.

New Accounting Pronouncements Adopted in the Current Year - In August 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The Organization adopted the provisions of this new standard during the year ended December 31, 2018. The primary change includes presenting two classes of net assets versus the three categories previously required. The standard also provides for enhanced disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity and availability of financial assets, and expenses by both natural and functional classification. This standard has been retrospectively applied to the prior period presented with certain transition provisions.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements Not Yet Effective - In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. ASU 2014-09 is effective for fiscal years beginning after December 15, 2018. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Organization is currently assessing the effect that ASU 2014-09 will have on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 was issued to increase transparency and comparability among organizations by recognizing all lease transactions (with terms in excess of 12 months) on the balance sheet as a lease liability and a right-of-use asset (as defined). ASU 2016-02 is effective for fiscal years beginning after December 15, 2019. Upon adoption, the lessee will apply the new standard on a modified retrospective approach with a number of optional practical expedients to all periods presented. The practical expedients will, in effect, continue to account for leases that commenced before the effective date in accordance with previous GAAP unless the lease is modified, except that lessees are required to recognize a right-of-use asset and a lease liability for all operating leases based on the present value of the remaining minimum rental payments. The Organization is currently assessing the effect that ASU 2016-02 will have on its financial statements.

During June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchanges (reciprocal transactions) subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective fiscal years beginning after December 15, 2018. The Organization is currently assessing the impact that ASU 2018-08 will have on its financial statements.

NOTE 3 - FAIR VALUE MEASUREMENTS AND INVESTMENTS

Fair Value Hierarchy - Fair value is defined under generally accepted accounting principles as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which are based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories.

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 1 assets include investments in mutual funds, equities, U.S. Treasury notes, U.S. Agency bonds, and money market funds for which quoted prices are readily available.

Level 2 - Inputs are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level 2 assets include investments in municipal bonds for which quoted prices are not readily available. The fair values are estimated using Level 2 inputs based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The beneficial interest in assets held at the Saint Paul and Minnesota Foundations (the "Foundation") have been valued at the fair value of the Organization's share of the Foundation multi-asset endowment pool as of the measurement date, December 31, 2018. The estimated fair values of certain investments of the Foundation, which includes private placements and other securities for which prices are not readily available, are determined by management of the Foundation and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used has a ready market existed for these investments. The Foundation's multi-asset endowment pool is composed of approximately 25 percent domestic equities, 25 percent international equities, 12 percent private capital, 15 percent fixed income, 15 percent real assets and 8 percent absolute return. The beneficial interest in assets held at the Foundation is not redeemable by the Organization

NOTE 3 - FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

There have been no changes in the techniques and inputs used as of December 31, 2018.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset.

While the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table presents information about the Organization's assets measured at fair value on a recurring basis as of December 31, 2018 based upon the three-tier hierarchy:

	Level 1	Level 2	Level 3	Total
ASSETS				
Investments				
Mutual funds	$ 1,389,635	$ -	$ -	$ 1,389,635
Equities	28,406	-	-	28,406
U.S. Treasury notes	150,289	-	-	150,289
U.S. Agency bonds	199,726	-	-	199,726
Money market funds	85,746	-	-	85,746
Municipal bonds	-	539,085	-	539,085
Beneficial interest in assets held by others	-		353,298	353,298
	$ 1,853,802	$ 539,085	$ 353,298	$ 2,746,185

NOTE 3 - FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2018:

Balances at January 1, 2018	$ 388,650
Interest and dividends	6,452
Investment income/(loss)	(22,498)
Distributions received	(14,381)
Investment and administrative fees	(4,925)
Balances at December 31, 2018	$ 353,298

Investment income/(loss), net of fees, for the years ended December 31, 2018 was as follows:

	2018
Investments income/(loss) - investments	
Interest and dividends	$ 143,156
Realized and unrealized loss, net	(179,716)
Investment fees	(27,965)
Total investment income/(loss) - investments	(64,525)
Interest and dividends - other	3,514
Total investment income/(loss), net of fees	$ (61,011)

NOTE 4 - OPERATING LEASES

The Organization leases facilities and equipment under various operating leases expiring through 2027. Certain leases require the payment of real estate taxes and common area expenses and have renewal options. Rent expense for facilities and equipment for the years ended December 31, 2018 was $1,879,030 and $127,478, respectively.

Future minimum payments under operating leases are as follows:

2019	$ 1,193,921
2020	938,042
2021	864,615
2022	776,267
2023	689,891
Thereafter	2,180,348
Total	$ 6,643,084

NOTE 5 - RETIREMENT PLANS

The Organization has a 401(k) plan which covers employees who are over the age of 21 and work at least 1,000 hours annually. Contributions to the plan are up to 5% match of employee contributions as of January 1, 2018.The plan has a graduated six-year vesting requirement. Total contributions to the plan were approximately $108,508 for the year ended December 31, 2018.

Twin Cities Nonprofit Partners Pension Plan

The Organization participates in a multiemployer defined benefit pension plan (the "Plan") in which 16 other agencies also participate. Of the approximate 1,055 participants, 0.91% are employees of The Arc of Minnesota. Effective December 31, 2004, the plan froze benefit accruals and, as a result, employees do not earn additional defined benefits for future services.

As required by GAAP for this plan, an employer shall recognize as net pension cost the required contribution for the period and shall recognize as a liability any contribution due and unpaid. The funding is determined by the actuary and is allocated based on employee compensation among the participating agencies. The objective in funding the plan is to accumulate sufficient funds to provide for benefits and to achieve full funding to allow for termination of the plan. Because the plan's unfunded projected termination liability exceeds the fair market value of plan assets, continued annual contributions will be required in order to achieve full funding. If any participating agency defaults on their annual contributions, the remaining agencies assume the liability and contributions of the agency in default. Plan assets are invested based on a long term investment strategy and held 100% in Mutual of America's money market fund account. The Organization made contributions of $11,864 in the year ended December 31 2018, which is recognized as employee benefits expense.

The following table presents information concerning our participation in the multiemployer defined benefit pension plan:

	2018
Legal name	Twin Cities Nonprofit Partners Pension Plan
EIN/Plan number	41-1973442/333
Plan year end	12/31/2018
Pension Protection Act % Funded	110%
Rehabilitation Plan Status	n/a

In 2018, the Plan's partner agencies voted to begin the process to terminate the pension plan. The Organization has determined a reasonably probable loss contingency associated with the Pension Plan which was entered into prior to 2006. All of the Plan's partners must approve termination of the plan and secure financing for their portion before moving forward with termination. If the plan were to be terminated, the Organization is likely to enter into a ten year loan agreement to repay their portion of the Plan obligation. The estimated obligation may range between $91,000 and$110,000.

NOTE 6 - DONOR RESTRICTED NET ASSETS

Net assets with donor restrictions at December 31, 2018 are as follows:

	2018
Time and purpose restricted	
Bette Pollreis	$ 1,562
Community Development Block Grant program	40,350
Fred C. & Katharine B. Andersen Foundation	20,000
Hardenbergh Foundation	10,000
Master Pooled Trust	33,686
Mental Health Research fund	141,340
Residential loan program	12,250
Seth Pack	19,318
Endowment - accumulated earnings	53,099
Other	4,108
Total time and purpose restricted	335,713
Held in perpetuity	
Endowment	300,199
Total	$ 635,912

NOTE 7 - BOARD DESIGNATED NET ASSETS

The Board of Directors of the Organization has designated funds for future use as follows:

Board Designated Endowment Fund - The purpose of this fund is to ensure the longevity of The Arc Minnesota, providing the Organization with enough general operating funds to be able to sustain a period of lower funding. Funds may be drawn if the Board of Directors believes current revenues and support are not meeting the operating requirements. This fund is classified as net assets without donor restrictions. The Board of Directors has approved an investment policy with the objectives of achieving long-term total returns which exceed inflation, preserving purchasing power by reinvesting the income at least up to the level of inflation, withdrawing the excess to fund the operating budget, and producing consistent investment income. Bequests to the Organization and planned giving contributions are designated to this fund by Board policy. Investment earnings are included in the operating budget and may be appropriated for use in operating activities. Investment earnings of $62,418 were appropriated in 2018. Deficit funds of $256,975 were withdrawn from this fund in 2018, as approved by the Board of Directors.

Future Programs and Reserve Fund - The purpose of this fund is to provide funding for future program development and implementation, in line with the strategic goals of the Organization. Currently the Board of Directors has not earmarked any portion of the fund for a specific program or determined that any portion of the fund will remain in perpetuity. As such, the entire fund balance is classified as net assets without donor restrictions. The Board of Directors has approved an investment policy with the objectives of preserving purchasing power and generating income while investing in low risk, liquid investment such as cash and highly rated bonds. Principal may be held as collateral on the Organization’s line of credit. Donor gifts of stock to the Organization may be deposited into this fund for liquidation. Investment earnings are included in the operating budget and may be appropriated for use in operating activities. Investment earnings of $5,622 were appropriated in 2018. Deficit funds of $256,975 were withdrawn from this fund in 2018 as approved by the Board of Directors.

NOTE 7 – BOARD DESIGNATED NET ASSETS (Continued)

Value Village - The purpose of this fund was to provide future Value Village expansion, renovations or investments in business operations such as marketing and infrastructure. In 2018, funds were fully withdrawn to offset operating losses at Value Village stores.

The Organization appropriated additional reserve funds over time for cash flow purposes. At December 31, 2018, the Organization had borrowed approximately $494,830 from the board designated reserve fund. In addition, a portion of the board designated investments are held as collateral on the line of credit.

Changes in board designated net assets for the years ended December 31, 2018 is as follows:

	Endowment	Future Programs and Reserve	Value Village	Total
Balance, December 31, 2017	$ 1,800,943	$ 1,765,344	$ 89,604	$ 3,655,891
Investment income/(loss), net of fees				
Realized and unrealized losses	(139,155)	(18,064)	-	(157,219)
Interest and dividend income	124,630	(830)	-	123,800
Investment fees	(18,169)	(4,871)	-	(23,040)
Investment income/(loss), net of fees	(32,694)	(23,765)	-	(56,459)
Bequest addition to fund	6,159	-	-	6,159
Release from designation	-	-	(89,604)	(89,604)
Appropriation of earnings	(62,418)	(5,622)	-	(68,040)
Deficit allocation	(256,975)	(256,975)	-	(513,950)
Balance, December 31, 2018	$ 1,455,015	$ 1,478,982	$ -	$ 2,933,997

NOTE 8 - LINE OF CREDIT

At December 31, 2018, the Organization had a line of credit financing agreement (LOC) with Raymond James. The amount available under the LOC is $250,000 with interest payable at a rate of 3.250 percentage points over the Index, which is equivalent to a rate of 5.77% for the year ended at December 31, 2018. The LOC is secured by the Organization's deposit account at Bremer Bank, which is included in investments on the statement of financial position. As of December 31, 2018, the amount of the Organization’s investments collateralizing the LOC was $380,988. The Organization had an outstanding balance of $50,449 for the year ended December 31, 2018.

NOTE 9 - ENDOWMENTS

The Organization's endowment consists of individual funds established to support the mission of the Organization. Its endowment includes both donor-restricted endowment funds and funds designated by the governing board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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 donor restricted net assets- held in perpetuity (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.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Organization and the donor-restricted 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

Donor Endowment Composition and Changes in Donor Endowment Net Assets

Donor restricted endowment net asset composition by type of fund as of December 31, 2018:

	With donor restrictions		
	Accumulated earnings	Held in perpetuity	Total
Balance, December 31, 2017	$ 88,451	$ 300,199	$ 388,650
Investment income/(loss), net of fees			
Realized and unrealized losses	(22,498)	-	(22,498)
Interest and dividend income	6,452	-	6,452
Investment fees	(4,925)	-	(4,925)
Investment income/(loss), net of fees	(20,971)	-	(20,971)
Distribution from the fund	(14,381)	-	(14,381)
Balance, December 31, 2018	$ 53,099	$ 300,199	$ 353,298

The activity in the board designated endowment fund for the year ended December 31, 2018 is included in Note 7.

NOTE 9 - ENDOWMENTS (CONTINUED)

The endowment assets are invested in a beneficial interest in assets held by others. The beneficial interest consists of funds held for the Organization by other public charities for the purpose of providing support for The Arc Minnesota. The funds are invested in various equity, fixed income, private capital and real estate asset funds. Distributions from the funds are determined by the spending policy of the foundation that holds the investments. The value of funds with irrevocable interest as of December 31, 2018 was $353,298.

The Board of Directors' policy is to appropriate all distributions made to the Organization to fund operations. Total distributions from the beneficial interest in assets held by others totaled $14,381 for the year ended December 31, 2018.

NOTE 10 - TRUST AGREEMENTS

The Organization collects fees and provides services in association with two independent trusts, "Their Heritage Arc Master Trust" and "Safe Harbor Arc Master Trust." Both trusts were established in 2009. The purpose of the trusts is to provide financial management and estate planning for people with disabilities and to provide future protection for needs-based program benefits.

The Organization serves as the trustee of the trusts. The funds of the trusts are administered by Associated Trust Co., which is independent of the Organization. The Organization charges enrollment fees and certain other fees based on the activity of the respective individual trusts. Total trust agreement fees collected by the Organization for 2018 was $88,523.

NOTE 11 - BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

In addition to the beneficial interest in assets held by others that are recorded in the endowment, The Arc Minnesota has other funds under full ownership and control of a Minnesota foundation that are designated with Arc Minnesota – Southeast Region as the primary beneficiary. The balance of these funds at December 31, 2018 was $121,595 and are not recorded in the financial statements.

NOTE 12 - LIQUIDITY AND AVAILABILITY

The following table reflects the Organization's financial assets as of December 31, 2018, reduced by amounts not available for general expenditures within one year. Financial assets are considered unavailable when illiquid, not convertible to cash within one year or required to be held in perpetuity by the donor.

Financial assets at December 31, 2018	$	3,120,707
Less:		
Board designated endowment and future program and reserve, net of borrowing		(2,439,167)
Financial assets available to meet cash needs for general expenditures within one year	$	681,540

NOTE 12 - LIQUIDITY AND AVAILABILITY (CONTINUED)

The Organization relies on ongoing cash flow from operations at four Value Village thrift locations. The Organization's investment funds consist primarily of funds designated by the Board as endowments, as well as funds available for operations, including some donor restricted endowments.

In the event of liquidity need, the Organization can draw from a $250,000 line of credit or from its board designated Future Program and Reserve fund or board designated Endowment fund. The Organization also has available $23,082 in distributed funds held by Rochester Area Foundation for the benefit of Arc Minnesota which are available upon request and approval of the foundation board.

NOTE 13 - MERGER

On January 1, 2018, seven Arc Chapters from around the state of Minnesota merged, creating new Bylaws and Articles of Incorporation to form The Arc Minnesota, Inc. This merger enhances The Arc Minnesota's ability to enhance offerings and expand services in underserved areas. The statement of financial position as of the merger date of January 1, 2018 is as follows:

	The Arc Greater Twin Cities	The Arc Minnesota	(Unaudited) Other*	Total
ASSETS				
Current Assets				
Cash and cash equivalents	$ 149,952	$ 839,887	$ 495,058	$ 1,484,897
Account and other receivables, net	209,783	257,086	53,438	520,307
Inventory	99,365	-	-	99,365
Prepaid expenses	345,318	6,247	3,027	354,592
Total Current Assets	804,418	1,103,220	551,523	2,459,161
Property and Equipment				
Furniture, equipment and leasehold improvements	3,095,036	34,649	46,199	3,175,884
Accumulated depreciation	(2,707,777)	(29,436)	(32,639)	(2,769,852)
Total Property and Equipment, Net	387,259	5,213	13,560	406,032
Noncurrent Assets				
Deposits and other assets	56,011	-	200	56,211
Investments	2,367,890	-	6,762	2,374,652
Cash value of long-term noncash gifts	19,099	-	-	19,099
Beneficial interest in assets held by others (endowments)	-	388,648	-	388,648
Total Noncurrent Assets	2,443,000	388,648	6,962	2,838,610
Total Assets	$ 3,634,677	$ 1,497,081	$ 572,045	$ 5,703,803

NOTE 13 - MERGER (Continued)

	The Arc Greater Twin Cities	The Arc Minnesota	(Unaudited) Other*	Total
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable and accrued expenses	$ 423,051	$ 59,061	$ 66,695	$ 548,807
Deferred revenue	182,393	4,000	-	186,393
Total Current Liabilities	605,444	63,061	66,695	735,200
Deferred rent	92,068	-	-	92,068
Total Liabilities	697,512	63,061	66,695	827,268
Net Assets				
Unrestricted				
Undesignated	(464,092)	512,796	439,176	487,880
Designated	3,123,317	621,025	-	3,744,342
Temporarily restricted	277,940	-	61,174	339,114
Permanently restricted	-	300,199	5,000	305,199
Total Net Assets	2,937,165	1,434,020	505,350	4,876,535
Total Liabilities and Net Assets	$ 3,634,677	$ 1,497,081	$ 572,045	$ 5,703,803

* Other includes the following Arc chapters: Midstate, Range, Southeastern, Southwest, and West Central. This information is unaudited.

Prior to the date of the merger, adjustments were made to the opening balances, including an increase of $287,024 in assets, a $55,280 increase in liabilities and a $231,744 increase in net assets. These adjustments are reflected in the table above.