

**SOLID GROUND**  
AUDITED FINANCIAL STATEMENTS  
December 31, 2018 and 2017

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Solid Ground  
White Bear Lake, Minnesota

We have audited the accompanying financial statements of Solid Ground (a non-profit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, cash flows and functional expenses 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 audits 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 Solid Ground as of December 31, 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.

*Hammington Langer & Associates*

March 18, 2019

**SOLID GROUND**  
**STATEMENTS OF FINANCIAL POSITION**  
December 31, 2018 and 2017

	2018	2017
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 174,251	\$ 175,862
Investments	1,178,558	1,094,542
Accounts receivable	64,112	60,900
Grants receivable	69,913	108,800
Current portion of pledges receivable	82,143	60,072
Prepaid expenses and deposits	24,609	28,077
<b>TOTAL CURRENT ASSETS</b>	<b>1,593,586</b>	<b>1,528,253</b>
<b>PROPERTY AND EQUIPMENT, at cost</b>		
Leasehold improvements	130,209	130,209
Vehicles	20,000	20,000
Furniture and equipment	267,621	163,148
Less: accumulated depreciation	(209,799)	(158,180)
<b>TOTAL PROPERTY AND EQUIPMENT, net</b>	<b>208,031</b>	<b>155,177</b>
<b>OTHER ASSETS</b>		
Investments - beneficial interest in assets held by The Saint Paul Foundation	385,431	408,637
Pledges receivable, net of current portion, discounts and and allowances of \$22,898 and \$14,399, respectively	117,835	99,671
Notes receivable and construction advances, less loss reserves of \$849,380 and \$824,477 for the years ended December 31, 2018 and 2017, respectively	-	-
<b>TOTAL OTHER ASSETS</b>	<b>503,266</b>	<b>508,308</b>
<b>TOTAL ASSETS</b>	<b>\$ 2,304,883</b>	<b>\$ 2,191,738</b>

	<u>2018</u>	<u>2017</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	<u>\$ 51,443</u>	<u>\$ 61,547</u>
<b>NET ASSETS</b>		
Without donor restrictions		
Board designated	939,129	915,293
Undesignated	<u>975,098</u>	<u>899,856</u>
Total without donor restrictions	1,914,227	1,815,149
With donor restrictions	<u>339,213</u>	<u>315,042</u>
<b>TOTAL NET ASSETS</b>	<u>2,253,440</u>	<u>2,130,191</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 2,304,883</u></u>	<u><u>\$ 2,191,738</u></u>

**SOLID GROUND**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2018  
(With Comparative Totals for 2017)

	Without Donor Restrictions	With Donor Restrictions	Total 2018	Total 2017
<b>REVENUE AND SUPPORT</b>				
Corporate and foundation grants	\$ 289,719	\$ 144,417	\$ 434,136	\$ 584,770
Contributions	109,491	62,413	171,904	160,005
United Way support	112,544	-	112,544	109,018
Government grants and contracts	419,461	16,793	436,254	333,021
Special event, net of direct expenses of \$34,634 and \$43,332, respectively	312,936	51,425	364,361	238,994
Program services and other	55,964	-	55,964	53,722
Investment income, net	27,376	-	27,376	131,542
In-kind contributions	75,510	-	75,510	84,260
Net assets released from restrictions	250,877	(250,877)	-	-
<b>TOTAL REVENUE AND SUPPORT</b>	<u>1,653,878</u>	<u>24,171</u>	<u>1,678,049</u>	<u>1,695,332</u>
<b>EXPENSES</b>				
Program services	1,340,670	-	1,340,670	1,189,916
Management and general	104,667	-	104,667	78,442
Fundraising	109,463	-	109,463	102,857
<b>TOTAL EXPENSES</b>	<u>1,554,800</u>	<u>-</u>	<u>1,554,800</u>	<u>1,371,215</u>
<b>CHANGE IN NET ASSETS</b>	99,078	24,171	123,249	324,117
<b>NET ASSETS, BEGINNING</b>	<u>1,815,149</u>	<u>315,042</u>	<u>2,130,191</u>	<u>1,806,074</u>
<b>NET ASSETS, ENDING</b>	<u><u>\$ 1,914,227</u></u>	<u><u>\$ 339,213</u></u>	<u><u>\$ 2,253,440</u></u>	<u><u>\$ 2,130,191</u></u>

**SOLID GROUND**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE AND SUPPORT</b>			
Corporate and foundation grants	\$ 464,770	\$ 120,000	\$ 584,770
Contributions	112,235	47,770	160,005
United Way support	109,018	-	109,018
Government grants and contracts	264,521	68,500	333,021
Special events, net of expenses of \$43,332	188,919	50,075	238,994
Program services and other	53,722	-	53,722
Investment income, net	131,542	-	131,542
In-kind contributions	84,260	-	84,260
Net assets released from restrictions	250,716	(250,716)	-
	<b>1,659,703</b>	<b>35,629</b>	<b>1,695,332</b>
<b>EXPENSES</b>			
Program services	1,189,916	-	1,189,916
Management and general	78,442	-	78,442
Fundraising	102,857	-	102,857
	<b>1,371,215</b>	<b>-</b>	<b>1,371,215</b>
<b>CHANGE IN NET ASSETS</b>	<b>288,488</b>	<b>35,629</b>	<b>324,117</b>
<b>NET ASSETS, BEGINNING</b>	<b>1,526,661</b>	<b>279,413</b>	<b>1,806,074</b>
<b>NET ASSETS, ENDING</b>	<b>\$ 1,815,149</b>	<b>\$ 315,042</b>	<b>\$ 2,130,191</b>

**SOLID GROUND**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended December 31, 2018 and 2017

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 123,249	\$ 324,117
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	51,619	27,490
Donated securities	(21,147)	(776)
Bad debt on notes receivable	31,799	30,378
Accrued interest on pledges and notes receivable	(31,799)	(30,378)
Interest and dividends reinvested	(37,961)	(37,313)
Unrealized and realized investment (gains) losses, net	45,086	(8,699)
Decrease (increase) in:		
Accounts and grants receivable	38,887	(127,994)
Pledges receivable	(40,235)	3,306
Prepaid expenses and deposits	3,468	(14,842)
Increase (decrease) in:		
Accounts payable and accrued expenses	(10,104)	9,799
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>152,862</b>	<b>175,088</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(104,473)	(121,821)
Purchase of investments	(64,752)	(96,907)
Proceeds from sale of investments	14,752	25,000
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(154,473)</b>	<b>(193,728)</b>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,611)</b>	<b>(18,640)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<b>175,862</b>	<b>194,502</b>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<b>\$ 174,251</b>	<b>\$ 175,862</b>



**SOLID GROUND**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the Year Ended December 31, 2018  
(With Comparative Totals for 2017)

	Program Services	Management and General	Fund- raising	Total 2018	Total 2017
Salaries	\$ 772,059	\$ 39,314	\$ 73,478	\$ 884,851	\$ 793,093
Payroll taxes	57,603	2,950	5,493	66,046	58,975
Fringe benefits	78,886	2,440	4,926	86,252	82,795
Workers compensation	21,519	32	235	21,786	11,381
<b>Total personnel expenses</b>	<b>930,067</b>	<b>44,736</b>	<b>84,132</b>	<b>1,058,935</b>	<b>946,244</b>
Professional services	11,156	270	539	11,965	9,881
Contract services	23,115	6,237	16,067	45,419	49,958
Family assistance accounts	39,450	-	-	39,450	37,196
Family development funds	2,000	-	-	2,000	-
Health and wellness program	4,281	-	-	4,281	4,668
Evaluation	9,687	-	-	9,687	668
Office and program supplies	4,753	88	222	5,063	8,398
Postage	2,195	74	142	2,411	2,772
Telephone and internet	11,976	231	463	12,670	11,749
Printing	8,025	248	3,115	11,388	11,824
Vehicle maintenance	706	-	-	706	760
Travel, meetings, and moving	17,981	56	390	18,427	15,907
Staff and board development	6,299	9	177	6,485	7,980
Memberships	1,786	37	75	1,898	1,925
Insurance and licensing	22,308	735	1,470	24,513	11,433
Rent, utilities, and maintenance	11,760	210	419	12,389	7,048
In-kind rents	75,260	-	-	75,260	75,260
Leasing subsidies	89,676	-	-	89,676	74,527
Scholarships	-	-	-	-	1,000
Office and program equipment	11,457	104	296	11,857	4,858
Family and youth activities	24,497	2	5	24,504	14,797
Childcare, tutoring and scholarship	-	-	-	-	5,850
Depreciation	-	51,619	-	51,619	27,490
Bad debts	-	-	1,500	1,500	8,644
Loan loss reserve	31,799	-	-	31,799	30,378
Community outreach	436	11	451	898	-
<b>Total other expenses</b>	<b>410,603</b>	<b>59,931</b>	<b>25,331</b>	<b>495,865</b>	<b>424,971</b>
<b>Total expenses</b>	<b>\$ 1,340,670</b>	<b>\$ 104,667</b>	<b>\$ 109,463</b>	<b>\$ 1,554,800</b>	<b>\$ 1,371,215</b>

See notes to financial statements

**SOLID GROUND**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the Year Ended December 31, 2017

	Program Services	Management and General	Fund- raising	Total
Salaries	\$ 689,713	\$ 34,971	\$ 68,409	\$ 793,093
Payroll taxes	51,212	2,623	5,140	58,975
Fringe benefits	74,046	2,621	6,128	82,795
Workers compensation	9,248	1,829	304	11,381
Total personnel expenses	<u>824,219</u>	<u>42,044</u>	<u>79,981</u>	<u>946,244</u>
Professional services	9,216	222	443	9,881
Contract services	37,179	7,143	5,636	49,958
Family assistance accounts	37,196	-	-	37,196
Health and wellness program	4,668	-	-	4,668
Evaluation	608	20	40	668
Office and program supplies	7,883	146	369	8,398
Postage	1,866	56	850	2,772
Telephone	11,151	196	402	11,749
Printing	8,271	259	3,294	11,824
Vehicle maintenance	706	18	36	760
Travel, meetings, and moving	14,909	63	935	15,907
Staff and board development	7,004	149	827	7,980
Memberships	1,739	53	133	1,925
Insurance and licensing	10,373	332	728	11,433
Rent, utilities, and maintenance	6,458	193	397	7,048
In-kind rents	75,260	-	-	75,260
Leasing subsidies	74,527	-	-	74,527
Scholarships	1,000	-	-	1,000
Office and program equipment	4,711	49	98	4,858
Family and youth activities	14,744	9	44	14,797
Childcare, tutoring and scholarship	5,850	-	-	5,850
Depreciation	-	27,490	-	27,490
Bad debts	-	-	8,644	8,644
Loan loss reserve	30,378	-	-	30,378
Total other expenses	<u>365,697</u>	<u>36,398</u>	<u>22,876</u>	<u>424,971</u>
Total expenses	<u><u>\$ 1,189,916</u></u>	<u><u>\$ 78,442</u></u>	<u><u>\$ 102,857</u></u>	<u><u>\$ 1,371,215</u></u>

**SOLID GROUND**  
NOTES TO FINANCIAL STATEMENTS

**NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities:**

The mission of Solid Ground (the Organization) is to prevent and end homelessness for families with children through housing, resources and opportunity. The purpose of the Organization is to advocate, provide, and coordinate housing and services for families in transition and working towards self-sufficiency in the St. Paul, Minnesota metro area.

**Contributions and Support:**

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), 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.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

**Cash and Cash Equivalents:**

For the purpose of the statements of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents, except those classified as investments. Management believes the Organization is not exposed to any significant credit risk on cash and cash equivalents.

**Investments:**

Investments primarily consist of money market funds, debt and equity securities and beneficial interest in assets held by The Saint Paul Foundation and are valued at fair value. Donated investments are recorded at fair value on the date of donation. Investment expenses are not included in investment income. Dividends are recorded on an ex-dividend date.

**SOLID GROUND**  
NOTES TO FINANCIAL STATEMENTS

**NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**  
**(continued)**

**Accounts Receivable and Grants Receivable:**

Bad debts are recorded on the allowance method based on historical experience and management's evaluation of outstanding accounts receivable. For the years ended December 31, 2018 and 2017 management provided no allowance for doubtful accounts.

**Pledges Receivable:**

Pledges receivable are contributions that are to be collected in future years and are recorded at net present value based on an 1.65% discounted cash flow rate which approximates the Federal Reserve five-year Treasury bill. The Organization uses the allowance method to determine uncollectible pledges based on prior years' experience and management's analysis of specific pledges. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

**Property and Equipment:**

All major expenditures for property and equipment are capitalized at cost. Equipment and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair values at the date they are received and are recorded as restricted contributions. Depreciation is provided on the straight-line method over the estimated useful lives of the underlying assets.

**Government Grants and Contracts:**

Government grants and contract funds are recorded as revenue when earned as an exchange transaction. Revenue is earned when eligible expenditures, as defined in each grant or contract, are made. Expenditures under government contracts are subject to review by the granting 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 assessment is made.

**Income Taxes:**

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Minnesota Statute 290.05. It has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Internal Revenue Code and charitable contributions by donors are tax deductible. Federal and state tax authorities generally have the right to examine the current and three previous years of income tax returns. The Organization is not currently under examination by any taxing jurisdiction.

**SOLID GROUND**  
NOTES TO FINANCIAL STATEMENTS

**NOTE 1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**  
**(continued)**

**Reclassification:**

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation. These amounts have no effect on previously reported net assets.

**Functional Expenses:**

Expenses are charged to each program based on direct expenditures incurred. Any expenditures not directly chargeable are allocated to program support costs based on management's analysis and estimates of direct personnel hours and labor-related costs. These estimates are revised by management, as necessary, to reflect the current state of the Organization and to provide accurate expense allocations.

**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 and disclosures in these financial statements. Actual results could differ from those estimates.

**Subsequent Events:**

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition for disclosure through March 18, 2019, the date the financial statements were available to be issued.

**New Accounting Pronouncement:**

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

**SOLID GROUND**  
NOTES TO FINANCIAL STATEMENTS

**NOTE 2. AVAILABILITY AND LIQUIDITY**

The following represents the Organization's financial assets at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 174,251	\$ 175,862
Accounts receivable	64,112	60,900
Pledges and grants receivable	269,891	268,543
Investments	<u>1,563,989</u>	<u>1,503,179</u>
Total financial assets	<u>2,072,243</u>	<u>2,008,484</u>
Less amounts not available to be used within one year:		
Net assets with donor restrictions	339,213	315,042
Pledges and grants receivable-non-current	117,835	99,671
Endowment established by the board	385,431	408,637
Designated net assets	<u>553,698</u>	<u>506,656</u>
	<u>1,396,177</u>	<u>1,330,006</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 676,066</u>	<u>\$ 678,478</u>

The Organization's goal is generally to maintain financial assets to meet 4 months of operating expenses. As part of its liquidity plan, excess cash is invested in short-term investments including money market accounts and certificates of deposit.

**NOTE 3. PLEDGES RECEIVABLE**

Outstanding pledge contributions from various foundations and individuals at December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Pledges due in:		
Less than one year	\$ 82,143	\$ 64,220
One to five years	<u>140,733</u>	<u>109,922</u>
	222,876	174,142
Less: allowance for uncollectible pledges	(15,097)	(8,707)
Less: discount to net present value	<u>(7,801)</u>	<u>(5,692)</u>
Net pledges receivable	<u>\$ 199,978</u>	<u>\$ 159,743</u>

**SOLID GROUND**  
NOTES TO FINANCIAL STATEMENTS

**NOTE 4. NOTES RECEIVABLE AND CONSTRUCTION ADVANCES**

During 2005 and 2006 the Organization participated in the development of a real estate partnership known as EMP Limited Partnership (the Partnership). The Partnership has acquired and renovated office space and low income housing facilities for use by the Organization's staff and clients. The Organization has a .05% interest in the Partnership and has an option of obtaining the residual assets (real estate) of the Partnership in the year 2021.

In conjunction with the renovation and in consideration for the Organization's future use and potential acquisition of the real estate, the Organization has loaned and advanced money to the Partnership as follows:

	2018	2017
Note receivable from EMP Limited Partnership, non-interest bearing, principal due on December 31, 2035, secured by mortgage on property	\$ 75,000	\$ 75,000
 Note receivable from EMP Limited Partnership, non-interest bearing, principal due on December 31, 2035, secured by mortgage on property	 70,000	 70,000
 Note receivable from EMP Limited Partnership, annually compounded interest at 4.68%, principal and interest due on December 31, 2035, secured by mortgage on property (including accrued interest of \$324,380 and \$299,477, respectively)	 <u>704,380</u>	 <u>679,477</u>
	849,380	824,477
Less: loss reserve	<u>(849,380)</u>	<u>(824,477)</u>
	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Management has established a loss reserve for the full amount of the notes receivable to the Partnership due to the Organization's subordinated position in the property and the potential contingency requiring the Organization to refund federal grants (source of funds borrowed to the Partnership) in the event the property owned by the Partnership ceases to be qualified low income housing.

**SOLID GROUND**  
NOTES TO FINANCIAL STATEMENTS

**NOTE 5. RETIREMENT PLAN**

The Organization offers to its employees a tax deferred 403(b) defined contribution plan. The plan covers all employees of the Organization. The Organization made \$17,574 and \$15,577 contributions to the plan to all eligible employees for the years ended December 31, 2018 and 2017, respectively.

**NOTE 6. IN-KIND CONTRIBUTIONS**

The Organization recognized in-kind contributions for the years ended December 31, 2018 and 2017 of the following:

	<u>2018</u>	<u>2017</u>
Contributed:		
Video	\$ -	\$ 8,800
Printing	250	200
Rents	<u>75,260</u>	<u>75,260</u>
	<u>\$ 75,510</u>	<u>\$ 84,260</u>

The Organization utilizes office facilities for its transitional housing programs owned by EMP Limited Partnership and the Washington County HRA. Fair market rents valued at \$75,260 have been recorded by management for 2018 and 2017, based upon the prevailing local real estate rates for similar properties.

The Organization's success is also based in part by individuals who contributed approximately 5,921 and 6,678 hours of volunteer service for the years ended December 31, 2018 and 2017, respectively. The accompanying financial statements do not reflect the value of these volunteer services.

**NOTE 7. LEASE COMMITMENTS**

The Organization leases certain office equipment under various non-cancelable operating leases expiring through September 2021. Total rent expense on the office equipment leases reflected in the Organization's activities amounted to \$3,960 and \$3,492 for the years ended December 31, 2018 and 2017, respectively. Future minimum lease payments on the office equipment operating leases at December 31, 2018 are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2019	\$ 4,284
2020	3,636
2021	<u>2,727</u>
	<u>\$ 10,647</u>



**SOLID GROUND**  
NOTES TO FINANCIAL STATEMENTS

**NOTE 8. INVESTMENTS**

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Level 2 inputs consist of observable inputs other than quoted prices for identical assets (Level 1). Level 3 inputs are unobservable and have the lowest priority. The Plan uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Plan measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 2 inputs are used for when Level 1 inputs are not available. Level 3 inputs would only be used if Level 1 or Level 2 inputs were not available.

Following is the description of the valuation methodologies used for investments measured at fair value at a recurring basis. There were no changes in the valuation methodologies.

- *Mutual funds*: Valued at the net asset value (NAV) of shares on the last trading day of the fiscal year, which is the basis for transactions at that date.
- *Corporate bonds*: Valued on yield currently available on comparable securities of issues with similar credit ratings.
- *Mortgage back securities issued by federal agencies*: Valued using quoted market prices, recent marked transaction and spread data from similar instruments.
- *Beneficial interest in assets held by The Saint Paul Foundation (community foundation)*: Valued by the fair value of assets transferred.

A summary of the fair values of investments by type at December 31, 2018 and 2017 is as follows:

2018		Fair Market	
	Cost	Value	
Mortgage backed securities issued by various federal government agencies	\$ 952,150	\$ 956,805	Level 2
Corporate bonds	118,948	110,376	Level 2
Mutual funds	60,997	53,059	Level 1
Cash and cash equivalents	58,318	58,318	Level 1
Beneficial interest in assets held by The Saint Paul Foundation	385,431	385,431	Level 3
Total investments	\$ 1,575,844	\$ 1,563,989	

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**NOTE 8. INVESTMENTS (continued)**

	2017	
	Cost	Fair Market Value
Mortgage backed securities issued by various federal government agencies	\$ 807,216	\$ 818,897 Level 2
Corporate bonds	103,871	103,564 Level 2
Mutual funds	57,303	55,399 Level 1
Cash and cash equivalents	116,682	116,682 Level 1
Beneficial interest in assets held by The Saint Paul Foundation	408,637	408,637 Level 3
Total investments	\$ 1,493,709	\$ 1,503,179

Investment income for the years ended December 31, 2018 and 2017 consisted of the following:

	2018	2017
Interest and dividends on investments	\$ 40,663	\$ 37,614
Interest income - note receivable	31,799	30,378
Realized gain, net	4,938	54,851
Unrealized gain (losses), net	(50,024)	8,699
Total investment income	\$ 27,376	\$ 131,542

**NOTE 9. NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions were available for the following purposes at December 31, 2018 and 2017:

	2018	2017
Youth	\$ 6,046	\$ 18,587
Program restricted	192,529	120,842
Direct assistance	900	3,983
Education scholarship	3,290	3,459
Leasehold improvement	16,113	68,500
Time restricted - pledges	120,335	99,671
	\$ 339,213	\$ 315,042

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**NOTE 9. NET ASSETS WITH DONOR RESTRICTIONS**

Net assets released from net assets with donor restrictions are as follows:

Satisfaction of Purpose Restrictions	2018	2017
Youth	\$ 16,640	\$ 31,120
Program restricted	119,632	96,600
Direct assistance	1,863	5,685
Education scholarship	-	1,117
Leasehold improvement	68,500	68,681
Time restricted - pledges	44,242	47,513
	\$ 250,877	\$ 250,716

**NOTE 10. BOARD DESIGNATED UNRESTRICTED NET ASSETS**

Board designated unrestricted net assets consisted of the following at December 31, 2018 and 2017:

	2018	2017
Operating reserve	\$ 506,968	\$ 450,497
Unemployment trust	(7,270)	2,159
Landlord mitigation fund	54,000	54,000
Board-designated endowment fund	385,431	408,637
	\$ 939,129	\$ 915,293

**NOTE 11. BOARD-DESIGNATED ENDOWMENT FUND**

On September 17, 2015, Organization's board of directors approved a resolution to establish the Solid Ground Endowment Fund ("Fund") as a board-designated endowment fund. According to the resolution the purpose of the endowment is to secure long term and stable support for the Organization; enhance the Organization's ability to carry out its exempt purposes to prevent and end homelessness; provide donors with an additional way to give to the Organization; and to provide funds to improve the Organization's facilities and services.

**SOLID GROUND**  
NOTES TO FINANCIAL STATEMENTS

**NOTE 11. BOARD-DESIGNATED ENDOWMENT FUND (continued)**

Beneficial interest in assets held by The Saint Paul Foundation:

During 2015 the Organization transferred \$250,000 of its unrestricted net assets to The Saint Paul Foundation (“Foundation”). According to the Organization’s *Agreement Establishing the Solid Ground Fund under the Plan for the Saint Paul Foundation* (“Agreement”), the Saint Paul Foundation will administer the Fund and has ultimate authority and control over the Fund and all distributions from the Fund. The Saint Paul Foundation will distribute to Solid Ground the Fund’s net income or principal or both as determined by the spending policy adopted by The Saint Paul Foundation. Upon the request of Solid Ground, The Saint Paul Foundation may, in its discretion, distribute principal of the Fund to Solid Ground. It is the general intent of the Agreement that the Fund be administered as an endowment fund except to the extent The Saint Paul Foundation determines that the long-term interests of Solid Ground and the community would be better served by a distribution of principal from the Fund.

The Foundation’s Investment and Spending Policies:

The Foundation has adopted investment and spending policies for endowment assets that seek to provide a predictable stream of funding to programs supported by its endowment while maintaining the purchasing power of the endowment assets. The Foundation’s spending and investment policies work together to achieve this objective. Actual returns in any given year may vary from this amount.

To achieve its investment objectives over long periods of time, the Foundation has adopted an investment strategy that invests in domestic equities, international equities, private capital, fixed income, real assets and absolute return strategies. The majority of assets are invested in equity or equity like securities. Fixed income, real assets and absolute return strategies are used to lower short-term volatility. Diversification by asset class, investment style, investment manager, etc. is employed to avoid undue risk concentration and enhance total return. The primary performance objective is to achieve an annualized total rate of return, net of investment fees, that is equal to or greater than the Foundation’s spending policy payout rate plus inflation over long periods of time.

The spending policy determines the amount of money in a given year that will be distributed from the Foundation’s various endowment assets, which includes donor advised, nonprofit, designated, scholarship, community, field of interest and unrestricted. The current spending policy is to distribute an amount equal to 5.25% of a moving twenty-one quarter average but not less than 4.5% or greater than 6.0% of current market value. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment assets to grow at the rate of inflation. This is consistent with the Foundation’s objective to maintain the purchasing power of endowment assets and seek to maximize the amount available to meet the charitable needs of communities.

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NOTES TO FINANCIAL STATEMENTS

**NOTE 11. BOARD-DESIGNATED ENDOWMENT FUND (continued)**

Changes in the beneficial interest in assets held by The Saint Paul Foundation for the year ending December 31, 2018 and 2017, respectively, consist of the following:

	<u>2018</u>	<u>2017</u>
Beginning of the year	\$ 408,637	\$ 355,767
Investment return:		
Investment income	6,982	6,088
Net appreciation (depreciation), realized and unrealized	(24,541)	51,832
Investment expenses	(5,647)	(5,050)
Grants distributed	(14,752)	(13,604)
Transfers per board of directors' resolution:		
Grant distribution reinvested	<u>14,752</u>	<u>13,604</u>
End of the year	<u>\$ 385,431</u>	<u>\$ 408,637</u>