WACOSA

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2019 AND 2018

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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
WACOSA
Waite Park, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of WACOSA, which comprise the statements of financial position as of December 31, 2019 and 2018, 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.

Auditors' 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 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 WACOSA as of December 31, 2019 and 2018, 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.

Change in Accounting Principles

As discussed in Note 1 to the financial statements, the Organization has adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The adoption of this standard did not have a significant impact on the Organization's reported historical revenue. Our opinion is not modified with respect to that matter.

As discussed in Note 1, the Organization adopted ASU 2018-08, *Accounting Guidance for Contributions Received and Made*. Our opinion is not modified with respect to that matter.

Report on Supplementary Information

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of vocational business activities is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

St. Cloud, Minnesota
June 24, 2020

WACOSA
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 634,547	$ 723,804
Investments	3,395,661	3,304,327
Accounts Receivable - Program	1,168,146	577,616
Accounts Receivable - Vocational	115,062	164,799
Accounts Receivable - Electrolux	2,824	294,215
Contributions Receivable	3,600	3,600
Other Receivable	1,235	2,446
Inventory	101,697	160,047
Prepaid Expenses	70,453	40,881
Total Current Assets	5,493,225	5,271,735
PROPERTY AND EQUIPMENT		
Land	569,281	569,281
Leasehold Improvements	29,600	29,600
Building	5,767,966	5,750,367
Equipment	1,259,886	1,123,126
Vehicles	1,585,126	1,477,593
Construction in Process	10,859	76,713
Total Property and Equipment	9,222,718	9,026,680
Less: Accumulated Depreciation	3,936,349	3,554,449
Net Property and Equipment	5,286,369	5,472,231
Total Assets	$ 10,779,594	$ 10,743,966

See accompanying Notes to Financial Statements.

WACOSA
STATEMENTS OF FINANCIAL POSITION (CONTINUED)
DECEMBER 31, 2019 AND 2018

LIABILITIES AND NET ASSETS	2019	2018
CURRENT LIABILITIES		
Current Maturities of Notes Payable	$ 67,320	$ 64,998
Current Maturities of Capital Lease Payable	39,596	38,187
Accounts Payable	138,239	171,470
Accounts Payable - Electrolux	897	323,213
Accrued Expenses	61,341	75,653
Salaries and Related Benefits Payable	279,177	251,065
Accrued Vacation	283,470	280,478
Total Current Liabilities	870,040	1,205,064
LONG-TERM DEBT		
Notes Payable, Net of Current Maturities and Unamortized Finance Fees	1,001,767	1,064,423
Capital Lease Payable, Net of Current Maturities	69,962	110,849
Total Long-Term Debt	1,071,729	1,175,272
Total Liabilities	1,941,769	2,380,336
NET ASSETS		
Nets Assets Without Donor Restriction:		
Undesignated	3,770,255	3,781,800
Designated	4,663,087	4,271,191
Total Net Assets Without Donor Restriction	8,433,342	8,052,991
Net Assets With Donor Restriction	404,483	310,639
Total Net Assets	8,837,825	8,363,630
Total Liabilities and Net Assets	$ 10,779,594	$ 10,743,966

See accompanying Notes to Financial Statements.

WACOSA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019

	Without Donor Restriction	With Donor Restriction	Total
REVENUES AND SUPPORT			
Support:			
Program Services	$ 7,062,068	$ -	$ 7,062,068
Contributions	283,468	213,331	496,799
Total Support	7,345,536	213,331	7,558,867
Revenue:			
Vocational Business Activities	1,864,548	-	1,864,548
Investment Income	91,333	-	91,333
Loss on Sale of Property and Equipment	(16,595)	-	(16,595)
Other Income	9,650	-	9,650
Subtotal Revenues and Support	9,294,472	213,331	9,507,803
Net Assets Released from Restrictions	119,487	(119,487)	-
Total Revenues and Support	9,413,959	93,844	9,507,803
EXPENSES			
Program Expenses:			
General Program and Transportation	5,749,006	-	5,749,006
Vocational Business Activities	1,918,969	-	1,918,969
Management and General	1,283,222	-	1,283,222
Fundraising	82,411	-	82,411
Total Expenses	9,033,608	-	9,033,608
CHANGE IN NET ASSETS	380,351	93,844	474,195
Net Assets - Beginning of Year	8,052,991	310,639	8,363,630
NET ASSETS - END OF YEAR	$ 8,433,342	$ 404,483	$ 8,837,825

See accompanying Notes to Financial Statements.

WACOSA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018

	Without Donor Restriction	With Donor Restriction	Total
REVENUES AND SUPPORT			
Support:			
Program Services	$ 6,376,871	$ -	$ 6,376,871
Contributions	756,931	133,928	890,859
Total Support	7,133,802	133,928	7,267,730
Revenue:			
Vocational Business Activities	1,858,843	-	1,858,843
Cost of Sales	(943)	-	(943)
Net Vocational Revenue	1,857,900	-	1,857,900
Investment Income	23,945	-	23,945
Gain on Sale of Property and Equipment	4,500	-	4,500
Other Income	6,858	-	6,858
Subtotal Revenues and Support	9,027,005	133,928	9,160,933
Net Assets Released from Restrictions	24,284	(24,284)	-
Total Revenues and Support	9,051,289	109,644	9,160,933
EXPENSES			
Program Expenses:			
General Program and Transportation	5,180,105	-	5,180,105
Vocational Business Activities	1,945,839	-	1,945,839
Management and General	1,195,538	-	1,195,538
Fundraising	91,578	-	91,578
Total Expenses	8,413,060	-	8,413,060
CHANGE IN NET ASSETS	638,229	109,644	747,873
Net Assets - Beginning of Year	7,414,762	200,995	7,615,757
NET ASSETS - END OF YEAR	$ 8,052,991	$ 310,639	$ 8,363,630

See accompanying Notes to Financial Statements.

WACOSA
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019

	Program				
	General Program and Transportation	Vocational Business Activities	Management and General	Fundraising	Total
Salaries	$ 3,822,736	$ 1,308,666	$ 720,670	$ 60,476	$ 5,912,548
Benefits	988,229	225,349	174,503	12,842	1,400,923
Staff Travel and Mileage	16,127	327	3,792	622	20,868
Supplies	45,628	29,851	17,257	-	92,736
Minor Equipment and Repairs	15,363	7,300	22,394	-	45,057
Rent	29,028	8,972	-	-	38,000
Telephone	16,818	959	10,493	-	28,270
Utilities	83,587	69,447	10,911	-	163,945
Repairs and Maintenance	22,558	21,820	3,331	-	47,709
Snow Removal	15,434	17,686	2,853	-	35,973
Insurance	37,968	16,420	595	-	54,983
Interest Expense	-	48,864	-	-	48,864
Public Relations	-	6,359	32,653	8,467	47,479
Advertising	254	25,981	379	4	26,618
Client Transportation	180,688	-	-	-	180,688
Vehicle Fuel	111,638	8,733	-	-	120,371
Vehicle Maintenance	105,178	7,041	-	-	112,219
Vehicle Insurance	34,919	2,149	-	-	37,068
Vehicle Licenses	170	-		-	170
Vehicle Lease	6,207	-	-	-	6,207
Professional Services	-	1,320	151,328	-	152,648
Postage	-	209	9,439	-	9,648
Dues and Licensing	13,905	4,165	4,434	-	22,504
Board	-	-	2,574	-	2,574
Subscriptions	825	-	-	-	825
Miscellaneous	-	9,170	5,317	-	14,487
Total Operating Expenses	5,547,260	1,820,788	1,172,923	82,411	8,623,382
Depreciation	201,746	98,181	110,299	-	410,226
Total Functional Expenses	$ 5,749,006	$ 1,918,969	$ 1,283,222	$ 82,411	$ 9,033,608

See accompanying Notes to Financial Statements.

WACOSA
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Program				
	General Program and Transportation	Vocational Business Activities	Management and General	Fundraising	Total
Salaries	$ 3,354,498	$ 1,308,888	$ 694,783	$ 61,541	$ 5,419,710
Benefits	945,978	235,906	180,632	17,910	1,380,426
Staff Travel and Mileage	18,771	968	3,622	1,675	25,036
Supplies	33,514	45,708	17,699	-	96,921
Minor Equipment and Repairs	18,824	7,687	21,495	-	48,006
Rent	28,552	8,931	-	-	37,483
Telephone	14,644	1,080	11,067	-	26,791
Utilities	68,403	69,026	11,043	-	148,472
Repairs and Maintenance	27,332	25,944	3,802	-	57,078
Snow Removal	10,686	12,495	2,015	-	25,196
Insurance	34,862	15,829	616	-	51,307
Interest Expense	-	50,611	-	-	50,611
Public Relations	-	6,156	27,695	10,428	44,279
Advertising	1,490	22,966	701	24	25,181
Client Transportation	171,264	-	-	-	171,264
Vehicle Fuel	113,407	9,964	-	-	123,371
Vehicle Maintenance	117,980	9,752	-	-	127,732
Vehicle Insurance	27,818	2,120	-	-	29,938
Vehicle Licenses	3,722	-	48	-	3,770
Vehicle Lease	4,854	-	-	-	4,854
Professional Services	-	1,420	115,864	-	117,284
Postage	-	104	10,465	-	10,569
Dues and Licensing	17,393	2,631	4,488	-	24,512
Uncollectible Program Service Fees	-	-	68	-	68
Board	-	-	2,189	-	2,189
Subscriptions	1,569	-	-	-	1,569
Miscellaneous	-	6,925	3,149	-	10,074
Total Operating Expenses	5,015,561	1,845,111	1,111,441	91,578	8,063,691
Depreciation	164,544	100,728	84,097	-	349,369
Total Expenses	5,180,105	1,945,839	1,195,538	91,578	8,413,060
Cost of Sales	-	943	-	-	943
Total Functional Expenses	$ 5,180,105	$ 1,946,782	$ 1,195,538	$ 91,578	$ 8,414,003

See accompanying Notes to Financial Statements.

WACOSA
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Support and Revenue	$ 9,202,064	$ 8,619,421
Interest and Dividends Received	53,729	64,932
Cash Paid to Suppliers and Employees	(8,884,292)	(8,039,532)
Interest Paid	(45,809)	(47,549)
Net Cash Provided by Operating Activities	325,692	597,272
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(240,959)	(489,784)
Proceeds from Sale of Property and Equipment	-	4,500
Change in Funds Held in Money Market	(6,060)	(6,918)
Purchase of Investments	(1,431,409)	(923,247)
Proceeds from Sale of Investments	1,366,549	876,040
Net Cash Used by Investing Activities	(311,879)	(539,409)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of Capital Lease Payable	(39,478)	(29,078)
Repayment of Notes Payable	(63,592)	(62,653)
Net Cash Used by Financing Activities	(103,070)	(91,731)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(89,257)	(33,868)
Cash and Cash Equivalents - Beginning of Year	723,804	757,672
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 634,547	$ 723,804

See accompanying Notes to Financial Statements.

WACOSA
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in Net Assets	$ 474,195	$ 747,873
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	410,226	349,369
Amortization	3,258	3,258
Net Unrealized (Gain) Loss on Investments	(25,315)	23,064
(Gain) Loss on Sale or Disposal of Property and Equipment	16,595	(4,500)
Donated Property and Equipment	-	(557,381)
Realized (Gain) Loss on Investments	(6,229)	7,116
Investment Expenses	11,130	-
(Increase) Decrease in:		
Accounts Receivable - Program	(590,530)	12,573
Accounts Receivable - Vocational	49,737	14,252
Accounts Receivable - Electrolux	291,391	18,171
Other Receivable	1,211	(649)
Inventory	58,350	(42,091)
Prepaid Expenses	(29,572)	(13,817)
Increase (Decrease) in:		
Accounts Payable	(33,231)	20,760
Accounts Payable - Electrolux	(322,316)	(42,999)
Accrued Expenses	(14,312)	(1,218)
Salaries and Related Benefits Payable and Accrued Vacation	31,104	63,491
Net Cash Provided by Operating Activities	$ 325,692	$ 597,272
NONCASH INVESTING AND FINANCING ACTIVITIES		
Property and Equipment Acquired through Capital Lease	$ -	$ 72,400

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

WACOSA (the Organization) was formed as a nonprofit organization that is a work-oriented, day-training habilitation and rehabilitation facility whose mission is to provide people challenged by disabilities with the opportunity to work and live in their community within Central Minnesota. Major support sources include medical assistance, various county assistance, and contract revenue from area businesses that provide clients with work-oriented projects.

On November 1, 2018, Independence Center, Inc.'s (operating as a 501(c)(3)) Board of Directors decided to dissolve their Organization. As a result of this dissolution, WACOSA received a large in-kind donation from Independence Center of $672,240 in 2018. Independence Center's donated assets consisted of office equipment, program equipment, vehicles, and their building.

Basis of Presentation

Net assets and revenues, gains and losses are classified based on donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, those net assets detailed out in Note 9.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specific by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and released from restrictions when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Estimates also affect the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Investments

The Organization records investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair value in the statement of financial position. Unrealized gains and losses are included in the change in net assets on the statements of activities.

Accounts Receivable

The Organization provides an allowance for uncollectible accounts based on the allowance method using management's judgment. Accounts receivable are unsecured. Payment for services is required upon receipt of an invoice. All self-pay accounts are analyzed for collectability based on the months past due and payment history. An allowance is estimated for these accounts based on the historical experience of the Organization. Accounts that are determined to be uncollectible are written off at that time. An allowance for bad debts of $3,106 and $3,191 was recorded for the years ended December 31, 2019 and 2018, respectively.

Program Receivables

Receivables generated from consumer services are recorded at net realizable value. These receivables include services payable by Medical Assistances, Department of Employment and Economic Development, counties, school districts, and privately paying consumers.

Vocational Receivables

Receivables generated by business activities for work performed by consumers serviced are recorded at net realizable value. These receivables occur in the normal course of business as work is performed by consumers, and invoiced accordingly.

Electrolux Receivables

Consumer work performed and billed to one specific customer is set apart, as management's decision to disclose the substantial balance within the Organization's assets for this business relationship. This specific vocational receivable is generated through the normal course of business activities and is recorded at net realizable value.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions Receivable

The Organization records contributions in accordance with applicable accounting standards, which require unconditional promises to give (pledges) be recorded as receivables and revenues and requires the Organization to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. All contributions receivable are collectible within one year.

Inventory

Inventory consists of product on hand for a customer the Organization does contract work with. The Organization also has donated inventory on hand at the end of the year. The ending inventory value is based on an average of three months of sales.

Property and Equipment

The Organization has established a policy in which purchases of property and equipment with a cost in excess of $1,000 are capitalized. Property and equipment purchases not capitalized are expensed. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as net assets without donor restriction unless the donor has restricted the donated asset to a specific purpose. All property and equipment are recorded at cost and are being depreciated over their estimated useful lives using the straight-line method at rates based on the following estimated useful lives:

Building and Improvements	10 to 40 Years
Equipment	3 to 10 Years
Vehicles	5 Years

Long-Lived Assets

The Organization evaluates its long-lived assets for impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. In such circumstances, the Organization evaluates the recoverability of long-lived assets by measuring the carrying amount of the assets against the estimated undiscounted future cash flows associated with such assets. At the time such evaluations indicate that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values. As of December 31, 2019 and 2018, management believes that the carrying amounts of its long-lived assets have not been impaired.

Revenue and Support

Revenue is recognized as the performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and the Organization does not believe they are required to provide additional goods or services to the client.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Support (Continued)

The Organization has performance obligations that are satisfied at a point in time or as an exchange transaction. Community Contract, Private Pay Program Services, Production and Shred income performance obligations are based on underlying contracts and are satisfied on the day of the services performed. ThriftWorks! income performance obligations are satisfied at the point of sale. Total program service revenue were $7,062,068 and $6,376,871 for the years ended December 31, 2019 and 2018, respectively.

The Organization receives its support primarily from the state of Minnesota through Medical Assistance and from participating counties and cities with federal, state, and local funds. The Organization receives donated goods from the community to use within the ThriftWorks! store which are later sold to the general public. The Organization recognizes the sales of these donated items as Vocational Business Activity Revenue. The receipt of inventory is recorded in Contributions. The Organization also receives in-kind storage space for inventory of the ThriftWorks! store.

A portion of the Organization’s revenue is derived from cost reimbursable federal and state service agreements, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific service agreement provisions. The Organization received service agreements of approximately $3,350,000 that have not been recognized at December 31, 2019 because qualifying expenditures have not yet been incurred.

All contributions are considered to be without donor restrictions unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as with donor restrictions.

Advertising

Advertising costs are charged to operations when incurred. Advertising expenses were $26,618 and $25,181 for the years ended December 31, 2019 and 2018, respectively.

Fair Value of Financial Instruments

The Organization categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine 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 in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments (Continued)

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, face value upon maturity, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Subsequent to initial recognition, the Organization may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and corresponding state tax codes and, therefore, the financial statements do not include a provision for income taxes. Contributions to the Organization qualify as a charitable tax deduction by the contributor.

The Organization files as a tax-exempt organization, should that status be challenged in the future, all years since inception would be subject to review by the Internal Revenue Service.

Change in Accounting Principle

In May 2014, FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Subsequent to May 2014, the FASB has issued six ASUs to clarify certain matters related to Topic 606. Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The updates address the complexity and understandability of revenue recognition and provide sufficient information to enable financial statements users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The financial statements reflect the application of ASC 606 guidance beginning in 2018. The organization opted to early adopt the standard. No cumulative-effect adjustment in net assets was recorded because the adoption of ASU 2014-09 did not significantly impact the Organization's reported historical revenue.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in Accounting Principle (Continued)

Additionally, ASU 2018-08 was issued to clarify accounting guidance for contributions received and contributions made. The amendments to this ASU assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as an exchange (reciprocal) transaction subject to other guidance and (2) determining whether a contribution is conditional. The financial statements reflect the application of ASU 2018-08 beginning January 1, 2019. The new guidance does not require prior period results to be restated.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through June 24, 2020, the date the financial statements were available to be issued.

Subsequent to year-end, the Organization received a loan in the amount of $1,239,900 to fund payroll, rent, utilities, and interest on mortgages and existing debt through the federal Paycheck Protection Program. These amounts may be forgiven subject to compliance and approval based on the timing and use of these funds in accordance with the program.

NOTE 2 RISKS AND UNCERTAINTIES

Subsequent to year-end, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Organization, COVID-19 may impact various parts of its 2020 operations and financial results, including restrictions on the organization by the governor, additional costs to the Organization, investment performance and potential loss of revenue due to reduction in certain revenue streams. Management believes the Organization is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events occurred subsequent to year-end and are still developing.

NOTE 3 CONCENTRATIONS

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash, investments, and accounts receivable.

At times, cash may be in excess of the Federal Deposit Insurance Corporation insurance limit. With regard to investments, the Organization invests primarily in high-grade marketable securities, thereby limiting credit risk.

NOTE 3 CONCENTRATIONS (CONTINUED)

Revenues from Medical Assistance represented 64.0% and 58.0% of total revenue for the years ended December 31, 2019 and 2018, respectively. Revenues from contracts represented 19.6% and 20.1% of total revenue for the years ended December 31, 2019 and 2018, respectively.

Accounts receivable for Medical Assistance represented 85.2% and 77.9% of Program Accounts Receivable for the years ended December 31, 2019 and 2018, respectively. Receivables from one county represented 5.6% and 10.3% of Program Accounts Receivable as of December 31, 2019 and 2018, respectively.

Receivables from one customer represented 10.2% and 23.9% of Vocational Accounts Receivable for the years ended December 31, 2019 and 2018, respectively.

NOTE 4 INVESTMENTS

Investments, other than Money Markets which are stated at cost which approximates fair value, are stated at fair value and consist primarily of mutual funds, governmental funds, fixed income, and money market funds as follows:

	December 31, 2019		December 31, 2018	
	Cost	Fair Value	Cost	Fair Value
Mutual Funds	$ 49,386	$ 62,281	$ 40,793	$ 44,198
Fixed Income	2,520,863	2,497,371	2,444,887	2,405,570
Money Markets	836,009	836,009	854,559	854,559
Total	$ 3,406,258	$ 3,395,661	$ 3,340,239	$ 3,304,327

Investment income is summarized as follows for the years ended December 31:

	2019	2018
Interest and Dividends	$ 70,919	$ 64,932
Realized Gain (Loss)	6,229	(7,116)
Unrealized Gain (Loss)	25,315	(23,064)
Investment Fees	(11,130)	(10,807)
Total	$ 91,333	$ 23,945

NOTE 5 FAIR VALUE MEASUREMENTS

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Organization measures fair value refer to Note 1 – Summary of Significant Accounting Policies.

NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents the fair value hierarchy for the balances of the assets and liabilities of the Organization measured at fair value on a recurring basis as of December 31, 2019 and 2018:

	Level 1	Level 2	Level 3	2019 Total
Assets:				
Mutual Funds	$ 62,281	$ -	$ -	$ 62,281
Fixed Income	2,497,371	-	-	2,497,371
Total	$ 2,559,652	$ -	$ -	$ 2,559,652

	Level 1	Level 2	Level 3	2018 Total
Assets:				
Mutual Funds	$ 44,198	$ -	$ -	$ 44,198
Fixed Income	2,405,570	-	-	2,405,570
Total	$ 2,449,768	$ -	$ -	$ 2,449,768

Unrealized changes in fair value for investments and realized gains and losses from sales are recorded in investment income in the statements of activities.

NOTE 6 LONG-TERM DEBT

Amortization of finance costs is included in interest expense and was $3,258 for both the years ended December 31, 2019 and 2018.

Unamortized finance fees are netted against the debt balance and amounted to $8,687 and $11,945 at December 31, 2019 and 2018, respectively. These fees create an effective interest rate of 3.95% for this mortgage.

Description	2019	2018
Note Payable, Bremer Bank, N.A., 3.63% Interest; Monthly Principal and Interest Payments of $8,826; Maturity September 2022; Secured by Buildings	$ 1,077,774	$ 1,141,366
Less: Current Maturities and	67,320	64,998
Less: Unamortized Finance Fees	8,687	11,945
Total Long-Term Notes Payable	$ 1,001,767	$ 1,064,423

Maturity requirements by year on long-term debt are as follows:

Year Ending December 31,	Amount
2020	$ 67,320
2021	69,951
2022	940,503
Total	$ 1,077,774

NOTE 7 OPERATING LEASES

The Organization is currently leasing a facility in Sauk Centre, which expires August 2024. Lease expense for the years ended December 31, 2019 and 2018 amounted to $31,508 and $30,991, respectively.

Future minimum lease payments on this lease are as follows:

Year Ending December 31,	Amount
2020	$ 32,544
2021	32,544
2022	32,544
2023	32,544
2024	21,696
Total	$ 151,872

NOTE 8 CAPITAL LEASE

During 2019, the Organization entered in a new capital lease for vehicles. The gross cost of the vehicle under the capital lease as of December 31, 2019 and 2018 was $130,176 and $203,838, and the corresponding accumulated depreciation was $78,399 and $57,275, respectively. Capital lease payable is as follows:

Description	2019	2018
Capital Lease Payable; dated August 31, 2018; due August 31, 2023; interest rate 3.63%; monthly payments of $1,205 include principal and interest.	$ 109,558	$ 149,036
Less: Current Maturities	39,596	38,187
Long-Term Capital Lease - Net of Current Maturities	$ 69,962	$ 110,849

Future capital lease payments including interest are as follows:

Year Ending December 31,	Amount
2020	$ 42,964
2021	42,964
2022	14,456
2023	17,328
Total Minimum Lease Payments	117,712
Less: Amount Representing Interest	8,154
Net Capital Lease Payments	$ 109,558

NOTE 9 RETIREMENT PLAN

Regular full-time employees and part-time employees that have worked at least one hour are eligible to enroll in WACOSA's retirement savings plan.

WACOSA has a 401(k) plan with an elective employer match. Employees must have worked at WACOSA for one year and at least 1,000 hours in the year to be eligible. A 2% and 1.5% match was elected during the years ended December 31, 2019 and 2018, respectively. Total employer contributions and expenses incurred for fees during the years ended December 31, 2019 and 2018 were $66,617 and $46,243, respectively.

NOTE 10 NET ASSETS

The Organization's board of directors has designated a portion of its net assets without donor restriction. Designated amounts consist of the following:

Replenishment of Property and Equipment

The replenishment of property and equipment reserve exists to fund future capital expenditures and replacement of existing property and equipment. Total amounts designated at December 31, 2019 and 2018 were $3,953,314 and $3,572,217, respectively, which approximates accumulated depreciation.

Unemployment

The designated unemployment reserve exists to cover payment for potential future unemployment claims since the Organization is self-insured. The reserve approximates expected unemployment on a statistical basis. Total amounts designated at December 31, 2019 and 2018 were $709,773 and $698,974, respectively.

Net assets with donor restrictions were as follows for the years ended December 31:

	2019	2018
Net Assets with Donor Restrictions		
Programs	$ 150	$ 18,413
Projects	404,333	292,226
Total Net Assets with Donor Restrictions	$ 404,483	$ 310,639

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose as follows for the years ended December 31:

	2019	2018
Satisfaction of Purpose Restrictions:		
Programs	$ 18,263	$ 8,122
Projects	101,224	16,162
Total Net Assets Released from Donor Restrictions	$ 119,487	$ 24,284

NOTE 11 CONTINGENCIES

Self-Insured Health Plan

The Organization has self-insured its employee health plan. It has contracted with administrative service company to supervise and administer the program and act as its representative.

The company insures for excessive or unexpected claims and is liable for claims not to exceed $40,000 per employee per plan year. Estimated future claims for medical services incurred during the year are estimated by management and recorded as liabilities of $57,657 and $71,766 at December 31, 2019 and 2018, respectively.

NOTE 12 RELATED PARTY TRANSACTION

During the years ended December 31, 2019 and 2018, the Organization received contributions totaling $-0- and $119,033, respectively, from a board member and his associated business.

NOTE 13 LIQUIDITY AND AVAILABILITY

The Organization strives to maintain liquid financial assets sufficient to cover four months of general operating expenditures. Financial assets in excess of daily cash requirements are invested in certificates of deposits, money market funds, and other short-term investments.

The following table reflects the Organization's financial assets as of December 31, 2019 and 2018, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations. Board-designated reserves are intended to protect the Organization, continue operations into the future, and create staff assurance of unemployment benefits. In the event that need arises to utilize the board-designated reserves for liquidity purposes, the reserves could be drawn upon through board resolution. Amounts not available to meet general expenditures within one year also may include net assets with donor restrictions.

Description	2019	2018
Cash and Cash Equivalents	$ 634,547	$ 723,804
Investments	3,395,661	3,304,327
Accounts Receivable	1,290,867	1,042,676
Total Financial Assets	5,321,075	5,070,807
Net Assets Without Donor Restriction - Designated	(4,663,087)	(4,271,191)
Net Assets With Donor Restriction	(404,483)	(310,639)
Financial Assets Available to Meet Cash Needs Expenditures Within One Year	$ 253,505	$ 488,977

NOTE 14 FUNCTIONALIZED EXPENSES

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, and amortization, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other, which are allocated on the basis of estimate of time, effort, and percentage of total revenues under the category of which the expenditures are coded.

NOTE 15 PROGRAM REVENUE

Program revenue is earned at a point in time. The Organizations Program Revenue consist of the following for the years ended December 31:

	2019	2018
Vocational Business Activities		
Community Contract	$ 686,102	$ 698,127
Production	478,751	471,903
Shred	302,766	331,015
ThriftWorks!	396,929	357,798
Vocational Business Activities	1,864,548	1,858,843
Private Pay Program Services	196,927	178,629
Total Program Revenue	$ 2,061,475	$ 2,037,472

WACOSA
SCHEDULE OF VOCATIONAL BUSINESS ACTIVITIES
YEAR ENDED DECEMBER 31, 2019
(SEE INDEPENDENT AUDITORS' REPORT)
(UNAUDITED)

	Community Contract	Production	Shred	ThriftWorks!	Totals
Salaries	$ 461,370	$ 391,239	$ 192,501	$ 263,556	$ 1,308,666
Benefits	74,267	74,326	24,896	51,860	225,349
Staff Travel and Mileage	237	90	-	-	327
Supplies	6,974	16,504	2,266	4,107	29,851
Minor Equipment and Repairs	924	3,408	2,213	755	7,300
Rent	-	2,480	-	6,492	8,972
Telephone	475	-	-	484	959
Utilities	-	35,980	11,002	22,465	69,447
Repairs and Maintenance	-	11,028	3,360	7,432	21,820
Snow Removal	-	9,267	2,876	5,543	17,686
Insurance	3,815	4,474	5,295	2,836	16,420
Interest Expense	-	-	-	48,864	48,864
Public Relations	-	476	577	5,306	6,359
Advertising	7	675	5,811	19,488	25,981
Vehicle Fuel	-	6,130	2,603	-	8,733
Vehicle Maintenance	-	5,835	1,206	-	7,041
Vehicle Insurance	-	1,408	741	-	2,149
Professional Services	-	-	1,320	-	1,320
Postage	-	209	-	-	209
Dues and Licensing	404	267	3,191	303	4,165
Miscellaneous	-	-	-	9,170	9,170
Total Operating Expenses	548,473	563,796	259,858	448,661	1,820,788
Depreciation	1,195	47,878	15,031	34,077	98,181
Total Functional Expenses	$ 549,668	$ 611,674	$ 274,889	$ 482,738	$ 1,918,969