INTERFAITH ACTION OF GREATER SAINT PAUL

CONSOLIDATED
FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED
JUNE 30, 2017

INTERFAITH ACTION OF GREATER SAINT PAUL

CONSOLIDATED FINANCIAL STATEMENTS WITH SUPPLEMENTARY CONSOLIDATING INFORMATION

For the Year Ended June 30, 2017
(With Comparative Totals for 2016)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Interfaith Action of Greater Saint Paul
Saint Paul, Minnesota

We have audited the accompanying consolidated financial statements of Interfaith Action of Greater Saint Paul and its supporting Foundation (the Organization), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 consolidated 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.

(Continued)

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Interfaith Action of Greater Saint Paul and its supporting Foundation as of June 30, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the consolidated financial statements of Interfaith Action of Greater Saint Paul and its supporting Foundation as of June 30, 2016, and we expressed an unmodified audit opinion on those financial statements in our report dated October 26, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects with the audited financial statements from which it has been derived.

Report on Supplementary Consolidating Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information shown on pages 24 through 26 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual entities, and it is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Mahoney Ulbrich
Christiansen Russ P.A.

Saint Paul, Minnesota
December 6, 2017

INTERFAITH ACTION OF GREATER SAINT PAUL

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2017
(With Comparative Totals for 2016)

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 93,407	$ 82,996
Accounts receivable	5,066	23,598
Contracts receivable - government	170,108	87,794
Prepaid expenses	1,715	11,695
Pledges receivable - current portion	213,375	149,685
Total current assets	483,671	355,768
Other assets:		
Pledges receivable - less current portion	22,366	26,655
Investments	1,665,512	1,879,062
Property and equipment, net	646,743	691,949
Total assets	$ 2,818,292	$ 2,953,434
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 126,330	$ 57,997
Accrued payroll and related	112,797	76,526
Fiscal agency payable	-	16,542
Annuity payable	34	34
Total current liabilities	239,161	151,099
Long-term liability:		
Annuity payable	15,051	15,085
Total liabilities	254,212	166,184
Net assets:		
Unrestricted	(45,129)	295,794
Temporarily restricted	1,925,105	1,807,352
Permanently restricted	684,104	684,104
Total net assets	2,564,080	2,787,250
Total liabilities and net assets	$ 2,818,292	$ 2,953,434

See accompanying notes to the consolidated financial statements.

INTERFAITH ACTION OF GREATER SAINT PAUL

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017
(With Comparative Totals for 2016)

	2017				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	2016
Support and revenue:					
Support:					
Congregations	$ 42,660	$ 40,896	$ -	$ 83,556	$ 78,070
Religious organizations	2,150	5,775	-	7,925	12,463
Individuals	116,496	94,973	-	211,469	142,943
Foundations/Corporations	22,507	519,430	-	541,937	519,850
Bequests	-	-	-	-	132,274
United Way	1,639	245,001	-	246,640	178,243
Contributed materials and services	554,533	-	-	554,533	555,319
Sponsorships	15,500	-	-	15,500	-
Event income, net of direct donor benefits of $4,464 in 2017 and $7,585 in 2016	5,874	-	-	5,874	11,000
Government contracts	584,576	-	-	584,576	469,049
Investment income	2	108,604	-	108,606	176,271
Fees and rental	9,700	-	-	9,700	43,938
Miscellaneous income	3,621	-	-	3,621	2,238
Interest on loan from Foundation	(9,830)	9,830	-	-	-
Net assets released from restrictions	906,756	(906,756)	-	-	-
Total support and revenues	2,256,184	117,753	-	2,373,937	2,321,658
Expenses:					
Programs:					
Project Home	699,267	-	-	699,267	694,687
Department of Indian Work	622,775	-	-	622,775	541,505
Project Spirit	254,042	-	-	254,042	296,768
Infrastructure of Opportunity	98,815	-	-	98,815	126,453
Other programs	244,677	-	-	244,677	109,271
Total programs expense	1,919,576	-	-	1,919,576	1,768,684
Supporting services:					
General and administrative	402,573	-	-	402,573	360,707
Fundraising	274,958	-	-	274,958	261,035
Total supporting services	677,531	-	-	677,531	621,742
Total expenses	2,597,107	-	-	2,597,107	2,390,426
Change in net assets	(340,923)	117,753	-	(223,170)	(68,768)
Net assets, beginning of year	295,794	1,807,352	684,104	2,787,250	2,856,018
Net assets, end of year	$ (45,129)	$ 1,925,105	$ 684,104	$ 2,564,080	$ 2,787,250

See accompanying notes to the consolidated financial statements.

INTERFAITH ACTION OF GREATER SAINT PAUL

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2017
(With Comparative Totals for 2016)

	2017				
	Program	General and Administrative	Fundraising	Total	2016
Salaries and wages	$ 619,388	$ 211,668	$ 200,026	$ 1,031,082	$ 859,115
Payroll taxes	45,132	15,196	14,134	74,462	66,178
Employee benefits	88,785	40,350	27,837	156,972	115,254
	753,305	267,214	241,997	1,262,516	1,040,547
Site rental fees	408,914	-	-	408,914	61,320
Supplies and services	255,189	204	138	255,531	572,386
Consulting/independent contractors	122,668	55,800	1,293	179,761	217,847
Partner organizations	95,614	-	-	95,614	104,030
Computer/telephone/internet	50,117	9,093	7,311	66,521	72,239
Client transportation	62,408	-	-	62,408	65,478
Building/grounds	43,905	6,840	6,893	57,638	54,694
Depreciation	37,286	5,839	5,890	49,015	49,056
Events and meetings	18,204	11,899	4,921	35,024	26,407
Administrative expenses	76	21,522	-	21,598	13,913
Equipment	11,514	2,035	1,833	15,382	11,771
Office supplies	11,175	1,745	1,797	14,717	10,342
Other	4,646	6,310	38	10,994	14,103
Public relations/newsletter	8,265	1,655	894	10,814	18,300
Travel/transportation	9,671	-	-	9,671	3,872
Laundry services	9,666	-	-	9,666	11,087
Postage/shipping	6,265	1,343	1,252	8,860	9,632
Legal costs	-	8,786	-	8,786	17,662
Mileage/parking	4,682	181	167	5,030	6,767
Professional development	2,472	33	392	2,897	3,294
Membership/subscriptions	1,551	703	142	2,396	2,954
Printing/copying	1,983	123	-	2,106	1,475
Interest expense	-	1,248	-	1,248	1,250
	$ 1,919,576	$ 402,573	$ 274,958	$ 2,597,107	$ 2,390,426
Direct donor benefits net with event income	-	-	4,464	4,464	7,585
	$ 1,919,576	$ 402,573	$ 279,422	$ 2,601,571	$ 2,398,011

See Functional Expenses by Program on page 6.

INTERFAITH ACTION OF GREATER SAINT PAUL

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES - PROGRAM EXPENSES

For the Year Ended June 30, 2017

	Project Home	Department of Indian Work	Project Spirit	Going Home	Farm + Faith	Interfaith Youth Connection	Systemic Work: Opportunity Saint Paul	Fiscal Sponsorship: Social Cohesion	Fiscal Sponsorship: SPIN	Other Mission Advancement	Total
Salaries and wages	$ 144,571	$ 215,082	$ 118,601	$ 14,643	$ 26,049	$ 1,929	$ 72,163	$ -	$ 1,522	$ 24,828	$ 619,388
Payroll taxes	11,004	15,366	8,982	983	1,837	129	5,229	-	96	1,506	45,132
Employee benefits	20,164	35,685	11,832	1,794	4,506	464	8,543	-	54	5,743	88,785
	175,739	266,133	139,415	17,420	32,392	2,522	85,935	-	1,672	32,077	753,305
Site rental fees	352,214	7,920	44,280	4,500	-	-	-	-	-	-	408,914
Supplies and services	40,255	171,165	11,929	9,945	523	16	182	2,374	45	18,755	255,189
Consulting/independent contractors	9,920	12,601	18,487	1,972	12	2,007	1,219	54,150	18,540	3,760	122,668
Partner organizations	-	91,797	-	-	-	-	-	-	200	3,617	95,614
Computer/telephone/internet	15,379	14,998	11,336	356	2,050	1,221	3,217	-	233	1,327	50,117
Client transportation	51,972	8,362	720	1,354	-	-	-	-	-	-	62,408
Building/grounds	12,899	13,741	9,953	(58)	1,929	1,153	3,024	-	-	1,264	43,905
Depreciation	10,851	11,355	8,350	580	1,609	960	2,531	-	-	1,050	37,286
Events and meetings	41	7,380	1,164	-	-	-	269	-	110	9,240	18,204
Administrative expenses	-	-	-	-	-	-	-	-	76	-	76
Equipment	3,367	3,536	2,596	90	503	301	789	-	-	332	11,514
Office supplies	3,133	3,583	2,475	100	464	278	740	-	-	402	11,175
Other	69	73	53	-	11	6	35	388	3,900	111	4,646
Public relations/newsletter	2,008	3,656	1,268	99	243	147	383	-	254	207	8,265
Travel/transportation	4,634	351	186	-	387	-	-	4,113	-	-	9,671
Laundry services	9,666	-	-	-	-	-	-	-	-	-	9,666
Postage/shipping	2,091	1,797	1,308	55	252	151	397	-	49	165	6,265
Mileage/parking	2,189	2,123	242	-	123	-	-	-	-	5	4,682
Professional development	680	1,358	47	-	359	6	15	-	-	7	2,472
Membership/subscriptions	574	449	233	-	84	49	79	-	-	83	1,551
Printing/copying	1,586	397	-	-	-	-	-	-	-	-	1,983
	$ 699,267	$ 622,775	$ 254,042	$ 36,413	$ 40,941	$ 8,817	$ 98,815	$ 61,025	$ 25,079	$ 72,402	$ 1,919,576

See accompanying notes to the consolidated financial statements.

INTERFAITH ACTION OF GREATER SAINT PAUL

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2017
(With Comparative Totals for 2016)

Increase (Decrease) in Cash and Cash Equivalents

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ (223,170)	$ (68,768)
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation	49,015	49,056
Realized/unrealized (gain) loss on investments	(60,811)	(128,730)
Changes in operating assets and liabilities:		
Accounts and contracts receivable	(63,782)	(23,726)
Prepaid expenses	9,980	(7,463)
Pledges receivable	(59,401)	(103,295)
Accounts payable	68,333	(7,028)
Accrued payroll and related	36,271	(20,394)
Fiscal agency payable	(16,542)	7,867
Annuity payable	(34)	(32)
Net cash from operating activities	(260,141)	(302,513)
Cash flows from investing activities:		
Purchase of property and equipment	(3,809)	(9,118)
Sale of investments	348,863	260,346
Purchase of investments	(74,502)	(86,913)
Net cash from investing activities	270,552	164,315
Net increase (decrease) in cash	10,411	(138,198)
Cash and cash equivalents, beginning of year	82,996	221,194
Cash and cash equivalents, end of year	$ 93,407	$ 82,996

See accompanying notes to the consolidated financial statements.

1. ORGANIZATION

Established in 1906, Interfaith Action of Greater Saint Paul ("Interfaith Action") (formerly Saint Paul Area Council of Churches), is a nonprofit that serves approximately 700 east metro faith organizations, and serves approximately 4,000 people annually. In April 2015, the Board of Directors adopted a new mission, a new vision, and a new name. Interfaith Action has an expanded interfaith focus: seek to bring people of faith together to relieve the effects of poverty and address its root causes through transformative volunteer work.

Interfaith Action believes that the most effective work in community involves two approaches: on-the-ground work making a difference in individuals' lives, and a systemic understanding and approach to the broader issues. The on-the-ground work ensures that the work is realistic and rooted in real peoples' real life experiences. The systemic work helps the program build approaches to make broad change.

On-the-Ground Work. Interfaith Action’s on-the-ground work focuses in several core program areas:

- **Project Home.** Project Home provides more than 11,000 shelter-bed-nights per year in twenty-four congregations (twenty-two churches, one Catholic school, and one synagogue). This shelter is for families with children who are experiencing homelessness. Each house of worship transforms itself into a shelter for one month at a time. On the first of each month, Project Home arrives at the month’s sites, bringing beds, linens, food, diapers, etc. Project Home’s staff along with 4,000 volunteers provide a warm, welcoming home to our guests, who stay with us an average of 55 days as they work to secure a stable housing arrangement that is right for them.

- **Department of Indian Work (DIW).** DIW provides a wide array of welcoming services the low-income Native American community in the east metro. We provide emergency services including a culturally specific food shelf and a clothing closet. We provide a kindergarten through 5th grade (K-5) culturally specific after-school program at Saint Paul’s American Indian Magnet School (AIMS). And we provide a hard-hitting diabetes prevention and management program which includes popular cooking classes taught by a Native dietician using indigenous foods.

(Continued)

1. **ORGANIZATION (Continued)**

- **Project Spirit.** Project Spirit is a high-dosage, culturally specific, African-centered after-school experience for grades K-5 in four high-poverty Saint Paul Public Schools. All four schools have very high poverty populations, and almost all the students and faculty are African-American. The program spans three hours per day, five days per week, with parent contact every day. It has a curriculum which is academically challenging and culturally rich.

- **Going Home.** Going Home provides 4 to 5 months of stable housing and intensive life skills education to families trying to break the cycle of homelessness. Interfaith Action shifted the Going Home program to another nonprofit in October 2016.

- **Farm + Faith.** Our Farm + Faith program works in six local churches to support recent immigrants and refugees in their efforts to learn how to establish an economic foothold in agricultural work in our community. Many of these individuals farmed in their home countries, but find a steep learning curve to enter farming here because of language barriers and differences in soil, crops, growing seasons, and more. In partnership with HAP and local churches, we support the individuals in a year of gardening on the grounds of the churches.

- **Interfaith Youth Connection (IYC).** This program engages high school youth from many faiths in a year-long leadership program that culminates in a “day of service” on a college campus on Presidents’ Day each year. The youth learn about each other’s religions and engage in service work together.

Interfaith Action’s on-the-ground work also includes a free walk-in legal clinic, where community members can speak to an attorney and receive legal advice and resources. This Clinic is staffed by our local civil legal aid provider (Southern Minnesota Regional Legal Services [SMRLS]), and by a volunteer group of Jewish lawyers through the Cardozo Society. On Jewish holidays it is staffed by non-Jewish volunteer lawyers who cooperate with and support the project.

1. **ORGANIZATION (Continued)**

Systemic Work: Opportunity Saint Paul. Interfaith Action's systemic work focuses on the building of an infrastructure of opportunity in the east metro. This work derives from concepts explained by MDC, a national nonprofit based in North Carolina, in its book, State of the South. Our primary systemic program is called Opportunity Saint Paul. In Opportunity Saint Paul, Interfaith Action seeks to strengthen Saint Paul's infrastructure of opportunity. Interfaith Action matches volunteers from the faith community with carefully vetted, highly effective nonprofit organizations, and involves the volunteers and the nonprofit leaders in a deeply motivating learning community. This "corps" of interfaith, multi-racial, inter-generational volunteers will multiply the horsepower of the selected nonprofits, accomplishing three important goals: (1) providing effective service to build our community's infrastructure of opportunity; (2) educating and activating faith community volunteers; and, (3) strengthening faith communities.

Interfaith Action is the only beneficiary of the Interfaith Action of Greater Saint Paul Foundation (Foundation). The purpose of the Foundation is to support the work of Interfaith Action by building-up endowment funds by gifts and bequests with the income only to be available for the general purposes of Interfaith Action. The Foundation makes distributions of assets to Interfaith Action in accordance with the Foundation's distribution policy. Distributions from the Foundation to Interfaith Action were $118,420 and $- for the years ended June 30, 2017 and 2016.

Interfaith Action periodically invests certain of its liquid assets through the Foundation. At June 30, 2017 and 2016, the Foundation held no investments on behalf of Interfaith Action. Interest earned on these investments was $- and $1,312 for the years then ended.

In the two years leading up to mid-2015, Interfaith Action and the Foundation participated jointly in intensive strategic planning to determine how they could best work together to support interfaith Action in becoming a leading, hard-hitting force in the east metro for relieving the effects and root causes of poverty, and for building economic mobility for our community. The Foundation determined in May 2015 that it would make a substantial financial investment in Interfaith Action to facilitate the transition of the organization in accordance with the new vision and mission. The goal of this financial investment is to substantially increase the capacity of Interfaith Action.

1. ORGANIZATION (Continued)

This financial investment took the form of a $350,000 line of credit arrangement. The line of credit note payable requires interest-only payments at Prime, as published in the Wall Street Journal, plus one-half percent. The maturity date is June 30, 2025. The outstanding balance at June 30, 2017 and 2016 was $350,000 and $200,000, respectively. Interest on the line of credit was $9,830 in 2017 and $4,562 in 2016. The line of credit is secured by a mortgage on the land, building and other assets of Interfaith Action. The line of credit balance has been eliminated for purposes of consolidation.

The activities of Interfaith Action are supported primarily by contributions, government contracts, and fees for services. The activities of the Foundation are supported by contributions and investment income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The consolidated financial statements include Interfaith Action of Greater Saint Paul Foundation because Interfaith appoints the Foundation's board members and has an economic interest in the Foundation. All significant inter-entity accounts and transactions have been eliminated.

Financial Statement Presentation - Interfaith Action is required to report information regarding its financial position and activities in the following net asset categories:

- Unrestricted net assets are not restricted by donors or the donor-imposed restrictions have expired. Unrestricted net assets are available for programs and supporting services at the discretion of management and the board of directors.
- Temporarily restricted net assets arise from contributions restricted by donors for specific purposes or time periods. When a temporarily restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets.
- Permanently restricted net assets arise from contributions with restrictions from donors that do not expire and that allow, in certain cases, only the income earned thereon to be expended.

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparative Financial Information - The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class or functionalized expense. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with Interfaith Action's consolidated financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Cash and Cash Equivalents - Interfaith Action considers all cash and highly liquid financial instruments with original maturities of three months or less, including money market mutual funds, to be cash and cash equivalents.

Receivables - Accounts and contracts receivable are stated at the amount management expects to collect. Management reviews receivable balances at year end and establishes an allowance based on expected collections. Management believes that all amounts will be received when due, therefore no allowance for uncollectible amounts has been provided. Receivables are written off when, in management’s estimation, it is probable that the receivable is worthless.

Pledges Receivable - When the donor makes a promise to give that is, in substance, unconditional, the contribution is recognized. Pledges receivable are recorded at the promised amount because the difference between the promised amount and the net present value of the promise is not significant. Management believes that all amounts will be received when due, therefore no allowance for uncollectible amounts has been provided. Receivables are written off when, in management’s estimation, it is probable that the receivable is worthless.

Investments - Investments in marketable securities are reported at fair value. Realized and unrealized gains and losses are reported as changes in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Property and Equipment - Property and equipment are carried at cost if purchased, and at fair value at the date of gift if donated. Additions with a cost of less than $2,000 are expensed. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Maintenance and repairs are expensed as incurred. Major renewals or betterments that extend the lives of property and equipment are capitalized. Management evaluates these assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

(Continued)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fiscal Agency Payable - Interfaith Action periodically acts as an agent for donors and grantors. It accepts assets from donors and agrees to use those amounts to benefit a specified beneficiary. Such agency amounts collected are recorded as liabilities until released to the beneficiary.

Contribution Revenue Recognition - Contributions are recognized when the donor makes an unconditional promise to give to Interfaith Action. Conditional contributions, such as bequests, are recorded when the conditions have been met and the conditional promise becomes unconditional. Contributions are considered to be unrestricted unless specifically restricted by the donor.

Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a specific time restriction ends or a purpose is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets.

Donated Materials and Services - Donated materials are recorded as contributions at their estimated fair market value in the period received. Donated services are recorded as contributions at their estimated fair value only if the services create or enhance a nonfinancial asset or if the services require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Functional Expenses - The costs of providing programs and the supporting services have been summarized on a functional basis in the Statement of Activities and the Statement of Functional Expenses. Whenever possible, expenses are recorded in functional categories when incurred. For certain expenses, allocations between categories are made. Such allocations are based on management’s best estimates.

Government Grants and Contracts - Government grants and contract funds are generally considered exchange transactions and are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined in each grant or contract, are incurred. Funds received but not yet earned are recorded as deferred revenue. Expenditures under government grants and contracts are subject to review by the granting authority. If, as a result of such a review, expenditures are determined to be unallowable, the disallowance will be recorded at the time the assessment for refund is made.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Income Tax - Interfaith Action and the Foundation are classified as tax-exempt organizations under Minnesota Statute 290.05 and Section 501 (c)(3) of the Internal Revenue Code, are exempt from private foundation status under Section 509(a)(1) of the Internal Revenue Code, and are subject to income taxes only on net unrelated business income. The organizations did not have any unrelated business income for the years ended June 30, 2017 and 2016. Management believes Interfaith Action and the Foundation have appropriate support for any tax positions taken, and accordingly, do not have any uncertain tax positions that are material to the financial statements.

Reclassifications - Reclassifications were made to the 2016 financial statements to be consistent with the current year financial statements. These reclassifications did not affect net assets or the change in net assets.

3. INVESTMENTS

Investments consist of the following at June 30:

	2017	2016
Corporate bonds	$ 485,313	$ 444,134
Collateralized mortgage obligations	35,022	38,510
Common stock	1,145,177	1,396,418
Total investment	$ 1,665,512	$ 1,879,062

(Continued)

3. INVESTMENTS (Continued)

Investment income is summarized as follows:

	2017	2016
Interest and dividend income	$ 47,795	$ 47,541
Net realized and unrealized gains (losses)	60,811	128,730
Total investment income	$ 108,606	$ 176,271

Investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect investment balances and the amounts reported on the statement of financial position.

4. FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability access.

Level 2 Inputs to the valuation methodology include:

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

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

(Continued)

4. **FAIR VALUE MEASUREMENTS (Continued)**

Fair values of cash equivalents and investments measured on a recurring basis at June 30, 2017, are as follows:

		Fair Value Measurement Using:		
	Fair value	Level 1 inputs	Level 2 inputs	Level 3 inputs
Money market mutual funds	$ 53,117	$ 53,117	$ -	$ -
Investments:				
Common stock	1,145,177	1,145,177		
Corporate bonds	485,313	-	485,313	-
Collateralized mortgage obligations	35,022	-	35,022	-
	1,665,512	1,145,177	520,335	
	$ 1,718,629	$ 1,198,294	$ 520,335	$ -

Fair values of cash equivalents and investments measured on a recurring basis at June 30, 2016, are as follows:

		Fair Value Measurement Using:		
	Fair value	Level 1 inputs	Level 2 inputs	Level 3 inputs
Money market mutual funds	$ 15,213	$ 15,213	$ -	$ -
Investments:				
Common stock	1,396,418	1,396,418	-	-
Corporate bonds	444,134	-	444,134	-
Collateralized mortgage obligations	38,510	-	38,510	-
	1,879,062	1,396,418	482,644	
	$ 1,894,275	$ 1,411,631	$ 482,644	$ -

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used.

Mutual funds and common stock: (Level 1) Valued at quoted prices in active markets.

(Continued)

4. FAIR VALUE MEASUREMENTS (Continued)

Corporate bonds: (Level 2) Value determined by pricing models based on quoted market prices for similar assets in active markets.

Collateralized mortgage obligations: (Level 2) Value determined by pricing models based on quoted market prices for similar assets in active markets.

Although management 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 different fair value measurements at the reporting date. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

There have been no changes in valuation technique and related inputs.

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2017	2016	Estimated useful life in years
Land	$ 15,000	$ 15,000	-
Building and building improvements	1,335,028	1,335,028	5 - 40
Equipment	84,714	80,905	3 - 10
	1,434,742	1,430,933	
Less accumulated depreciation	(787,999)	(738,984)	
	$ 646,743	$ 691,949	

Depreciation expense was $49,015 in 2017 and $49,056 in 2016.

6. ANNUITY PAYABLE

The Foundation has entered into an annuity agreement with an individual donor. The agreement requires the Foundation to make monthly payments of $107 as long as either one of the donor's two children are alive. As part of the agreement, the Foundation received a contribution to be used for the purposes of Interfaith Action.

(Continued)

6. ANNUITY PAYABLE (Continued)

The liability for the annuity payable represents the present value of estimated future payments. The liability is calculated as if it were a term loan with an interest rate of 8.2% with an annual loan payment of $1,284 until the year 2062. The liability will be extinguished upon the second death. Five year maturities for the remaining annuity are approximately $34 per year with the balance due beyond the five years.

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets primarily result from restrictions on contributions received from donors. The restrictions expire over time or when the stated purpose has been met. Temporarily restricted net assets at June 30, are restricted for the following purposes:

	2017	2016
Department of Indian Works	$ 51,359	$ 21,000
Going Home	-	38,000
Opportunity Saint Paul	202,906	265,341
Project Home	59,013	10,000
Project Spirit	55,102	20,000
Farm Faith	12,403	5,783
Pledges restricted for future periods	108,741	51,340
Fiscal sponsorships:		
Social Cohesion	42,187	-
Saint Paul Interfaith Network (SPIN)	17,055	-
Foundation endowment earnings (See Note 8)	1,376,339	1,395,888
Total temporarily restricted assets	$ 1,925,105	$ 1,807,352

Interfaith Action has used approximately $342,000 of temporarily restricted funds to meet current obligations. At the discretion of the Foundation, the line of credit described in Note 1 can be increased as the Foundation sees fit to invest in Interfaith Action's capacity. It has been the Foundation's practice to cover the expenditures that exceed revenues with advances on the line of credit. These investments may be in Interfaith Action's existing programs and/or in developing additional approaches to support the mission.

8. ENDOWMENT

The Foundation has an endowment fund funded by donations from several individuals which are restricted in perpetuity to continue the wishes of the donors. Income generated by these assets is to be used for programs and operations of Interfaith Action and to maintain the endowment fund's purchasing power after inflation. Undistributed income is classified as temporarily restricted net assets.

Interpretation of Relevant Law - The Board of Directors has interpreted the State of Minnesota's version of the 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 Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

(Continued)

8. ENDOWMENT (Continued)

Changes in endowment net assets follow:

Year Ended June 30, 2017	Temporarily restricted	Permanently restricted	Total
Beginning of year	$ 1,395,888	$ 684,104	$ 2,079,992
Investment return:			
Interest and dividends	57,622	-	57,622
Net appreciation	60,811	-	60,811
Total investment return	118,433	-	118,433
Appropriations for expenditure	(137,982)	-	(137,982)
End of year	$ 1,376,339	$ 684,104	$ 2,060,443

Year Ended June 30, 2016	Temporarily restricted	Permanently restricted	Total
Beginning of year	$ 1,233,893	$ 684,104	$ 1,917,997
Investment return:			
Interest and dividends	50,740	-	50,740
Net appreciation	128,756	-	128,756
Total investment return	179,496	-	179,496
Appropriations for expenditure	(17,501)	-	(17,501)
End of year	$ 1,395,888	$ 684,104	$ 2,079,992

8. ENDOWMENT (Continued)

Return Objectives and Risk Parameters - The Foundation has adopted investment and spending policies for endowment assets, approved by the Board of Directors, that attempt to provide a predictable stream of funding to support programs of Interfaith Action while also maintaining the purchasing power of endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and fixed income securities, that are intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to fund programs, while growing the funds, if possible.

Beginning in 2015, endowment assets have also been invested in a line of credit arrangement with Interfaith Action earning interest at Prime plus one-half percent. Advances on the line of credit were $350,000 at June 30, 2017 and $200,000 at June 30, 2016, as described in Note 1. Interest earned was $9,830 in 2017 and $4,562 in 2016.

Spending Policy and How the Investment Objectives Relate to Spending - The Foundation has a policy of using the endowment earnings to help fund programs. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the endowment funds, all of which must be maintained in perpetuity because of donor restrictions, and the possible effects of inflation. The Foundation's current distribution policy is to distribute annually five percent of the average prior sixteen quarterly balances of endowment fund investments. In addition, the Foundation policy allows for periodic annual additional discretionary grants, limited to a maximum two percent of the portfolio value.

9. FISCAL AGENCY AND SPONSORSHIPS

During 2017, Interfaith Action’s previous fiscal agency relationship was converted to a fiscally sponsored project. Projects do not have a 501(c)(3) status and are treated as programs of Interfaith Action. Interfaith Action has entered into fiscal sponsorship agreements with Saint Paul Interfaith Network and Social Cohesion. Contributions are paid directly to Interfaith Action and reported as support. The sponsored project then submits costs to Interfaith Action for approval and payment.

The impact on Interfaith Action’s net income for 2017 is $386 for SPIN and $42,186 for Social Cohesion.

(Continued)

10. CONTRIBUTED MATERIALS AND SERVICES

During the years ended June 30, 2017 and 2016, Interfaith Action recognized the following contributed materials and services:

	2017	2016
Program:		
Project Home shelter space	$ 357,444	$ 333,012
Food shelf	113,069	110,347
Project Spirit:		
Classroom space	44,280	56,034
Food and snacks	7,847	9,979
Supplies for School Tools Drive	18,399	20,841
Youth services program supplies and site rental	10,440	6,899
Farm Faith - program supplies	495	-
Department of Indian Works - food	325	-
Professional service	-	12,700
Mgmt. & general - donated computers	2,234	5,507
	$ 554,533	$ 555,319

Project Home, a program of Interfaith Action, partners with area faith communities to provide two 20 bed overnight family emergency shelters each month. Area faith communities donate their space and volunteer power to the program. The estimated value of the donated shelter space was $30.50 per person for the years ended June 30, 2017 and 2016.

Interfaith Action also operates a food shelf that received donated food from various sources. The estimated value of these donations was $1.67 and $1.70 per pound for the years ended June 30, 2017 and 2016.

Interfaith Action has agreements with various organizations regarding the use of classroom space for Project Spirit. Additionally, Project Spirit received donated food/snacks support from Saint Paul Public Schools.

In addition, Interfaith Action received approximately 27,000 hours of direct volunteer support at the shelter sites which have not been monetized for their in-kind value and recorded in the consolidated financial statements.

(Continued)

11. RETIREMENT PLAN

Interfaith Action participates in a multi-employer defined contribution plan of the Evangelical Lutheran Church in America (ELCA). Effective June 29, 2015, a required contribution of 5% is made for all employees working over 500 hours per calendar year who are still employed as of the last day of the plan year. Interfaith Action will also make a matching contribution equal to 100% of the employees' first 2% of defined compensation. Pension costs of $54,976 and $40,065 have been recognized for the years ended June 30, 2017 and 2016, respectively. Plan assets are held in a trust and are not subject to ERISA requirements.

12. OPERATING LEASE

Interfaith Action leases office equipment under an operating lease. Rent expense was $11,179 and $11,045 for the years ended June 30, 2017 and 2016.

Future minimum lease payments required for the years ending June 30 are as follows:

2018	$	5,880
2019		5,754
2020		1,146
	$	12,780

13. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 6, 2017, the date on which the consolidated financial statements were available for issue, and identified no further significant events or transactions to disclose.

SUPPLEMENTARY CONSOLIDATING INFORMATION

INTERFAITH ACTION OF GREATER SAINT PAUL

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2017

	Interfaith Action	Foundation	Elimination	Total
ASSETS				
Current assets:				
Cash and cash equivalents	$ 39,862	$ 53,545	$ -	$ 93,407
Accounts receivable	8,706	14,895	(18,535)	5,066
Contracts receivable - government	170,108	-	-	170,108
Prepaid expenses	1,434	281	-	1,715
Pledges receivable - current portion	213,375	-	-	213,375
Total current assets	433,485	68,721	(18,535)	483,671
Other assets:				
Pledges receivable -less current portion	22,366	-	-	22,366
Investments	-	1,665,512	-	1,665,512
Line of credit receivable	-	350,000	(350,000)	-
Property and equipment, net	646,743	-	-	646,743
Total assets	$ 1,102,594	$ 2,084,233	$ (368,535)	$ 2,818,292
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable	$ 126,330	$ 8,705	$ (8,705)	$ 126,330
Accrued payroll and related	112,797	-	-	112,797
Accrued interest	9,830	-	(9,830)	-
Annuities payable	-	34	-	34
Total current liabilities	248,957	8,739	(18,535)	239,161
Long term liabilities:				
Annuity payable	-	15,051	-	15,051
Line of credit	350,000	-	(350,000)	-
Total liabilities	598,957	23,790	(368,535)	254,212
Net assets:				
Unrestricted	(45,129)	-	-	(45,129)
Temporarily restricted	548,766	1,376,339	-	1,925,105
Permanently restricted	-	684,104	-	684,104
Total net assets	503,637	2,060,443	-	2,564,080
Total liabilities and net assets	$ 1,102,594	$ 2,084,233	$ (368,535)	$ 2,818,292

See independent auditor's report.

INTERFAITH ACTION OF GREATER SAINT PAUL

CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

	Interfaith Action		Foundation				
	Unrestricted	Temporarily restricted	Unrestricted	Temporarily restricted	Permanently Restricted	Eliminations	Total
Support and revenue:							
Support:							
Congregations	$ 42,660	$ 40,896	$ -	$ -	$ -	$ -	$ 83,556
Religious organizations	2,150	5,775	-	-	-	-	7,925
Individuals	116,496	94,973	-	-	-	-	211,469
Foundations/Corporations	22,507	637,850	-	-	-	(118,420)	541,937
United Way	1,639	245,001	-	-	-	-	246,640
Contributed materials and services	554,533	-	-	-	-	-	554,533
Sponsorships	15,500	-	-	-	-	-	15,500
Event income, net of direct donor benefits of $4,464	5,874	-	-	-	-	-	5,874
Government contracts	584,576	-	-	-	-	-	584,576
Investment income	2	-	-	118,434	-	(9,830)	108,606
Fees and rental	9,700	-	-	-	-	-	9,700
Miscellaneous income	3,621	-	-	-	-	-	3,621
Net assets released from restrictions	887,193	(887,193)	137,983	(137,983)	-	-	-
Total revenues and support	2,246,451	137,302	137,983	(19,549)	-	(128,250)	2,373,937
Expenses:							
Programs:							
Project Home	699,267	-	-	-	-	-	699,267
Department of Indian Work	622,775	-	-	-	-	-	622,775
Project Spirit	254,042	-	-	-	-	-	254,042
Infrastructure of Opportunity	98,815	-	-	-	-	-	98,815
Interfaith Action of Greater Saint Paul	-	-	118,420	-	-	(118,420)	-
Other programs	244,677	-	-	-	-	-	244,677
Total programs expense	1,919,576	-	118,420	-	-	(118,420)	1,919,576
Supporting services:							
General and administrative	392,840	-	19,563	-	-	(9,830)	402,573
Fundraising	274,958	-	-	-	-	-	274,958
Total supporting services	667,798	-	19,563	-	-	(9,830)	677,531
Total expenses	2,587,374	-	137,983	-	-	(128,250)	2,597,107
Change in net assets	(340,923)	137,302	-	(19,549)	-	-	(223,170)
Net assets, beginning of year	295,794	411,464	-	1,395,888	684,104	-	2,787,250
Net assets, end of year	$ (45,129)	$ 548,766	$ -	$ 1,376,339	$ 684,104	$ -	$ 2,564,080

See independent auditor's report.

INTERFAITH ACTION OF GREATER SAINT PAUL

CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2017

	Interfaith Action			Foundation			
	Program	General and Administrative	Fundraising	Program	General and Administrative	Eliminations	Total
Salaries and wages	$ 619,388	$ 211,668	$ 200,026	$ -	$ -	$ -	$ 1,031,082
Payroll taxes	45,132	15,196	14,134	-	-	-	74,462
Employee benefits	88,785	40,350	27,837	-	-	-	156,972
	753,305	267,214	241,997	-	-	-	1,262,516
Grant to Interfaith Action	-	-	-	118,420	-	(118,420)	-
Site rental fees	408,914	-	-	-	-	-	408,914
Supplies and services	255,189	204	138	-	-	-	255,531
Consulting/independent contractors	122,668	38,735	1,293	-	17,065	-	179,761
Partner organizations	95,614	-	-	-	-	-	95,614
Computer/telephone/internet	50,117	9,093	7,311	-	-	-	66,521
Client transportation	62,408	-	-	-	-	-	62,408
Building/grounds	43,905	6,840	6,893	-	-	-	57,638
Depreciation	37,286	5,839	5,890	-	-	-	49,015
Events and meetings	18,204	11,899	4,921	-	-	-	35,024
Administrative expenses	76	21,522	-	-	-	-	21,598
Equipment	11,514	2,035	1,833	-	-	-	15,382
Office supplies	11,175	1,745	1,797	-	-	-	14,717
Other	4,646	5,060	38	-	1,250	-	10,994
Public relations/newsletter	8,265	1,655	894	-	-	-	10,814
Travel/transportation	9,671	-	-	-	-	-	9,671
Laundry services	9,666	-	-	-	-	-	9,666
Postage/shipping	6,265	1,343	1,252	-	-	-	8,860
Legal costs	-	8,786	-	-	-	-	8,786
Mileage/parking	4,682	181	167	-	-	-	5,030
Professional development	2,472	33	392	-	-	-	2,897
Membership/subscriptions	1,551	703	142	-	-	-	2,396
Printing/copying	1,983	123	-	-	-	-	2,106
Interest expense	-	9,830	-	-	1,248	(9,830)	1,248
	$ 1,919,576	$ 392,840	$ 274,958	$ 118,420	$ 19,563	$ (128,250)	$ 2,597,107