

**RESOURCE, INC. AND SUBSIDIARY**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

**RESOURCE, INC. AND SUBSIDIARY  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
RESOURCE, Inc. and Subsidiary  
Minneapolis, Minnesota

We have audited the accompanying consolidated financial statements of RESOURCE, Inc. and Subsidiary (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities and changes in net assets, functional expense, and cash flows for the years 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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 auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of RESOURCE, Inc. and Subsidiary as of December 31, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Consolidating Information**

Our audit was conducted for the purpose of forming an opinion on the 2016 consolidated financial statements as a whole. The 2016 consolidating statement of financial position and consolidating statement of activities are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and 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 consolidating 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.



**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
April 7, 2017

**RESOURCE, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2016 AND 2015**

	2016	2015
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 1,899,435	\$ 174,210
Accounts Receivable (Less Allowance for Doubtful Accounts of \$310,701 in 2016 and \$761,760 in 2015)	3,671,405	4,347,501
Pledges Receivable (Less Allowance for Doubtful Accounts of \$-0- in 2016 and 2015)	40,709	102,919
Prepaid Expenses	590,521	735,467
Investments	2,721	1,607
Total Current Assets	6,204,791	5,361,704
<b>OTHER ASSETS</b>		
Real Estate Assessments	22,350	64,499
Charitable Remainder Unitrust	241,531	224,006
Unemployment Trust	267,655	267,502
Pledges Receivable Noncurrent	11,550	46,505
Property and Equipment, Net	4,489,054	4,823,200
Total Other Assets	5,032,140	5,425,712
Total Assets	\$ 11,236,931	\$ 10,787,416
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 380,229	\$ 412,355
Accrued Expense	2,137,232	1,931,338
Notes Payable - Current	90,484	196,997
Capital Leases Payable - Current	-	21,169
Refundable Advances	93,479	202,611
Deferred Revenue	263,523	118,406
Total Current Liabilities	2,964,947	2,882,876
<b>LONG-TERM LIABILITIES</b>		
Notes Payable - Long-Term	3,821,354	3,905,978
Capital Leases Payable - Long-Term	-	26,158
Asset Retirement Obligation	120,855	115,100
Total Long-Term Liabilities	3,942,209	4,047,236
Total Liabilities	6,907,156	6,930,112
<b>NET ASSETS</b>		
Unrestricted Net Assets	3,762,970	3,174,170
Temporarily Restricted Net Assets	566,805	679,884
Permanently Restricted Net Assets	-	3,250
Total Net Assets	4,329,775	3,857,304
Total Liabilities and Net Assets	\$ 11,236,931	\$ 10,787,416

See accompanying Notes to Consolidated Financial Statements

**RESOURCE, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016			2015				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE</b>								
Government Contracts	\$ 16,990,079	\$ -	\$ -	\$ 16,990,079	\$ 16,044,262	\$ -	\$ -	\$ 16,044,262
Program Service Fees	9,725,485	-	-	9,725,485	10,101,266	-	-	10,101,266
Contributions (Including In-Kinds of \$102,477 and \$222,835 in 2016 and 2015, Respectively)	277,150	382,085	-	659,235	274,438	658,142	-	932,580
United Way	749,533	-	-	749,533	851,306	-	-	851,306
Change In Value of Trust	-	17,525	-	17,525	-	(2,103)	-	(2,103)
Interest Income	91	-	-	91	3,577	-	-	3,577
Loss on Disposal of Property and Equipment	(28,418)	-	-	(28,418)	-	-	-	-
Miscellaneous	23,391	-	-	23,391	34,068	-	-	34,068
Net Assets Released from Restriction	515,939	(512,689)	(3,250)	-	695,024	(695,024)	-	-
Total Support and Revenue	28,253,250	(113,079)	(3,250)	28,136,921	28,003,941	(38,985)	-	27,964,956
<b>EXPENSE</b>								
Program Services:								
Career Education	3,736,173	-	-	3,736,173	3,995,808	-	-	3,995,808
Employment Services	7,077,630	-	-	7,077,630	7,112,559	-	-	7,112,559
Chemical and Mental Health	14,336,691	-	-	14,336,691	14,814,989	-	-	14,814,989
Total Program Services	25,150,494	-	-	25,150,494	25,923,356	-	-	25,923,356
Support Services:								
Management and General	2,099,313	-	-	2,099,313	2,469,201	-	-	2,469,201
Fundraising	414,643	-	-	414,643	389,637	-	-	389,637
Total Support Services	2,513,956	-	-	2,513,956	2,858,838	-	-	2,858,838
Total Expense	27,664,450	-	-	27,664,450	28,782,194	-	-	28,782,194
<b>CHANGE IN NET ASSETS</b>	588,800	(113,079)	(3,250)	472,471	(778,253)	(38,985)	-	(817,238)
Net Assets - Beginning of Year	3,174,170	679,884	3,250	3,857,304	3,952,423	718,869	3,250	4,674,542
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 3,762,970</u>	<u>\$ 566,805</u>	<u>\$ -</u>	<u>\$ 4,329,775</u>	<u>\$ 3,174,170</u>	<u>\$ 679,884</u>	<u>\$ 3,250</u>	<u>\$ 3,857,304</u>

See accompanying Notes to Consolidated Financial Statements

**RESOURCE, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSE**  
**YEAR ENDED DECEMBER 31, 2016**

	2016							
	Program Services				Support Services			Total All Services
	Career Education	Employment Services	Chemical and Mental Health	Total Program Services	Management and General	Fundraising	Total Support Services	
Salaries	\$ 1,930,945	\$ 3,904,793	\$ 7,419,021	\$ 13,254,759	\$ 1,094,065	\$ 176,852	\$ 1,270,917	
Payroll Taxes	138,838	281,327	540,443	960,608	81,245	13,088	94,333	1,054,941
Employee Benefits	265,161	553,707	1,052,526	1,871,394	95,933	20,693	116,626	1,988,020
Total Personnel Costs	<u>2,334,944</u>	<u>4,739,827</u>	<u>9,011,990</u>	<u>16,086,761</u>	<u>1,271,243</u>	<u>210,633</u>	<u>1,481,876</u>	<u>17,568,637</u>
Assistance Provided to								
Individuals	751,530	776,187	1,879,724	3,407,441	151,730	2,987	154,717	3,562,158
Professional Fees	177,512	532,666	328,925	1,039,103	257,863	167,924	425,787	1,464,890
Occupancy	216,275	611,854	1,820,527	2,648,656	105,162	11,402	116,564	2,765,220
Supplies	80,133	50,759	190,778	321,670	22,406	6,575	28,981	350,651
Interest Expense	4,182	22,026	139,210	165,418	19,907	788	20,695	186,113
Telephone	20,434	32,577	105,934	158,945	18,888	877	19,765	178,710
Postage and Shipping	4,105	24,520	3,539	32,164	8,753	843	9,596	41,760
Printing and Publications	6,093	10,374	8,630	25,097	22,529	3,943	26,472	51,569
Local Transportation	33,162	36,579	179,276	249,017	1,935	584	2,519	251,536
Conferences and Meetings	22,268	23,871	44,663	90,802	21,351	1,110	22,461	113,263
Equipment	29,268	72,516	141,860	243,644	11,285	1,713	12,998	256,642
Insurance	-	-	-	-	116,652	-	116,652	116,652
Membership Dues	6,217	755	8,634	15,606	36,406	1,085	37,491	53,097
Uncollectable Accounts	(4,972)	-	164,887	159,915	-	-	-	159,915
Depreciation	49,225	134,671	288,968	472,864	43,470	2,654	46,124	518,988
Other Expense	5,797	8,448	19,146	33,391	(10,267)	1,525	(8,742)	24,649
Total Expense	<u>\$ 3,736,173</u>	<u>\$ 7,077,630</u>	<u>\$ 14,336,691</u>	<u>\$ 25,150,494</u>	<u>\$ 2,099,313</u>	<u>\$ 414,643</u>	<u>\$ 2,513,956</u>	<u>\$ 27,664,450</u>

See accompanying Notes to Consolidated Financial Statements

**RESOURCE, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSE**  
**YEAR ENDED DECEMBER 31, 2015**

	2015							
	Program Services				Support Services			
	Career Education	Employment Services	Chemical and Mental Health	Total Program Services	Management and General	Fundraising	Total Support Services	Total All Services
Salaries	\$ 1,795,529	\$ 3,635,376	\$ 6,778,987	\$ 12,209,892	\$ 1,189,024	\$ 186,968	\$ 1,375,992	\$ 13,585,884
Payroll Taxes	170,142	348,825	636,852	1,155,819	107,994	16,676	124,670	1,280,489
Employee Benefits	294,090	670,946	1,115,680	2,080,716	238,616	19,377	257,993	2,338,709
Total Personnel Costs	<u>2,259,761</u>	<u>4,655,147</u>	<u>8,531,519</u>	<u>15,446,427</u>	<u>1,535,634</u>	<u>223,021</u>	<u>1,758,655</u>	<u>17,205,082</u>
Assistance Provided to								
Individuals	903,624	632,155	1,739,588	3,275,367	77,566	-	77,566	3,352,933
Professional Fees	335,099	679,710	584,099	1,598,908	397,620	131,346	528,966	2,127,874
Occupancy	224,454	645,818	1,964,729	2,835,001	83,886	11,113	94,999	2,930,000
Supplies	66,239	131,533	134,762	332,534	16,227	1,500	17,727	350,261
Interest Expense	5,935	22,939	137,497	166,371	25,215	656	25,871	192,242
Telephone	23,998	43,520	123,393	190,911	13,784	1,249	15,033	205,944
Postage and Shipping	4,173	23,014	4,903	32,090	6,377	542	6,919	39,009
Printing and Publications	5,285	9,995	11,888	27,168	22,631	7,156	29,787	56,955
Local Transportation	34,194	26,070	170,061	230,325	1,335	171	1,506	231,831
Conferences and Meetings	10,267	20,049	23,929	54,245	19,345	1,301	20,646	74,891
Equipment	27,790	65,982	96,149	189,921	27,029	8,983	36,012	225,933
Insurance	995	-	1,615	2,610	136,196	-	136,196	138,806
Membership Dues	8,494	4,214	12,232	24,940	21,930	14	21,944	46,884
Uncollectable Accounts	23,642	-	927,060	950,702	-	-	-	950,702
Depreciation	47,731	111,896	326,805	486,432	37,394	2,439	39,833	526,265
Other Expense	14,127	40,517	24,760	79,404	47,032	146	47,178	126,582
Total Expense	<u>\$ 3,995,808</u>	<u>\$ 7,112,559</u>	<u>\$ 14,814,989</u>	<u>\$ 25,923,356</u>	<u>\$ 2,469,201</u>	<u>\$ 389,637</u>	<u>\$ 2,858,838</u>	<u>\$ 28,782,194</u>

See accompanying Notes to Consolidated Financial Statements



**RESOURCE, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 472,471	\$ (817,238)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Realized and Unrealized Gain on Investments	(1,114)	(10,692)
Costs on Real Estate Assessments	42,149	4,031
Change in Value of Charitable Remainder Unitrust	(17,525)	2,103
Change in Value of Unemployment Trust	(153)	214,219
Loss on Disposal of Fixed Assets	28,418	-
Depreciation	518,988	526,265
Environmental Remediation Liabilities	5,755	5,481
Uncollectible Accounts	159,915	950,702
(Increase) Decrease in Current Assets:		
Accounts Receivable	516,181	(741,730)
Pledges Receivable	97,165	(26,372)
Prepaid Expense	144,946	(367,369)
Increase (Decrease) in Current Liabilities:		
Accounts Payable	(32,126)	(433,180)
Accrued Expenses	205,894	227,303
Refundable Advances	(109,132)	79,103
Deferred Revenue	145,117	(33,745)
Funds Held for Others	-	(1,398)
Net Cash Provided (Used) by Operating Activities	2,176,949	(422,517)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	(240,597)	(306,157)
Purchase of Investments	-	(384,109)
Proceeds from Sale of Investments	-	868,980
Net Cash Provided (Used) by Investing Activities	(240,597)	178,714
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal Payments on Capital Leases Payable	(19,990)	(38,194)
Debt Issuance	-	289,000
Principal Payments on Notes Payable	(191,137)	(181,526)
Net Cash Provided (Used) by Financing Activities	(211,127)	69,280
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1,725,225	(174,523)
Cash and Cash Equivalents - Beginning	174,210	348,733
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	\$ 1,899,435	\$ 174,210
<b>SUPPLEMENTAL INFORMATION</b>		
Cash Paid for Interest	\$ 186,113	\$ 192,242
In-Kind Contributions of Services	\$ 102,477	\$ 222,835
Capital Lease Property and Equipment Purchase (Written Off)	\$ (27,337)	\$ 40,307

See accompanying Notes to Consolidated Financial Statements

**RESOURCE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organizational Purpose**

RESOURCE, Inc. (the Organization) is a nonprofit organization whose mission is to increase well-being through recovery, employment and career advancement. Annually, the Organization serves nearly 20,000 individuals and families through:

Career Education – Provides career training programs and job placement services for people with disabilities and other barriers to employment.

Employment Services – Provides employment services, education and family- support services to low-income adults, youth, and families to ensure economic success, academic achievement, and family stability.

Chemical and Mental Health – Supports low-income men, women and families in recovery through integrated, trauma-informed care-access, treatment, recovery support and care coordination-to help them achieve wellness and life-long recovery.

The Organization merged with Help Enable Alcoholics/Addicts Receive Treatment, Inc. (HEART, Inc.), whose focus is to support people with chemical dependency struggling with financial hardships. This Organization is considered part of the RESOURCE Chemical and Mental Health.

**Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of RESOURCE, Inc. and HEART, Inc. All significant intercompany balances and transactions have been eliminated.

**Financial Statement 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:

Unrestricted – Resources over which the board of directors has discretionary control. Designated amounts represent amounts which the board has set aside for a particular purpose.

Temporarily Restricted – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Organization or passage of time.

Permanently Restricted – This classification includes net assets that have been restricted by donors that stipulate the resources be maintained permanently by the Organization.

**RESOURCE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash and Cash Equivalents**

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

**Accounts Receivable**

Accounts receivable are stated at net realizable value. The Organization provides an allowance for bad debts using the allowance method, which is based on management judgment considering historical information. Accounts past due are individually analyzed for collectability. An allowance is provided for accounts when a significant pattern of uncollectibility has occurred. When all collection efforts have been exhausted, the accounts are written off against the related allowance.

**Promises-to-Give (Pledges Receivable)**

Unconditional promises-to-give are recognized in the period the promises are made. Conditional promises-to-give are recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional. Pledges receivable at December 31, 2016 are expected to be received through 2020.

**Investments**

Investments are stated at fair value based on quoted market prices and consist of contributions received of shares of stock.

**Property and Equipment**

All major expenditures for property and equipment that are over \$5,000 are capitalized at cost. Contributed items are recorded at fair market value at date of donation. Depreciation is calculated using the straight-line method over the estimated useful lives.

**Charitable Remainder Unitrust**

HEART, Inc. is party to a Trust Agreement for which they are the remainder beneficiary upon the death of the lead beneficiary. The interest in the charitable remainder unitrust is carried at fair value based on the life expectancy of lead beneficiary and the fair value of the trust assets.

**Unemployment Trust**

The Organization has an unemployment trust agreement for which they make contributions to cover future claims from former employees.

**RESOURCE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Asset Retirement Obligations**

The Organization owns buildings that contain asbestos floor tiles. At this time, the Organization has no plans to renovate or demolish these buildings. In accordance with standards relating to *Accounting for Conditional Asset Retirement Obligations*, the Organization accrued a liability for the fair value of future costs to remediate environmental hazards related to certain property. The Organization uses a future value rate assumption of 5% and discounted the estimate to present value using a risk-free rate of return of 3%. The potential environmental remediation liability is reported on the consolidated statements of financial position as an asset retirement obligation in the amount of \$120,855 and \$115,100 at December 31, 2016 and 2015, respectively.

**Government Contracts**

Government grants and contract funds are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined in each contract, are made. Funds received but not yet earned are shown as Deferred Revenue. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the Organization will record such disallowance at the time the final assessment is made.

**Contributions**

Contributions are recorded as support in the period received. If donor-imposed restrictions accompany the contribution, the amount is recorded as temporarily or permanently restricted until the donor-imposed restrictions expire or are fulfilled. Temporarily restricted net assets are reclassified to unrestricted in the period donor-imposed restrictions expire or are fulfilled and are reported in the consolidated statements of activities and changes in net assets under the support and revenue category - Net Assets Released from Restrictions.

**In-Kind Contributions**

Contribution of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period receive. The contributions presented on the accompanying consolidated statements of activities and changes in net assets include contributed materials and services valued at \$102,477 and \$222,835 for the years ended December 31, 2016 and 2015, respectively.

**Functional Allocation of Expense**

Salaries and related expenses are allocated based on time spent and program assignments. Expenses, other than salaries and related expenses, which are not directly identifiable by program or supporting services, are allocated based on time and occupancy percentages.

**RESOURCE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Risks and Uncertainties**

Management uses estimates and assumptions in preparing the consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

**Federal Income Taxes**

The Organization is classified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to federal income taxes. As such, it is subject to federal and state income taxes on net unrelated business income.

The Organization follows the accounting standards for contingencies in evaluating uncertain tax positions and files as a tax-exempt organization. Should that status be challenged in the future, all years since inception could be subject to review by the Internal Revenue Service (IRS).

**Fair Value Measurements**

The Organization has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the consolidated statements of financial position are categorized based on the inputs to the valuation techniques as follows:

*Level 1* – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over the-counter markets.

*Level 2* – Financial assets and liabilities are valued using inputs quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data. Level 2 includes private collateralized mortgage obligations, municipal bonds, and corporate debt securities.

*Level 3* – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset. Level 3 includes private equity, venture capital, hedge funds and real estate.

**RESOURCE, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fair Value Measurements (Continued)**

The organization has one level 3 investment in their interest in the Charitable Remainder Unitrust that was valued at \$241,531 and \$224,006 at December 31, 2016 and 2015, respectively. There are no contributions to the unitrust and the value has changed based on the fair value calculation.

The following table provides a summary of changes in fair value of the Level 3 financial asset, the Charitable Remainder Unitrust for the years ended December 31, 2016 and 2015:

	2016	2015
Balance - Beginning of Year	\$ 224,006	\$ 226,109
Change in Fair Value of Trust	17,525	(2,103)
Balance - End of Year	\$ 241,531	\$ 224,006

**Reclassifications**

Certain amounts appearing in the 2015 consolidated financial statements have been reclassified to conform to the 2016 presentation. The reclassifications have no effect on previously reported amounts of total net assets or change in total net assets.

**Subsequent Events**

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through April 7, 2017, the date the consolidated financial statements were available to be issued. As documented within Note 4, the organization completed the refinancing of their debt which is described therein.

**NOTE 2 CONCENTRATIONS**

**Significant Concentrations of Credit Risk**

The Organization provides services primarily within the Twin Cities and surrounding communities. The amounts due for services provided are from individuals, substantially all of which are local residents or their third-party payors. In addition, accounts and pledges receivable are primarily from local residents, governments or institutions.

**Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits**

At various times during 2016 and 2015, the Organization held funds at a local financial institution in excess of federally insured limits.

**RESOURCE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 3 PROPERTY AND EQUIPMENT**

The Organization owns the following as of December 31:

	2016	2015
Land	\$ 687,700	\$ 680,400
Buildings and Leasehold Improvements	7,456,392	7,578,118
Equipment and Furniture	1,731,799	2,363,733
Construction in Progress	39,655	14,100
Total	<u>9,915,546</u>	<u>10,636,351</u>
Less: Accumulated Depreciation/Amortization	(5,426,492)	(5,813,151)
Property and Equipment, Net	<u>\$ 4,489,054</u>	<u>\$ 4,823,200</u>

Depreciation expense was \$518,988 and \$526,265 for the years ended December 31, 2016 and 2015, respectively.

**NOTE 4 NOTES PAYABLE**

Subsequent to year ended December 31, 2016, the Organization anticipates consolidating their three notes outstanding with Bremer Bank and financed one a note for \$3,900,000. The Organization has a letter of commitment from a financial institution for the expected refinancing. The 2017 tax exempt revenue bond is expected to be issued by the City of Landfall, secured by certain land, buildings and improvements payable to Bremer Bank. The first payment will be due June 1, 2017. Consistent with the refinancing agreement, the first four monthly payments will be interest only. Beginning October 1, 2017 principal and interest will be due monthly in an amount so that the principal is paid in full by May 1, 2034. The initial seven year fixed rate will be set by taking the seven year LIBOR Swap rate plus 2.35% multiplied by 68%.

Notes payable consists of the following at December 31:

<u>Description</u>	<u>2016</u>	<u>2015</u>
2010 tax exempt revenue bond issued by Minneapolis Community Development Agency, monthly amounts including interest of 4.55%. Last payment and all remaining principal and interest due in 2020.	\$ 2,314,390	\$ 2,431,917
2011 note payable at rate of 4.22% fixed for five-year period with monthly payments. The unpaid principal and interest shall be due and payable July 31, 2017.	1,332,707	1,391,551
2015 mortgage issued with a fixed interest rate of 3.9%, monthly amounts with one final payment ofr all remaining principal and interest in 2017.	<u>264,741</u>	<u>279,507</u>
Total	3,911,838	4,102,975
Less: Portion Due Within One Year	<u>(90,484)</u>	<u>(196,997)</u>
Long-Term Portion	<u>\$ 3,821,354</u>	<u>\$ 3,905,978</u>

**RESOURCE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 4 NOTES PAYABLE (CONTINUED)**

Each note is secured by certain land, buildings and improvements.

Future principal payment amounts include payment due for debt outstanding at December 31, 2016, and amounts due under the expected refinancing. Principal payments required are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	\$ 90,484
2018	183,924
2019	189,802
2020	195,868
2021	208,588
Thereafter	3,043,172
Total	<u>\$ 3,911,838</u>

Effective August 15, 2016, the Organization also entered into a promissory note agreement. Available borrowings under the line of credit are \$1,000,000. Interest is payable monthly at 3% above the bank's index rate (3.5% at December 31, 2016). The note expires on July 31, 2017. At December 31, 2016, there was \$-0- of borrowings.

**NOTE 5 LEASED FACILITIES AND EQUIPMENT**

Rental commitments under noncancelable leases for building and equipment in effect at December 31, 2016 total \$2,982,836. The future annual rental commitments are as follows:

<u>Year Ending December 31,</u>	<u>Building</u>	<u>Equipment</u>	<u>Total</u>
2017	\$ 1,010,488	\$ 55,978	\$ 1,066,466
2018	874,631	29,211	903,842
2019	317,201	17,375	334,576
2020	225,406	1,758	227,164
2021	147,297	-	147,297
Thereafter	303,491	-	303,491
Total	<u>\$ 2,878,514</u>	<u>\$ 104,322</u>	<u>\$ 2,982,836</u>

The rental expense for the years ended December 31, 2016 and 2015 was \$1,743,463 and \$1,922,528, respectively.



**RESOURCE, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 6 TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of amounts for the following programs at December 31:

	2016	2015
Employment Services	\$ 65,252	\$ 17,500
Career Education	75,010	219,703
Chemical and Mental Health	50,000	72,500
General Fundraising	135,013	146,175
Charitable Remainder Unitrust	241,530	224,006
Total	<u>\$ 566,805</u>	<u>\$ 679,884</u>

Temporarily restricted net assets released from restriction related to the following programs for the years ended December 31:

	2016	2015
Employment Services	\$ 38,248	\$ 198,627
Career Education	329,705	252,556
Chemical and Mental Health	117,358	160,262
General Fundraising	27,378	83,579
Total	<u>\$ 512,689</u>	<u>\$ 695,024</u>

**NOTE 7 EMPLOYEE RETIREMENT PLAN**

The Organization maintains a 401(k) retirement plan for employees. Employees are allowed to make voluntary contributions immediately after six months of employment. The Organization has the ability to make discretionary matches to the 401 (k) but did not make discretionary contributions for the years ended December 31 2016, and 2015. Additionally, the Organization makes an annual 3% nondiscretionary safe harbor payment. The total expense for years ended December 31, 2016 and 2015 was \$398,964 and \$321,941, respectively.

**RESOURCE, INC. AND SUBSIDIARY**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2016**

<b>ASSETS</b>	<u>RESOURCE, Inc.</u>	<u>HEART, Inc.</u>	<u>Consolidated</u>
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ 1,898,955	\$ 480	\$ 1,899,435
Accounts Receivable (Less Allowance for Doubtful Accounts of \$310,701)	3,671,405	-	3,671,405
Pledges Receivable (Less Allowance for Doubtful Accounts of \$-0-)	40,709	-	40,709
Prepaid Expenses	590,521	-	590,521
Investments	2,721	-	2,721
Total Current Assets	<u>6,204,311</u>	<u>480</u>	<u>6,204,791</u>
<b>OTHER ASSETS</b>			
Real Estate Assessments	22,350	-	22,350
Charitable Remainder Unitrust	-	241,531	241,531
Unemployment Trust	267,655	-	267,655
Pledges Receivable Noncurrent	11,550	-	11,550
Property and Equipment, Net	4,489,054	-	4,489,054
Total Other Assets	<u>4,790,609</u>	<u>241,531</u>	<u>5,032,140</u>
 Total Assets	 <u>\$ 10,994,920</u>	 <u>\$ 242,011</u>	 <u>\$ 11,236,931</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable	\$ 380,229	\$ -	\$ 380,229
Accrued Expense	2,137,232	-	2,137,232
Notes Payable - Current	90,484	-	90,484
Refundable Advances	93,479	-	93,479
Deferred Revenue	263,523	-	263,523
Total Current Liabilities	<u>2,964,947</u>	<u>-</u>	<u>2,964,947</u>
<b>LONG-TERM LIABILITIES</b>			
Notes Payable - Long-Term	3,821,354	-	3,821,354
Asset Retirement Obligation	120,855	-	120,855
Total Long-Term Liabilities	<u>3,942,209</u>	<u>-</u>	<u>3,942,209</u>
 Total Liabilities	 6,907,156	 -	 6,907,156
<b>NET ASSETS</b>			
Unrestricted Net Assets	3,762,490	480	3,762,970
Temporarily Restricted Net Assets	325,274	241,531	566,805
Total Net Assets	<u>4,087,764</u>	<u>242,011</u>	<u>4,329,775</u>
 Total Liabilities and Net Assets	 <u>\$ 10,994,920</u>	 <u>\$ 242,011</u>	 <u>\$ 11,236,931</u>

**RESOURCE, INC. AND SUBSIDIARY  
CONSOLIDATING STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2016**

	2016						Eliminations	Consolidated
	RESOURCE, Inc.			HEART, Inc.				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>SUPPORT AND REVENUE</b>								
Government Contracts	\$ 16,990,079	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,990,079
Program Service Fees	9,725,485	-	-	-	-	-	-	9,725,485
Contributions (Including In-Kinds of \$102,477 and \$222,835 in 2016 and 2015, Respectively)	277,050	382,085	-	21,990	-	-	(21,890)	659,235
United Way	749,533	-	-	-	-	-	-	749,533
Change in Value of Trust	-	-	-	-	17,525	-	-	17,525
Interest Income	91	-	-	-	-	-	-	91
Loss on Disposal of Property and Equipment	(28,418)	-	-	-	-	-	-	(28,418)
Miscellaneous	23,391	-	-	-	-	-	-	23,391
Net Assets Released from Restriction	515,939	(512,689)	(3,250)	-	-	-	-	-
<b>Total Support and Revenue</b>	<b>28,253,150</b>	<b>(130,604)</b>	<b>(3,250)</b>	<b>21,990</b>	<b>17,525</b>	<b>-</b>	<b>(21,890)</b>	<b>28,136,921</b>
<b>EXPENSE</b>								
Program Services:								
Career Education	3,736,173	-	-	-	-	-	-	3,736,173
Employment Services	7,077,630	-	-	-	-	-	-	7,077,630
Chemical and Mental Health	14,336,691	-	-	33,917	-	-	(33,917)	14,336,691
<b>Total Program Services</b>	<b>25,150,494</b>	<b>-</b>	<b>-</b>	<b>33,917</b>	<b>-</b>	<b>-</b>	<b>(33,917)</b>	<b>25,150,494</b>
Support Services:								
Management and General	2,099,313	-	-	-	-	-	-	2,099,313
Fundraising	398,218	-	-	4,398	-	-	12,027	414,643
<b>Total Support Services</b>	<b>2,497,531</b>	<b>-</b>	<b>-</b>	<b>4,398</b>	<b>-</b>	<b>-</b>	<b>12,027</b>	<b>2,513,956</b>
<b>Total Expense</b>	<b>27,648,025</b>	<b>-</b>	<b>-</b>	<b>38,315</b>	<b>-</b>	<b>-</b>	<b>(21,890)</b>	<b>27,664,450</b>
<b>CHANGE IN NET ASSETS</b>	<b>605,125</b>	<b>(130,604)</b>	<b>(3,250)</b>	<b>(16,325)</b>	<b>17,525</b>	<b>-</b>	<b>-</b>	<b>472,471</b>
Net Assets - Beginning of Year	3,157,365	455,878	3,250	16,805	224,006	-	-	3,857,304
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 3,762,490</b>	<b>\$ 325,274</b>	<b>\$ -</b>	<b>\$ 480</b>	<b>\$ 241,531</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,329,775</b>