

**NORTHEAST CONTEMPORARY  
SERVICES, INC.**  
(A Nonprofit Organization)  
  
FINANCIAL STATEMENTS  
  
YEARS ENDED DECEMBER 31, 2022 AND 2021

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors and Management  
Northeast Contemporary Services, Inc.  
Roseville, Minnesota

**Opinion**

We have audited the accompanying financial statements of Northeast Contemporary Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeast Contemporary Services, Inc. as of December 31, 2022, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Northeast Contemporary Services, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Northeast Contemporary Services, Inc's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Northeast Contemporary Services, Inc's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Northeast Contemporary Services, Inc's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### **Report on Summarized Comparative Information**

We have previously audited Northeast Contemporary Services, Inc's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 4, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Casey, Menden, Faust & Nelson, P.A.*

July 26, 2023

# NORTHEAST CONTEMPORARY SERVICES, INC.

## STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2022 AND 2021

<u>ASSETS</u>	2022		2021	
	Without Donor Restrictions	With Donor Restrictions	Total	Total (Summarized)
Current assets:				
Cash and cash equivalents	\$ 1,347,011	\$ -	\$ 1,347,011	\$ 955,258
Accounts receivable	80,069	-	80,069	91,729
Allowance for doubtful accounts	(5,500)	-	(5,500)	(5,500)
Accounts receivable - ERC	-	-	-	123,729
Marketable securities	444,673	-	444,673	4,786
Prepaid expenses	3,117	-	3,117	3,943
Total current assets	1,869,370	-	1,869,370	1,173,945
Restricted deposits:				
Restricted cash - art grant	-	25,764	25,764	-
Restricted cash - contributions	-	-	-	-
Total restricted deposits	-	25,764	25,764	-
Property and equipment:				
Equipment	199,899	-	199,899	624,335
Less accumulated depreciation	(199,555)	-	(199,555)	(404,727)
Net property and equipment	344	-	344	219,608
Other assets:				
Operating right-of-use asset	312,041	-	312,041	-
Less accumulated amortization	(106,051)	-	(106,051)	-
Security deposits	11,545	-	11,545	11,545
Total other assets	217,535	-	217,535	11,545
Total assets	\$ 2,087,249	\$ 25,764	\$ 2,113,013	\$ 1,405,098

See accompanying notes to financial statements

# NORTHEAST CONTEMPORARY SERVICES, INC.

## STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2022 AND 2021

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Total  (Summarized)
<u>LIABILITIES AND NET ASSETS</u>				
Current liabilities:				
Line of credit	\$ -	\$ -	\$ -	\$ 15,000
Accounts payable	33,197	-	33,197	30,920
Accrued payroll and related	61,210	-	61,210	47,146
Deferred art grant	-	25,764	25,764	-
Lease liability, current portion	107,568	-	107,568	-
Current maturities of long term debt	3,512	-	3,512	2,289
Total current liabilities	205,487	25,764	231,251	95,355
Long-term liabilities				
Lease liability, net of current portion	103,749	-	103,749	-
Long term debt, net of current portion	85,908	-	85,908	154,379
Total long term liabilities	189,657	-	189,657	154,379
Total liabilities	395,144	25,764	420,908	249,734
Net assets				
Without donor restrictions:				
Undesignated	1,692,105	-	1,692,105	1,155,364
Total	1,692,105	-	1,692,105	1,155,364
With donor restrictions:				
Perpetual in nature	-	-	-	-
Purpose restrictions	-	-	-	-
Underwater endowments	-	-	-	-
Total	-	-	-	-
Total net assets	1,692,105	-	1,692,105	1,155,364
Total liabilities and net assets	<u>\$ 2,087,249</u>	<u>\$ 25,764</u>	<u>\$ 2,113,013</u>	<u>\$ 1,405,098</u>

See accompanying notes to financial statements

# NORTHEAST CONTEMPORARY SERVICES, INC.

## STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022		2021	
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenues:				(Summarized)
Revenue - purchase of services	\$ 1,395,240	\$ -	\$ 1,395,240	\$ 1,025,787
Transportation income	268,621	-	268,621	191,292
Grant revenue	-	-	-	197,886
Art grant revenue	13,704	-	13,704	-
Contributions	16,522	-	16,522	15,968
Net assets released from restrictions:				
Satisfaction of program restrictions	-	-	-	-
Total revenues	<u>1,694,087</u>	<u>-</u>	<u>1,694,087</u>	<u>1,430,933</u>
Operating expenses				
Program services	827,865	-	827,865	802,123
Management and general	<u>251,824</u>	<u>-</u>	<u>251,824</u>	<u>245,543</u>
Total operating expenses	<u>1,079,689</u>	<u>-</u>	<u>1,079,689</u>	<u>1,047,666</u>
Other income (expense)				
Interest income	287	-	287	55
Dividend income	5,298	-	5,298	-
Unrealized gain (loss)	(12,067)	-	(12,067)	1,513
Other income	20,746	-	20,746	95,412
Employee retention tax credits	-	-	-	123,729
PPP loan forgiveness	-	-	-	198,889
Gain (loss) on disposal of fixed assets	<u>(91,921)</u>	<u>-</u>	<u>(91,921)</u>	<u>-</u>
Total other income (expense)	<u>(77,657)</u>	<u>-</u>	<u>(77,657)</u>	<u>419,598</u>
Change in net assets	536,741	-	536,741	802,865
Net assets:				
Beginning of year	<u>1,155,364</u>	<u>-</u>	<u>1,155,364</u>	<u>352,499</u>
End of year	<u>\$ 1,692,105</u>	<u>\$ -</u>	<u>\$ 1,692,105</u>	<u>\$ 1,155,364</u>

See accompanying notes to financial statements



# NORTHEAST CONTEMPORARY SERVICES, INC.

## STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022					2021	
	Program Services				Management and General	Totals	(Summarized)
	Adult Services	Senior Service	Transportation	Total			Total
							(Summarized)
Salaries and wages	\$ 116,482	\$ 90,101	\$ -	\$ 206,583	\$ 117,939	\$ 324,522	\$ 341,087
Payroll taxes	9,050	4,348	-	13,398	9,503	22,901	25,749
Health insurance	12,247	8,133	-	20,381	7,349	27,730	26,194
Employee benefits	2,593	1,563	-	4,156	2,247	6,403	6,751
Retirement expense	1,379	921	-	2,300	1,946	4,246	3,736
Rent expense	125,998	34,518	-	160,516	17,259	177,775	168,830
Utilities and cleaning	24,221	6,407	-	30,628	3,403	34,032	29,548
Maintenance and repair	7,556	2,995	-	10,551	257	10,808	10,583
Transportation costs	23	167	264,693	264,882	450	265,332	233,667
Depreciation expense	-	-	69,767	69,767	2,067	71,834	92,761
Professional fees	126	197	-	323	64,684	65,003	62,883
Program supplies and grant expenses	6,913	2,517	-	9,429	-	9,433	2,498
Purchased services	290	10,105	-	10,395	-	10,395	-
Insurance	2,625	1,237	561	4,423	3,884	8,307	12,186
Interest expense	-	-	-	-	4,291	4,291	6,332
Technology fees	1,272	908	-	2,180	9,262	11,442	9,223
Employee expense	6,381	4,088	-	10,468	477	10,946	1,913
Office supplies and equipment	2,126	1,462	-	3,587	2,960	6,547	6,392
Dues and subscriptions	2,445	1,205	-	3,650	3,582	7,232	6,845
Miscellaneous	192	54	-	246	262	509	488
<b>Total expenses by program</b>	<b>\$ 321,918</b>	<b>\$ 170,926</b>	<b>\$ 335,021</b>	<b>\$ 827,865</b>	<b>\$ 251,824</b>	<b>\$ 1,079,688</b>	<b>\$ 1,047,666</b>

See accompanying notes to financial statements

# NORTHEAST CONTEMPORARY SERVICES, INC.

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Reconciliation of change in net assets to net cash from operating activities:		
Change in net assets	\$ 536,741	\$ 802,865
Depreciation	71,834	92,792
Loss (gain) on disposal of fixed assets	91,921	-
Amortization of right-of-use asset	106,051	-
Unrealized (gain) loss	12,067	(1,513)
PPP loan forgiveness	-	(197,428)
Accounts receivable	11,660	(58,770)
Accounts receivable - ERC	123,729	(123,729)
Prepaid expense	1,745	6,538
Accounts payable	2,277	(13,874)
Accrued payroll and related	14,064	7,685
Accrued interest	-	4,245
Other accrued payable	-	(26,634)
Deferred art grant	25,764	-
Lease liability	(107,568)	-
Net cash from operating activities	890,285	492,177
Cash flows from investing activities:		
Proceeds from sale of fixed assets	55,508	-
Acquisitions of fixed assets	-	-
Marketable securities	(451,954)	(153)
Net cash from investing activities	(396,446)	(153)
Cash flows from financing activities:		
Principal payments on line of credit	(15,000)	-
Principal payments on long-term debt	(61,322)	-
PPP loan proceeds	-	98,700
Net cash flows from financing activities	(76,322)	98,700
Net change in cash and cash equivalents	417,517	590,724

See accompanying notes to financial statements

**NORTHEAST CONTEMPORARY  
SERVICES, INC.**

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents:		
Cash, cash equivalents and restricted cash - beginning of year	<u>955,258</u>	<u>364,534</u>
Cash, cash equivalents and restricted cash - end of year	<u>\$ 1,372,775</u>	<u>\$ 955,258</u>
Supplemental cash flow information:		
Cash paid for interest	<u>\$ 1,171</u>	<u>\$ 753</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements

# NORTHEAST CONTEMPORARY SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT OTHER INFORMATION

#### Organization

Northeast Contemporary Services, Inc. (the Organization) is a 501(c)(3) charitable organization headquartered in Roseville, Minnesota. The Organization provides day training and rehabilitation services to persons with developmental disabilities. In addition, employment and employment related services are available to persons 21 years of age or older (Adult Services) and post-retirement services are available to persons 50 years of age or older (Senior Services). Referrals for services are made via a county social worker.

The mission of the Organization is to provide and promote experiences for persons served. These experiences will reflect presence and participation in the community, the discovery and development of individual capabilities, and the opportunity to make choices and amplify independence.

#### Method of Functional Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on time and effort studies. The Organization does not consider any of its expenses to be fundraising in nature.

#### Basis of Presentation

The Organization presents its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Income is recognized when earned, and expenses are recorded when incurred. Net assets and changes in net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization are classified and reported as follows:

Without Donor Restrictions - Net assets are not subject to donor-imposed stipulations.

With Donor Restrictions - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. Expirations of restrictions on net assets with donor restrictions are reported as net assets released from restrictions.

# NORTHEAST CONTEMPORARY SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT OTHER INFORMATION (Continued)

#### New Accounting Pronouncements

##### ASU 2016-02 Leases (Topic 842)

On January 1, 2022, The Organization adopted ASU 2016-02, *Leases (Topic 842)*, which among other things, requires the recognition of right-of-use lease assets and lease liabilities on the balance sheet of lessees for operating leases, along with the disclosure of key information about leasing arrangements. A lessee is required to record lease assets and lease liabilities for all leases with a term of greater than 12 months. The adoption of this new guidance did impact the Organization's financial statements as the Organization has certain operating leases for which it is the lessee.

#### Comparative Financial Statements

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2021, from which the summarized information was derived.

#### Cash Equivalents

Investment instruments purchased with a maturity of three months or less are considered to be cash equivalents. Certificates of deposit and other securities with original maturities over three months are classified as short-term investments. At December 31, 2022 and 2021 there were no cash equivalents.

ASU 2016-18 requires that restricted cash and cash equivalents be included in the beginning and ending cash and cash equivalents in the statements of cash flows. The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the statements of financial position that sum to the total in the statements of cash flows as of December 31:

# NORTHEAST CONTEMPORARY SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT OTHER INFORMATION (Continued)

#### Cash Equivalents (Continued)

	2022	2021
Cash and cash equivalents	\$ 1,347,011	\$ 955,258
Restricted cash:		
Art grant	25,764	-
Contributions	-	-
Total cash, cash equivalents and restricted cash as shown in the statements of cash flows	<u>\$ 1,372,775</u>	<u>\$ 955,258</u>

#### Revenue Recognition

ASU 2014-09 and all subsequent amendments to the ASU (collectively, “ASC 606”), which creates a single framework for recognizing revenue from contracts with customers that fall within its scope. The majority of the Organization’s revenues come from service agreements with government agencies for providing developmental achievement services to clients with developmental disabilities. Each entity is billed for each of its participants for the number of days in which the participant was enrolled in the Organization’s programs. Revenues are recognized at a point in time when the services have been provided to individuals. These agreements can be canceled by either party, at any time, upon proper written notice.

Contributions are recorded when received and recognized as support in the period received, in accordance with ASC 958-605, Not-for-Profit Revenue Recognition - Contributions. If donor-imposed restrictions accompany the contribution, the amount is recorded as donations with restrictions until the donor-imposed restrictions expire or are fulfilled, unless the restrictions expire or are fulfilled in the same calendar year the contribution is received, in which case the contribution is recorded as donations without restrictions. Net assets with donor restrictions are reclassified to net assets without donor restrictions in the period donor-imposed restrictions expire or are fulfilled.

#### In-Kind Donations

In-kind donations consist of services and materials and are measured at fair value at the date of donation. In-kind services represent services which meet the criteria specified by accounting standards, including, among other things, services requiring specialized skills and services that the Organization would typically purchase. Volunteers provided services throughout the year that are not recognized as contributions in the financial statements since the criteria for FASB ASC 958, *Not-for-Profit Entities*, are not met.

# NORTHEAST CONTEMPORARY SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT OTHER INFORMATION (Continued)

#### Comprehensive Income

GAAP establishes standards for the reporting and disclosure of comprehensive income and its components which will be presented in association with the Organization's financial statements. Comprehensive income is defined as the change in a business enterprise's equity during a period arising from transactions, events or circumstances relating to non-owner sources, such as unrealized gains or losses on available-for-sale securities. It includes all changes in fund balances during a period except those resulting from investments. Changes in net assets and comprehensive income were the same for the years ended December 31, 2022 and 2021.

#### Concentrations, Risks and Uncertainties

##### Estimates

The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that directly affect the results of reported assets, liabilities, revenues, and expenses. Actual results may differ from these estimates.

##### Cash in Bank

The Organization's bank balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times the bank balance may be in excess of FDIC coverage.

##### Accounts Receivable

The Organization extends unsecured credit to the Organization's users. Management considers the following factors when determining the collectability of specific customer accounts: customer creditworthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms.

In certain circumstances, government agencies may deny payments for previously charged billings. Management's estimate for the possible denied payments assessed during the revenue recognition process relating to such situations are recorded as a direct reduction from revenue, as required under ASC 606. These amounts totaled \$-0- and \$-0- in 2022 and 2021 respectively.

# NORTHEAST CONTEMPORARY SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT OTHER INFORMATION (Continued)

#### Concentrations, Risks and Uncertainties (Continued)

##### Accounts Receivable (Continued)

While the ultimate collection loss may differ, management believes that any additional loss will not have a material impact on the Organization's financial position. Due to uncertainties in the collection process, however, it is at least reasonable possible that management's estimate of the outcome will change during the next year. The amounts cannot be estimated.

Accounts receivable from the State of Minnesota for Medical Assistance totaled 86.53% and 84.03% of total accounts receivable at December 31, 2022 and 2021, respectively.

##### Revenue Concentration

The Organization received approximately 89.45% and 77.63% of its support from the State of Minnesota in the years ended December 31, 2022 and 2021, respectively. A reduction in the level of funding from this source would have a material effect on the Organization's programs and activities.

#### Minnesota Department of Transportation Vehicle Grants

The Organization received grants from the Minnesota Department of Transportation ("MnDOT") to acquire vehicles. MnDOT retains interest in these vehicles as to their usage and as to their disposition throughout the grant agreement time period. The Organization began outsourcing client transportation in 2022. The board approved a resolution in February 2022 to request transfer of ownership and the remaining federal interest of 6 vehicles under the Original Grant Agreements to Newtrax, Inc., a nonprofit collaborative organization for the purpose of providing transportation to the elderly and or people with disabilities. Because the 6 vans were still under contract with MnDOT, MnDOT had to approve the vehicle transfer and MnDOT also dictated the sales price. In February 2022, the Office of Contract Management, Department of Transportation, and Office of Financial Management-Grant Unit signed MnDOT's Section 5310 Vehicle Transfer Agreement approving the transfer. MnDOT's approval of the transfer releases the Organization of any contingent liability.

The \$91,921 loss on disposal of fixed assets in the accompanying financial statements related to the transfer of these vehicles.



# NORTHEAST CONTEMPORARY SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT OTHER INFORMATION (Continued)

#### Impairment of Long-Lived Assets

The Organization periodically evaluates its long-lived assets, including its investment in real estate, for indicators of impairment. The judgments regarding the existence of impairment indicators are based on factors such as operational performance, market conditions, legal, regulatory and environmental concerns, and the Organization's intent and ability to hold the related asset. Future events could occur which would cause the Organization to conclude that impairment indicators exist, and an impairment loss is warranted. Assessing impairment can be complex and involves a high degree of subjectivity in determining if indicators are present and in estimating the future undiscounted cash flows or the fair value of an asset. In particular, these estimates are sensitive to significant assumptions, including the estimation of future purchase of services revenue, operating expenses, discount and capitalization rates, all of which could be affected by expectations about future market or economic conditions. These estimates can have a significant impact on the undiscounted cash flows or estimated fair value of an asset. As of December 31, 2022 and 2021, there were no indications of impairment, and no losses were recognized.

#### Property and Equipment and Depreciation

Property and equipment additions are recorded at cost or, if donated, at the approximate fair value at the date of donation. For financial reporting purposes, property and equipment are depreciated over their estimated useful lives by use of the straight-line method of depreciation. The estimated useful lives of the assets are as follows:

Buildings and Improvements	40 Years
Equipment and Furnishings	5 Years
Office Equipment	3 to 5 Years
Training Equipment	5 Years
Vehicles	4 -7 Years

Renewals and betterments with a cost greater than \$2,500 that materially extend the life of an asset are capitalized. Minor equipment costs and repairs less than \$2,500 are charged to expense.

# NORTHEAST CONTEMPORARY SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SIGNIFICANT OTHER INFORMATION (Continued)

#### Income Taxes

The Organization is exempt from federal and state income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. The Organization is classified as a publicly supported charitable organization under Section 509(a)(2) of the Code and contributions to the Organization qualify as a charitable tax deduction by the contributor. The Organization is required to assess whether it is more likely than not that a tax position will be sustained upon examination of the technical merits of the position, assuming the taxing authority has full knowledge of all information. If the tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. The Organization has determined there are no amounts to record as assets or liabilities related to uncertain tax positions. Federal and state returns remain subject to examination for three years. No interest or penalties are reflected in the 2022 and 2021 financial statements.

#### Compensated Absences

The Organization's employees earn paid time off based on length of service. Employees are typically compensated for any unused vacation upon termination. A liability for accrued compensated absences of \$62,386 and \$91,532 are reflected in the statement of financial position at December 31, 2022 and 2021, respectively.

### NOTE 2 - FINANCIAL ASSETS AND LIQUIDITY RESOURCES

The Organization has entered into Arts Learning grants with the Minnesota State Arts Board ("MSAB"). The grant money places restrictions that require resources be used in a certain manner in a future period. Therefore, the Organization must maintain adequate resources to meet those responsibilities to its donors and certain financial assets may not be available for general expenditure within one year.

As part of its liquidity management, the Organization has a policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations become due.

The table below reflects the Organization's financial assets as of the statement of the financial position date, reduced by amounts that are not available for general use due to contractual or donor-imposed restrictions within one year of the statement of financial position date.

Amounts that are not available also include the board designated amounts that could be utilized if the Organization approved the use:

# NORTHEAST CONTEMPORARY SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

### NOTE 2 - FINANCIAL ASSETS AND LIQUIDITY RESOURCES (Continued)

Financial assets at December 31, 2022	\$ 1,452,844
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restricted by donor with time or purpose restrictions	(25,764)
Board designations:	
Designated by the Board	<u>          -</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 1,427,080</u></u>
Financial assets at December 31, 2021	\$ 1,170,716
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restricted by donor with time or purpose restrictions	-
Board designations:	
Designated by the Board	<u>          -</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 1,170,716</u></u>

### NOTE 3 – MARKETABLE SECURITIES

Marketable securities are reported at aggregate fair value based on quoted market prices for those investments. The current year change in marketable securities is reported as unrealized gains and losses and included in the increase (decrease) in net assets on the statement of activities. The specific identification cost basis is used to determine realized gain or loss of securities.

Following is a summary of cost and fair value:

	2022	2021
Marketable securities	\$ 455,465	\$ 3,273
Unrealized gain (loss)	<u>(10,792)</u>	<u>1,513</u>
Fair value	<u><u>\$ 444,673</u></u>	<u><u>\$ 4,786</u></u>

# **NORTHEAST CONTEMPORARY SERVICES, INC.**

## **NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2022 AND 2021**

### **NOTE 4 - ARTS LEARNING GRANTS / DEFERRED GRANT REVENUE**

The Organization has entered into Arts Learning grants with the Minnesota State Arts Board (“MSAB”). The grants are accounted for as exchange transactions. Any remaining grant monies must be returned to the MSAB at the end of the grant period.

Monies received in advance are recorded as deferred grant revenue in the accompanying financial statements and recognized as revenue over the term of the grant. Management feels this deferred revenue will be earned prior to expiration of the grant contracts.

### **NOTE 5 – LINE OF CREDIT**

The Organization has available a \$50,000 line of credit with a bank, collateralized by substantially all assets of the Organization. Interest is at 1.00% over the prime rate (prime rate was 3.25% at December 31, 2022 and 2021), with a floor of 4.95%. In June 2022, the line of credit was extended to June 1, 2023. As of December 31, 2022 and 2021, borrowings under the line of credit totaled \$ -0- and \$15,000, respectively.

### **NOTE 6 - PAYCHECK PROTECTION PROGRAM LOAN**

In April 2020 and March 2021, the Organization obtained Paycheck Protection Program (“PPP”) loans administered by the U.S. Small Business Administration through Premier Bank for \$98,700 and \$98,700, respectively. The loans bore interest at 1.0%, were due in April 2022 and March 2023, respectively. The Organization received notification that the PPP loans were fully forgiven on March 16, 2021 and November 3, 2021, respectively. The Organization reduced the PPP loans and recognized other income of \$198,889 during 2021.

### **NOTE 7 - LONG-TERM DEBT**

The Organization has a long-term note agreement entered into May 22, 2020 with the Small Business Administration (SBA) for working capital to alleviate economic injury caused by the COVID-19 pandemic. The total of the loan agreement was \$150,000. The SBA deferred monthly payments for 24 months with interest accruing during that time period. Accrued interest through December 31, 2021 totaled \$6,668. Accrued interest through April 30, 2022 totaled \$8,471 and is included in the loan balance in the accompanying financial statements. The loan agreement requires monthly payments of \$647 beginning May 2022, with the remaining balance of principal and interest due May 22, 2050.

**NORTHEAST CONTEMPORARY  
SERVICES, INC.**

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 7 - LONG-TERM DEBT (Continued)

The fixed interest rate is 2.75%. Future principal payments on the above note payable are due as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2023	\$ 3,512
2024	3,610
2025	3,710
2026	3,814
2027	3,920
Thereafter	70,854
Total	<u>\$ 89,420</u>

The Organization repaid \$60,014 of unspent proceeds on September 26, 2022.

NOTE 8 - EMPLOYEE RETENTION TAX CREDITS

During 2021 the Organization applied for employee retention tax credits for 2020 and January 1, 2021 through June 30, 2021 payroll periods. Accounts receivable – other for the year ended December 31, 2021 was \$391,943 relating to these credits. In May 2022 the Organization received \$391,943 from the IRS.

# NORTHEAST CONTEMPORARY SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

### NOTE 9 - LEASES

The following table presents the components of the Organization's right-of-use assets and liabilities related to leases and their classification in the statement of financial position at December 31, 2022:

Component of Lease Balances	Classification in Statements of Financial Position	2022
Assets:		
Operating office lease right-of-use asset	Other assets	\$ 296,904
Operating copier lease right-of-use asset	Other assets	15,137
Total operating right-of-use assets		<u>312,041</u>
Accumulated amortization right-of-use assets	Other assets	(106,051)
Net operating right-of-use assets		<u>\$ 205,990</u>
Liabilities:		
Operating lease liability:		
Current	Other current liabilities	\$ 107,568
Long-term	Other long-term liabilities	103,749
Total operating lease liability		<u>\$ 211,317</u>
Total lease liability		<u>\$ 211,317</u>

The Organization determines if an arrangement is a lease at inception of the contract. The right-of-use asset represents the Organization's right to use the underlying asset for the lease term and the lease liabilities represent the Organization's obligation to make lease payments arising from the leases. Right-of-use assets and lease liabilities are recognized at commencement date based on the present value of the lease payments over the lease term. The Organization used their estimated incremental borrowing rate, which is derived from information available at the lease commencement date, in determining the present value of lease payments.

The Organization has an operating lease for office facilities. The term of the lease is for a period of three years, commencing on November 1, 2021 and continuing through October 31, 2024. The monthly straight line rent expense is \$9,339. The Organization is responsible for their pro rata share of real estate taxes and common area expenses. Total rent and common area expenses charged to operations was \$177,775 and \$155,324 for the years ended December 31, 2022 and 2021, respectively. These lease payments are recognized in operating expenses and are not included in the right-of-use asset or liability balances.

# NORTHEAST CONTEMPORARY SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

### NOTE 9 - LEASES (Continued)

The Organization has a copier lease. The term of the lease is for a period of five years, commencing on August 19, 2022 and continuing through August 18, 2027. The monthly straight line copier rent is \$284. Total rent charged to operations was \$1,564 and \$ -0- for the years ended December 31, 2022 and 2021, respectively.

The Organization elected the practical expedient that allows lessees to choose to not separate lease and non-lease components by class of underlying assets and are applying this expedient to all relevant asset classes. The Company also elected the practical expedient package to not reassess at adoption (i) expired or existing contracts for whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial indirect costs for existing leases; an implementation expedient which allows the requirements of the standard in the period of adoption with no restatement of prior periods.

The following table presents the components of the Organization's lease expense and their classification in the statement of activities and changes in net assets for the year ended December 31, 2022:

<u>Component of Lease Expense</u>	<u>Classification in Statements of Activities and Changes in Net Assets</u>	<u>2022</u>
Operating lease expense	Operating expenses	<u>\$ 179,339</u>
Total lease expense		<u><u>\$ 179,339</u></u>

# NORTHEAST CONTEMPORARY SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

### NOTE 9 - LEASES (Continued)

The weighted-average lease terms and discount rates for operating leases are presented in the following table:

	2022	2021
Weighted-average remaining lease term (years):		
Operating office lease	1.06	-
Operating copier lease	1.08	-
Weighted-average discount rate:		
Operating office lease	4.95%	-
Operating copier lease	4.95%	-

Future maturities of operating lease liabilities at December 31, 2022 are presented in the following table:

Year	Amount
2023	\$ 115,475
2024	98,198
2025	3,410
2026	3,410
2027	2,069
Total lease payments	222,561
Less: Imputed interest	11,244
Total lease obligations	211,317
Less: Current obligations	107,568
Long-term lease obligations	\$ 103,749



# NORTHEAST CONTEMPORARY SERVICES, INC.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

### NOTE 9 - LEASES (Continued)

Future maturities of lease liabilities at December 31, 2021, prior to our adoption of ASU 2016-02, are presented in the following table:

<u>Year Ending December 31,</u>	<u>Operating Leases</u>
2023	\$ 113,679
2024	96,029
2024	-
Total	<u>\$ 209,708</u>

### NOTE 10 – DEFINED CONTRIBUTION PLAN

The Organization has established the Northeast Contemporary Services, Inc. Tax Deferred Annuity Plan (the Plan) effective July 1, 1991 under the provisions of Section 403(b) of the Internal Revenue Code. The Plan covers all employees who have completed one year of service, are at least 20 years of age, and work at least 1,000 hours per year. The Organization contributes one half of a participant's voluntary contributions up to 4% of the participant's compensation. Employer contributions were \$4,246 and \$3,736 for the years ended December 31, 2022 and 2021.

### NOTE 11 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through July 26, 2023, which is the date the financial statements were available to be issued.