

**MATTER**

St. Louis Park, Minnesota

Financial Statements

Years Ended December 31, 2018 and 2017

**MATTER**

TABLE OF CONTENTS

	<b><u>Page</u></b>
<b>Independent Auditor's Report</b>	1 - 2
<b>Financial Statements</b>	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Statements of Functional Expenses	6 - 7
Notes to Financial Statements	8 - 17



## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Matter  
St. Louis Park, Minnesota

We have audited the accompanying financial statements of Matter (a non-profit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Matter as of December 31, 2018 and 2017 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Change in Accounting Principle**

As described in Note 1 to the financial statements, in 2018 Matter adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). As required by ASU 2016-14, certain provisions of the new standard were applied retrospectively to the previously issued comparative 2017 financial statements. Our opinion is not modified with respect to this matter.

*Boulay PLLP*

Minneapolis, Minnesota  
October 24, 2019

**MATTER**

## Statements of Financial Position

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b><u>ASSETS</u></b>		
<b>Current Assets</b>		
Cash	\$ 566,911	\$ 849,839
Contributions receivable, net	443,571	158,309
Note receivable	128,153	-
Prepaid expenses and other current assets	3,915	-
Inventory	3,704,193	7,724,367
Total current assets	<u>4,846,743</u>	<u>8,732,515</u>
<b>Trademark, net</b>	-	41,286
<b>Property and Equipment</b>	250,591	172,033
Less accumulated depreciation	(155,028)	(135,642)
Net property and equipment	<u>95,563</u>	<u>36,391</u>
<b>Total Assets</b>	<u>\$ 4,942,306</u>	<u>\$ 8,810,192</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>Current Liabilities</b>		
Bank note payable, current maturities	\$ 116,624	\$ 45,000
Equipment note payable, current maturities	7,079	6,751
Accounts payable	107,454	132,588
Accrued liabilities	11,774	3,986
Total current liabilities	<u>242,931</u>	<u>188,325</u>
<b>Long-term Liabilities</b>		
Equipment note payable, long term portion	616	7,725
Deferred rent liability	39,162	13,680
Total long-term liabilities	<u>39,778</u>	<u>21,405</u>
<b>Total Liabilities</b>	282,709	209,730
<b>Net Assets</b>		
Without donor restrictions	3,848,118	8,201,356
With donor restrictions	811,479	399,106
Total net assets	<u>4,659,597</u>	<u>8,600,462</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 4,942,306</u>	<u>\$ 8,810,192</u>

The accompanying notes are an integral part of these financial statements.

# MATTER

## Statements of Activities

	Year Ended December 31, 2018			Year Ended December 31, 2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support and Revenue</b>						
Contributions:						
Individuals	\$ 153,336	\$ 624,265	\$ 777,601	\$ 117,913	\$ 220,393	\$ 338,306
Corporations and partnerships	505,046	255,847	760,893	674,575	103,500	778,075
Churches and organizations	48,551	166,132	214,683	118,238	7,000	125,238
Federated campaigns	15,015	-	15,015	30,078	-	30,078
Foundations	33,493	37,800	71,293	561,199	142,000	703,199
Program service revenue	291,750	-	291,750	353,275	25,000	378,275
Event revenue, net of direct benefit to donor of \$91,234 in 2018 and \$13,259 in 2017	1,343,478	125,000	1,468,478	1,353,526	-	1,353,526
Equipment sales and other	240,064	-	240,064	204,557	-	204,557
Volunteer time and donated services	217,271	-	217,271	146,231	-	146,231
Noncash donations, gifts-in-kind	16,620,856	-	16,620,856	18,431,290	-	18,431,290
Net assets released from restriction	796,671	(796,671)	-	338,216	(338,216)	-
Total support and revenues	<u>20,265,531</u>	<u>412,373</u>	<u>20,677,904</u>	<u>22,329,098</u>	<u>159,677</u>	<u>22,488,775</u>
<b>Expenses</b>						
Program services:						
Hospitals & clinics	21,569,808	-	21,569,808	21,371,906	-	21,371,906
Healthy food	940,591	-	940,591	970,925	-	970,925
Agriculture	336,788	-	336,788	-	-	-
Supporting services:						
General and administrative	907,724	-	907,724	742,762	-	742,762
Fundraising and procurement of in-kind gifts	863,858	-	863,858	869,664	-	869,664
Total expenses	<u>24,618,769</u>	<u>-</u>	<u>24,618,769</u>	<u>23,955,257</u>	<u>-</u>	<u>23,955,257</u>
<b>Change in Net Assets</b>	(4,353,238)	412,373	(3,940,865)	(1,626,159)	159,677	(1,466,482)
<b>Net Assets - Beginning of Year</b>	<u>8,201,356</u>	<u>399,106</u>	<u>8,600,462</u>	<u>9,827,515</u>	<u>239,429</u>	<u>10,066,944</u>
<b>Net Assets - End of Year</b>	<u>\$ 3,848,118</u>	<u>\$ 811,479</u>	<u>\$ 4,659,597</u>	<u>\$ 8,201,356</u>	<u>\$ 399,106</u>	<u>\$ 8,600,462</u>

The accompanying notes are an integral part of these financial statements.

**MATTER**

## Statements of Cash Flows

Years Ended December 31,	2018	2017
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (3,940,865)	\$ (1,466,482)
Adjustments to reconcile change in net assets to net cash provided by operations:		
Contributed inventory received	(16,500,698)	(18,431,290)
Inventory donated to beneficiaries	20,302,215	20,037,178
Provision for inventory valuation loss	329,876	329,877
Trademark charge	35,310	-
Depreciation and amortization expense	27,262	25,676
Bad debt expense	33,028	18,158
Warehouse rent expense	76,120	141,143
Loss on disposal of equipment	350	497
Related party demand note payable balance contributed to Organization	(76,120)	(306,217)
Donated capital furniture	(63,858)	-
Changes in assets and liabilities:		
Contributions receivable	(318,290)	(73,554)
Prepaid expenses and other current assets	(3,915)	10,000
Purchased inventory	(111,219)	(151,891)
Accounts payable	(25,134)	10,153
Accrued liabilities	7,788	(1,090)
Deferred rent liability	25,482	1,365
Net cash provided by (used for) operating activities	(202,668)	143,523
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(17,099)	-
Proceeds from disposal of equipment	149	-
Issuance of note receivable	(128,153)	-
Net cash used for investing activities	(145,103)	-
<b>Cash Flows from Financing Activities</b>		
Proceeds from bank note payable	116,624	45,000
Payments on bank note payable	(45,000)	(45,000)
Payments on equipment note payable	(6,781)	(6,432)
Net cash provided by (used for) financing activities	64,843	(6,432)
<b>Net Increase (Decrease) in Cash</b>	(282,928)	137,091
Cash – Beginning of Year	849,839	712,748
Cash – End of Year	\$ 566,911	\$ 849,839
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid during the year for:		
Interest	\$ 3,825	\$ 3,961
<b>Supplemental Disclosure of Noncash Investing and Financing Activities</b>		
Warehouse rent expense included in related party demand note payable	\$ 76,120	\$ 141,143
Related party demand note payable balance contributed to Organization	\$ 76,120	\$ 306,217
Donated capital furniture	\$ 63,858	\$ -

The accompanying notes are an integral part of these financial statements.

**MATTER**

Statement of Functional Expenses

	<b>Year Ended December 31, 2018</b>					
	Program Services			Supporting Services		
	Hospitals & Clinics	Healthy Food	Agriculture	General and Administrative	Fundraising and Procurement of In-Kind Gifts	Total
Donations to beneficiaries, including gifts-in-kind	\$ 20,018,833	\$ 185,057	\$ 98,325	\$ -	\$ -	\$ 20,302,215
Payroll and payroll taxes	304,978	403,923	65,394	297,541	262,640	1,334,476
Volunteer time and donated services, in-kind expense	3,179	164,092	-	50,000	-	217,271
Employee benefits	15,331	20,304	3,287	14,957	13,203	67,082
Transportation	323,093	24,694	-	6,863	904	355,554
Warehouse rent and expense	155,986	51,996	25,999	12,993	13,000	259,974
Program supplies	358,059	21,460	59,384	219	-	439,122
Purchase of medical supplies	73,506	-	-	-	-	73,506
Grants, public relations and office expense	161,552	42,533	18,868	44,603	19,680	287,236
Insurance	4,751	4,751	2,376	5,938	5,939	23,755
Miscellaneous	-	-	-	72,878	-	72,878
Professional services	48,677	-	12,044	57,540	20,000	138,261
Telephone and internet	2,598	3,441	557	2,534	2,237	11,367
Travel	92,949	12,024	47,396	3,886	136,398	292,653
Interest expense	864	864	432	1,080	1,080	4,320
Depreciation expense	4,257	4,257	2,128	5,322	5,322	21,286
Amortization expense	1,195	1,195	598	1,494	1,494	5,976
Provision for inventory valuation loss	-	-	-	329,876	-	329,876
Special event fundraising expense	-	-	-	-	381,961	381,961
Special event - direct benefit to donor	-	-	-	91,234	-	91,234
Total expenses	<u>21,569,808</u>	<u>940,591</u>	<u>336,788</u>	<u>998,958</u>	<u>863,858</u>	<u>24,710,003</u>
Special event - direct benefit to donor	-	-	-	(91,234)	-	(91,234)
Total functional expenses	<u>\$ 21,569,808</u>	<u>\$ 940,591</u>	<u>\$ 336,788</u>	<u>\$ 907,724</u>	<u>\$ 863,858</u>	<u>\$ 24,618,769</u>

The accompanying notes are an integral part of these financial statements.



**MATTER**

Statement of Functional Expenses

	<b>Year Ended December 31, 2017</b>				
	Program Services		Supporting Services		
	Hospitals & Clinics	Healthy Food	General and Administrative	Fundraising and Procurement of In-Kind Gifts	Total
Donations to beneficiaries, including gifts-in-kind	\$ 19,751,371	\$ 285,807	\$ -	\$ -	\$ 20,037,178
Payroll and payroll taxes	378,223	342,687	286,603	228,152	1,235,665
Volunteer time and donated services, in-kind expense	43,586	53,556	4,156	44,933	146,231
Employee benefits	21,741	19,699	16,478	13,114	71,032
Transportation	249,265	6,120	239	239	255,863
Warehouse rent and expense	137,555	137,555	15,284	15,282	305,676
Program supplies	71,737	14,539	180	371	86,827
Purchase of medical supplies	189,350	-	-	-	189,350
Grants, public relations and office expense	247,755	89,199	31,524	49,872	418,350
Insurance	5,420	5,420	5,419	5,420	21,679
Miscellaneous	-	-	20,784	-	20,784
Professional services	15,467	-	19,300	-	34,767
Telephone and internet	3,240	2,974	2,190	1,753	10,157
Travel	247,325	3,498	859	46,279	297,961
Interest expense	3,452	3,452	3,450	3,452	13,806
Depreciation expense	4,925	4,925	4,925	4,925	19,700
Amortization expense	1,494	1,494	1,494	1,494	5,976
Provision for inventory valuation loss	-	-	329,877	-	329,877
Special event fundraising expense	-	-	-	454,378	454,378
Special event - direct benefit to donor	-	-	13,259	-	13,259
Total expenses	<u>21,371,906</u>	<u>970,925</u>	<u>756,021</u>	<u>869,664</u>	<u>23,968,516</u>
Special event - direct benefit to donor	-	-	(13,259)	-	(13,259)
Total functional expenses	<u>\$ 21,371,906</u>	<u>\$ 970,925</u>	<u>\$ 742,762</u>	<u>\$ 869,664</u>	<u>\$ 23,955,257</u>

The accompanying notes are an integral part of these financial statements.

## **MATTER**

Notes to Financial Statements

December 31, 2018 and 2017

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### *Nature of Organization*

Matter (the “Organization”) is a Minnesota-based nonprofit on a mission to expand access to health next door and around the world. Internationally, the Organization addresses these barriers by giving hospitals the tools they need to care for the sick and injured in dignified ways, and by designing solutions to create diversified and resilient farms. Locally, the Organization activates healthy eating for kids and families with the MATTERbox, an innovative solution to healthy food access and nutrition education.

The hospitals and clinics program provides hospitals and clinics around the world with the tools they need to care for the sick and injured with dignity. The Organization sources, allocates, and ships life-saving medical supplies and equipment to our partners who are on the front lines of scarcity and lack quality healthcare. The Organization partners with international governments and organizations to assess each healthcare facility and then procures and ships the equipment and supplies needed for the hospital or clinic to sustain its programs, improve the health of the community, and save lives.

The healthy food program activates healthy eating for kids and families in Minnesota and around the United States. The program addresses the growing need for healthy eating education, especially in communities where poverty and food deserts persist. Each MATTERbox is an intentionally procured meal kit that gives a dignified experience of healthier eating, as well as recipes, challenges, tools and tips for building sustainable eating habits. The healthy food program is not only an immediate response to hunger, but also a channel for creating new healthy lifestyle habits, promoting long term change.

During 2018, the Organization began the agriculture program in which the Organization designs solutions to create resilient and diversified farms around the world. From the development of sustainable farm designs to sourcing and repurposing farming equipment in the United States and farm implementation, the Organization partners with international organizations to provide farmers with the equipment, supplies, and practices needed to efficiently sustain and increase yields and profitability. Participating farmers and communities receive materials in modular increments, customized to the size of the operation, crops, soil and weather.

#### *Recently Adopted Accounting Pronouncements*

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14), which addresses how not-for-profit organizations classify their net assets, as well as the information presented in the financial statements and related disclosures. The Organization has adopted this standard as of January 1, 2018 and has adjusted the presentation of its financial statements accordingly. The primary effects of the new standard are the classifications of net assets and activities into the two categories of “with donor restrictions” and “without donor restrictions”, rather than the previous three categories of unrestricted, temporarily restricted, and permanently restricted net assets, and the additional required disclosures of the availability and liquidity of resources. ASU 2016-14 has been applied retrospectively to the 2017 comparative financial statements.

#### *Accounting Estimates*

Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported support and revenues and expenses. Actual results could differ from those estimates. Significant management estimates include economic lives of property and equipment, valuation of donated inventory, the valuation of other in-kind donations, and the expense allocations to program and supporting services on the statement of functional expenses.

## **MATTER**

Notes to Financial Statements

December 31, 2018 and 2017

### *Basis of Presentation*

The Organization presents its financial statements on the accrual basis of accounting. The Organization reports its financial position and activities according to the two classes of net assets: net assets without donor restrictions and net assets with donor restrictions, based upon the existence or absence of donor-imposed restrictions.

### *Contributions*

All contributions are considered to be without donor restrictions unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or specific purposes are reported as support with donor restrictions, which increases that net asset class. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions with donor-imposed restrictions whose restrictions are met in the same reporting period are reported as unrestricted support in the statement of activities.

The Organization reports gifts of property and equipment as without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

### *In-Kind Contributions and Donations to Beneficiaries*

The Organization receives contributions of medical supplies, food and other miscellaneous items. Contributions of donated non-cash assets are recorded at their estimated fair values at the date of gift in the period received, based upon the quantities donated and considering the condition and utility of the items received and primarily based on wholesale values. The Organization only records the value of in-kind gifts for which it is the recipient and for which the Organization has the unilateral power to redirect the use to beneficiaries of its choice.

Gift-in-kind donations of non-cash assets by the Organization to beneficiaries are recorded as donations at the date of distribution.

Contributions of donated services that create or enhance non-financial assets or that require specialized skills, which 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 received.

The estimates of the fair value of in-kind contributions and in-kind donations to beneficiaries of non-cash assets represent significant estimates which could change in the near term.

### *Cash*

The Organization maintains its accounts primarily at two financial institutions. At times throughout the year, the Organization's cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation.

## **MATTER**

### Notes to Financial Statements

December 31, 2018 and 2017

#### Contributions Receivable

Contributions receivable that are expected to be collected within one year are recorded at net realizable value, net of an allowance for doubtful accounts. The Organization's estimate of the allowance for doubtful accounts is based upon historical experience, its evaluation of the current status of receivables, and unusual circumstances, if any. Accounts are considered past due if payment is not made on a timely basis. Accounts considered uncollectible are written off. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Conditional promises to give are not included as support until the conditions are substantially met.

#### Inventory

Contributions of in-kind assets that have not been distributed as of December 31, 2018 and 2017 are recorded as inventory at the lower of their approximate current fair value or their approximate fair value at the date of the contribution using methodologies as discussed above within the subsection In-Kind Contributions and Donations to Beneficiaries. The Organization believes that this approximates the lower of cost or net realizable value in the market. Donated inventories are expected to be distributed in the following year. The donated inventory that remained on hand at December 31, 2018 and 2017 consisted primarily of medical supplies, agriculture machinery and domestic goods. The value of the donated inventory represents a significant estimate which could change in the near term.

The Organization has certain artwork within its inventory that had been donated in a prior year. During 2018 and 2017, the Organization evaluated the recorded values and utility of the art inventory in each year and determined that the recorded values exceeded the current fair value. Accordingly, the recorded inventory value was reduced by approximately \$330,000 in each year and this valuation loss is included within expenses for each of the years ended December 31, 2018 and 2017.

Purchased inventory is stated at the lower of cost or net realizable value. Purchased inventory consists primarily of food.

#### Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are provided over estimated useful lives by use of the straight-line method. Maintenance and repairs are expensed as incurred; major improvements and betterments are capitalized. The estimated useful lives of leasehold improvement assets are the shorter of the estimated useful life or related lease term.

#### Carrying Value of Long-Lived Assets

Long-lived assets, such as property and equipment and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Organization first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including, but not limited to, discounted cash flow models, quoted market values and third-party independent appraisals.

#### Trademark

The Organization's trademark asset represents the costs incurred in a prior year to establish the trademark for the Organization's name, Matter. The balance of the unamortized costs was written off in 2018.

## **MATTER**

Notes to Financial Statements

December 31, 2018 and 2017

### Income Taxes

Matter is a non-profit organization and therefore is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state statutes.

The Organization has evaluated whether it has any significant tax uncertainties that would require recognition or disclosure. Primarily due to the exempt status, the Organization does not have any significant tax uncertainties that would require recognition or disclosure.

The Organization is no longer subject to income tax examinations for years before 2015.

### Functional Expenses

The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the Organization. Expenses charged to program services and supporting services, if not directly identifiable, are allocated to the services benefited based on estimates by management. Administrative expenses typically include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization. Fundraising expense includes costs of special events other than direct donor benefits as well as the efforts to secure both cash and in-kind contributions.

The primary expenses that are allocated include payroll, payroll taxes, employee benefits, telephone and internet which are allocated on the basis of estimates of time and effort, warehouse rent and expense which is allocated on the basis of estimated space applicable to each program or supporting service, and office expense, insurance, and depreciation and amortization which are allocated on the basis of overall size of each program or supporting service. All other expenses are directly allocable or allocated in a manner as considered practicable.

### Recently Issued Accounting Pronouncements

In May 2014 and subsequently amended, the FASB issued ASU No. 2014-09, which amended *Revenue from Contracts with Customers (Topic 606)* of the Accounting Standards Codification. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance will be effective for the Organization for annual periods beginning January 1, 2019. The Organization is currently evaluating the impact of the standard on its financial statements.

In June 2018, the FASB issued ASU No. 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance was issued to clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. The new standard is to be applied on a modified prospective basis, although retrospective application is permitted. For transactions in which the Organization serves as the resource recipient, the amendments are effective for annual periods beginning January 1, 2019. For transactions in which the Organization serves as the resource provider, the amendments are effective for annual periods beginning January 1, 2020. Early adoption of the amendment is permitted. The Organization is currently evaluating the impact that the adoption of this guidance will have on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which provides guidance for accounting for leases. The new guidance requires entities to recognize the assets and liabilities for the rights and obligations created by leased assets, initially measured at the present value of the lease payments. The accounting guidance for lessors is largely unchanged. The ASU is effective for the Organization for annual periods beginning January 1, 2020, with early adoption permitted. The Organization is currently evaluating the impact that the adoption of this guidance will have on its financial statements.

## MATTER

Notes to Financial Statements

December 31, 2018 and 2017

### Subsequent Events

The Organization has evaluated subsequent events through October 24, 2019, the date which the financial statements were available to be issued.

## 2. LIQUIDITY AND AVAILABILITY

The following represents the Organization's financial assets at December 31, 2018 and 2017, reduced by amounts not available for general expenditure within one year because of donor restrictions or other contractual considerations:

	<u>2018</u>	<u>2017</u>
Financial assets		
Cash	\$ 566,911	\$ 849,839
Contributions receivable, net	443,571	158,309
Note receivable	<u>128,153</u>	<u>-</u>
Total financial assets	1,138,635	1,008,148
Less those unavailable for general expenditure within one year:		
Net assets with donor restrictions	<u>(811,479)</u>	<u>(399,106)</u>
Total financial assets available to meet general expenditures within one year	<u>\$ 327,156</u>	<u>\$ 609,042</u>

Net assets with donor restrictions are specifically restricted for use towards the Organization's program services and are not available to meet unrestricted general expenditures. Although such funds may ultimately be used within one year, their use is restricted by the donors and therefore the funds are not considered available for the general use of the Organization. The contributions receivable are subject to time and donor imposed restrictions and are included within net assets with donor restrictions for the years ended December 31, 2018 and 2017. The Organization structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As part of liquidity management, the Organization maintains three line of credit agreements as further discussed in Note 8, which could be drawn on if necessary to meet unanticipated liquidity needs. Two of the three credit lines expire in late 2019, and the third credit line expires in January 2020.

## 3. CONCENTRATIONS

During 2017, the Organization received a total of approximately \$496,000 of contributions from a board member of the Organization and a related party company under control by a board member of the Organization, including \$306,000 of in-kind lease note payable contributions as discussed in Note 13. During 2018 and 2017, in-kind gift contribution donations (primarily medical supplies) were largely provided by four healthcare provider networks.

During 2018, the Organization received approximately \$462,000 of net contribution revenue from its annual banquet and \$1,003,000 from the World Poker Tournament event, which represented 31% and 68% of total special events revenue, respectively. During 2017, the Organization received approximately \$933,000 of net contribution revenue from its annual banquet and \$194,000 from the CHS Field Children Matter Benefit Concert, which represented 69% and 14% of total special events revenue, respectively.

The Organization had contributions receivable of approximately \$448,000 and \$170,000 at December 31, 2018 and 2017, respectively. Two and one donor(s) comprised 84% and 66% of the Organization's contributions receivable at December 31, 2018 and 2017, respectively.

## MATTER

Notes to Financial Statements

December 31, 2018 and 2017

### 4. CONTRIBUTIONS RECEIVABLE

Contributions receivable (all currently due) consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Contributions receivable	\$ 448,351	\$ 170,467
Less: allowance for doubtful accounts	<u>4,780</u>	<u>12,158</u>
Total contributions receivable, net	<u>\$ 443,571</u>	<u>\$ 158,309</u>

At December 31, 2018, the contributions receivable balance included funds with donor restrictions of \$145,847 for the healthy foods program and \$255,000 for the Senegal project. At December 31, 2017, there were no contributions receivable with donor restrictions.

### 5. NOTE RECEIVABLE

During 2018, the Organization entered into an agreement to extend funds to an unrelated third party via a line of credit not to exceed \$200,000. The funds are for the purpose for the unrelated third party to construct a residential home (referred to as MATTERhouse). Once the MATTERhouse is completed, the unrelated third party is to sell MATTERhouse, and the proceeds from the sale of the house will be first applied as repayment of the note receivable. The note is unsecured, and repayment is expected in 2019 following the closing of the sale of the house. At December 31, 2018, the outstanding balance of the note receivable was \$128,153. The MATTERhouse was subsequently completed in 2019 and is currently on the market with a list price in excess of the note receivable balance.

### 6. PURCHASED AND DONATED INVENTORY

Purchased and donated inventory consists of the following at December 31:

	<u>2018</u>	<u>2017</u>
Purchased Inventory		
Food	\$ 36,579	\$ 110,417
Donated Inventory		
Medical supplies	3,614,943	7,256,648
Artwork	-	329,876
Machinery	22,202	19,500
Other domestic goods (primarily clothing and household items)	<u>30,469</u>	<u>7,926</u>
Total donated inventory	<u>3,667,614</u>	<u>7,613,950</u>
Total inventory	<u>\$ 3,704,193</u>	<u>\$ 7,724,367</u>

## MATTER

Notes to Financial Statements

December 31, 2018 and 2017

### 7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>Useful Life</u>	<u>2018</u>	<u>2017</u>
Equipment and furniture	5 years	\$ 78,690	\$ 29,832
Leasehold improvements	5 years	97,790	65,692
Vehicles	5 years	74,111	76,509
		<u>250,591</u>	<u>172,033</u>
Less: accumulated depreciation		<u>155,028</u>	<u>135,642</u>
Property and equipment, net		<u>\$ 95,563</u>	<u>\$ 36,391</u>

Depreciation expense for the years ended December 31, 2018 and 2017 was approximately \$21,000 and \$20,000, respectively.

### 8. BANK LINES OF CREDIT AND NOTE PAYABLE

The Organization had a note payable agreement with a bank maturing July 2017. The note required one payment of the outstanding balance in July 2017, including a payment for all accrued interest not yet paid. The note contained certain restrictive covenants and was secured by substantially all of the Organization's assets. The note was personally guaranteed by a board member and officer of the Organization. The related parties notes payable, as discussed in Note 13, were subordinated to this bank term note. The total balance outstanding on the bank note payable of \$45,000 was paid in full during 2017.

In October 2017, the Organization entered into a \$50,000 line of credit with the same bank. The line of credit matures in October 2019. Interest is charged at the prime rate plus 2.00% or a minimum of 5.25%. The note contains certain restrictive covenants and is secured by a second priority right to substantially all of the Organization's assets. The Organization had no outstanding borrowings under this agreement at December 31, 2018 and 2017.

In May 2017, the Organization entered into a \$120,000 line of credit with a different bank. The line of credit matures in November 2019. Interest is charged at the prime rate plus 2.00% through August 2018 and prime rate plus 1.00% thereafter. The note contains certain restrictive covenants and is secured by substantially all of the Organization's assets. The balance outstanding on the bank note payable at December 31, 2018 and 2017 was \$0 and \$45,000, respectively.

In October 2017, the Organization entered into a \$200,000 line of credit with this same bank with a maturity of October 2018. Interest is charged at the bank's prime rate plus 1.00%. The note contains certain restrictive covenants and is secured by substantially all of the Organization's assets. The total balance outstanding on the bank note payable at December 31, 2018 and 2017 was \$116,624 and \$0, respectively. Subsequent to year-end, the Organization renewed the line of credit with a maturity of January 2020.

### 9. EQUIPMENT NOTE PAYABLE

In February 2016, the Organization entered into a loan agreement in the amount of \$26,579 to finance equipment for the Organization. The note is secured by the equipment and matures in February 2020. The agreement requires monthly payments of approximately \$610 per month including interest at 4.75%. The Organization recorded approximately \$1,000 of interest expense on this note in each of the years ended December 31, 2018 and 2017. The total balance outstanding on the equipment note payable at December 31, 2018 and 2017 was \$7,695 and \$14,476, respectively.



## MATTER

Notes to Financial Statements

December 31, 2018 and 2017

Scheduled maturities of the equipment note payable are as follows at December 31, 2018:

2019	\$	7,079
2020		<u>616</u>
Total	\$	<u>7,695</u>

### 10. LEASE OBLIGATION

The Organization leases a warehouse space from a related party company as discussed in Note 13. The warehouse space lease term previously expired in July 2020, with varying monthly rent payments each year ranging from \$15,006 to \$16,848 per month. During 2018, the Organization entered into an amended warehouse space lease beginning in July 2018 with monthly payments ranging from approximately \$9,045 to \$9,984 through September 2023. The amended lease reduced the space of the previous warehouse space lease. The Organization records rental expense on a straight-line basis over the life of the lease and has therefore recorded a deferred rent liability at December 31, 2018 and 2017. The Organization is obligated to pay costs of insurance, taxes, repairs, and utilities pursuant to the terms of the lease.

Future minimum commitments for payment of rent under the warehouse space lease, which at inception, had a noncancelable term of more than one year are as follows at December 31, 2018:

2019	\$	109,220
2020		111,951
2021		114,749
2022		117,618
2023		<u>89,857</u>
Total minimum lease commitments	\$	<u>543,395</u>

### 11. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods at December 31:

	<u>2018</u>	<u>2017</u>
Hospitals and clinics	\$ 164,943	\$ 76,811
Healthy food program, including funds for MATTERbox events	182,847	3,500
Agriculture	38,490	48,994
Innovation hub	136,036	-
Insight trips (occurring in 2019)	16,860	-
Senegal project	272,303	169,801
Event sponsorship (occurred in 2018)	<u>-</u>	<u>100,000</u>
Total net assets with donor restrictions	<u>\$ 811,479</u>	<u>\$ 399,106</u>

During 2018, the Organization transferred approximately \$9,000 from the Senegal project to the agriculture program based on amended stipulations from the donor regarding the intended purpose.

The Innovation HUB program provides a sustainable, active learning environment, and opportunity to gradually shift to student centered educational approaches through a technological classroom designed within a shipping container that can be deployed anywhere. The Senegal project relates to providing medical, health food, and agriculture support specifically within Senegal.

## MATTER

### Notes to Financial Statements

December 31, 2018 and 2017

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors or the expiration of time restrictions for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Hospitals and clinics	\$ 238,000	\$ 44,259
Healthy food program, including funds for MATTERbox events	6,500	-
Agriculture	91,495	69,858
Senegal project	360,676	224,099
Event sponsorship (occurred in 2019)	<u>100,000</u>	<u>-</u>
Total net assets released from restrictions	<u>\$ 796,671</u>	<u>\$ 338,216</u>

## 12. GIFTS-IN-KIND

The Organization received gifts-in-kind (primarily medical supplies) for the years ended December 31, 2018 and 2017 of approximately \$16,475,000 and \$18,325,000, respectively, which the Organization donated or plans to donate to beneficiaries in foreign countries. Also included in gifts-in-kind revenue for the years ended December 31, 2018 and 2017 is approximately \$26,000 and \$106,000, respectively, of clothing, food, household and various other items distributed primarily to other non-profit beneficiaries in Minnesota. The estimated fair value of these items was based upon approximated wholesale values after considering their marketability and usability. Lastly, the Organization received gifts-in-kind of approximately \$120,000 for the year ended December 31, 2018 of donated capitalized furniture, donated construction material, and special event expenses.

Included in donations to beneficiaries expense are donations to beneficiaries in foreign countries totaling approximately \$20,114,000 and \$19,751,000 in 2018 and 2017, respectively. Also included in donations to beneficiaries expense are donations of clothing, food, and household and various other items, distributed primarily to other non-profit beneficiaries in Minnesota, totaling approximately \$188,000 and \$286,000 in 2018 and 2017, respectively.

The Organization receives significant contributions in the form of donated services. These services include assistance with programs, administrative tasks, and fundraising events. In 2018 and 2017, the Organization received the following donated services qualifying under generally accepted accounting principles that were recorded in the statement of activities:

	<u>2018</u>	<u>2017</u>
Services from unpaid volunteers, including food packing and medical sorting	\$ 167,271	\$ 88,935
Donated professional services	<u>50,000</u>	<u>57,296</u>
Total donated services	<u>\$ 217,271</u>	<u>\$ 146,231</u>

The Organization estimates that it received approximately 200 and 1,000 hours of additional volunteer services in 2018 and 2017, respectively, primarily related to programs and community outreach, but these services did not qualify for recognition in the financial statements.

## **MATTER**

Notes to Financial Statements

December 31, 2018 and 2017

### **13. TRANSACTIONS WITH RELATED PARTIES**

The Organization is related to the company which leases space to the Organization as described in Note 10. A board member of the Organization is the controlling shareholder in the related company. The existence of this relationship could result in changes in net assets or financial position of the Organization that are significantly different from those that would have been obtained if the entity was autonomous.

Total rent expense, including the lease discussed in Note 10, for the years ended December 31, 2018 and 2017, was approximately \$217,000 and \$263,000, respectively, all of which is with the related company and which includes lease operating costs (executory costs) of approximately \$68,000 and \$73,000, respectively.

With respect to this leasing arrangement, the Organization had a note payable to this related company that was unsecured, non-interest bearing, and due on demand, although it was subordinated to the bank note payable. At December 31, 2016 the note payable had a balance outstanding of approximately \$165,000. During 2017, approximately \$141,000 of the rental and lease operating costs, as discussed above, were added to the note payable. The related party company then deemed approximately \$306,000 of the note payable balance as a contribution to the Organization in 2017. In 2018, approximately \$76,000 of the above described rental and lease operating costs were added to the note payable and then the related party company deemed the note payable balance of \$76,000 to be a contribution to the Organization in 2018. These contributions of approximately \$76,000 and \$306,000 are included within corporation and partnership contributions in the statement of activities for 2018 and 2017, respectively. There was no remaining outstanding balance on the note payable at December 31, 2018 or 2017. In 2017, the Organization also recorded approximately \$10,000 of in-kind contribution and related interest expense on this non-interest bearing note payable based on the Organization's incremental borrowing rate of 5.50% for the year ended December 31, 2017. For the year ended December 31, 2018, the imputed in-kind interest expense was evaluated to be insignificant to the Organization's financial statements and no such amounts were recorded in 2018.

At December 31, 2018, the Organization also had approximately \$6,000 owed to the related company which is included within accounts payable on the statement of financial position.

During 2018 and 2017, the Organization received contributions from board members of approximately \$59,000 and \$274,000, respectively, exclusive of the related party lease note payable amounts discussed above.

### **14. EMPLOYEE BENEFIT PLAN**

The Organization has a simple IRA plan for substantially all employees who meet certain eligibility requirements. The Organization made contributions to the Plan of approximately \$33,000 and \$27,000 during 2018 and 2017, respectively.