

**THE HUMANITY ALLIANCE
VICTORIA, MINNESOTA
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2022**

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021)

Anderson & Baxter, Ltd
Certified Public Accountants & Consultants

The Humanity Alliance
Table of Contents
December 31, 2022 and 2021

Independent Auditor's Report	1-2
Financial Statements	
Statements of Financial Position	3
Statements of Activity	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7-11

Anderson & Baxter, Ltd.

Certified Public Accountants & Consultants

12805 Highway 55, Suite 105

Minneapolis, Minnesota 55441

612.500.7612 T

833.541.1775 F

www.andersonbaxter.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Humanity Alliance
Victoria, Minnesota

Opinion

We have audited the accompanying financial statements of The Humanity Alliance (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activity, functional expenses, and cash flows for the years 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 The Humanity Alliance as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibility 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 the Organization and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient 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 the Organization'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 judgement made by a reasonable user based on the financial statements.

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

- Exercise professional judgement 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 the Organization'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 the Organization'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.

Anderson & Baxter, Ltd.

Anderson & Baxter, Ltd.
Minneapolis, Minnesota
July 26, 2023

THE HUMANITY ALLIANCE
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 239,121	\$ 476,444
Accounts receivable, net of allowance	16,301	5,912
Deposits	<u>-</u>	<u>1,000</u>
Total Current Assets	255,422	483,356
OTHER ASSETS		
Property and equipment	1,815,722	1,436,342
Less: Accumulated depreciation	<u>(119,947)</u>	<u>(37,042)</u>
Net Property and equipment	1,695,775	1,399,300
TOTAL ASSETS	<u>\$ 1,951,197</u>	<u>\$ 1,882,656</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 96,667	\$ 27,701
Accounts payable	99,119	182,945
Other accrued expenses	<u>83,795</u>	<u>34,623</u>
Total Current Liabilities	279,581	245,269
LONG-TERM DEBT (net of current maturities)		
Notes payable	1,111,291	938,677
Loans from officers	18,808	38,670
Less: current maturities	<u>(96,667)</u>	<u>(27,701)</u>
Long-term debt (net of current maturities)	1,033,432	949,646
TOTAL LIABILITIES	<u>1,313,013</u>	<u>1,194,915</u>
NET ASSETS		
Without donor restrictions	<u>638,184</u>	<u>687,741</u>
Total Net Assets	638,184	687,741
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,951,197</u>	<u>\$ 1,882,656</u>

See accompanying notes to financial statements

THE HUMANITY ALLIANCE
STATEMENT OF ACTIVITY
YEAR ENDED DECEMBER 31, 2022
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUES, GAINS AND SUPPORT				
Program revenue				
Grants	\$ 300,862	\$ -	\$ 300,862	\$ 683,378
Program service revenues	241,523		241,523	198,718
In-kind contributions	54,932	-	54,932	99,887
Total program revenue	597,317	-	597,317	981,983
Public support				
Contributions	252,212	-	252,212	323,907
Special events	25,900	-	25,900	-
Other revenues	18,061	-	18,061	264
Total public support	296,173	-	296,173	324,171
Total revenues, gains and support	893,490	-	893,490	1,306,154
EXPENSES				
Program services	833,035	-	833,035	522,598
Management & general	83,164	-	83,164	53,174
Fundraising	26,848	-	26,848	17,144
Total expenses	943,047	-	943,047	592,916
CHANGE IN NET ASSETS	(49,557)	-	(49,557)	713,238
NET ASSETS - Beginning of year	687,741	-	687,741	(25,497)
NET ASSETS - End of year	<u>\$ 638,184</u>	<u>\$ -</u>	<u>\$ 638,184</u>	<u>\$ 687,741</u>

See accompanying notes to financial statements

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2022
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2021

	2022				2021
	Program Services	Management & General	Fundraising	Total	Total
Salaries	\$ 209,474	\$ 20,889	\$ 15,600	\$ 245,963	\$ 99,634
Employee benefits	4,000	-	-	4,000	-
Payroll taxes	13,578	2,052	-	15,630	7,870
Cost of goods sold	333,920	-	-	333,920	141,594
Accounting	-	4,000	-	4,000	650
Advertising and promotion	147	1,443	47	1,637	4,736
Bank and credit card fees	103	2,479	131	2,713	1,698
Charitable contributions	-	-	-	-	2,354
Contract labor	63,847	27	-	63,874	138,250
Materials and supplies	22,132	1,500	638	24,270	14,504
Donated materials and supplies	-	-	-	-	18,734
Equipment rental and repairs	15,789	-	-	15,789	21,439
Insurance	-	18,358	-	18,358	14,853
Interest	30,052	382	-	30,434	30,772
Occupancy	9,495	-	-	9,495	-
Outside services	743	4,719	-	5,462	751
Postage and delivery	-	269	-	269	153
Professional fees	15,939	25,879	10,000	51,818	1,432
Rent	1,830	180	-	2,010	15,940
Utilities	13,534	-	-	13,534	8,882
Real estate taxes	-	-	-	-	20,783
Telephone	2,320	-	-	2,320	2,716
Travel	457	78	-	535	5,722
Other expenses	3,960	909	432	5,301	1,375
Bad debt	8,810	-	-	8,810	1,542
Depreciation expense	82,905	-	-	82,905	36,532
Total Expenses	\$ <u>833,035</u>	\$ <u>83,164</u>	\$ <u>26,848</u>	\$ <u>943,047</u>	\$ <u>592,916</u>

See accompanying notes to financial statements

THE HUMANITY ALLIANCE
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (49,557)	\$ 713,238
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	82,905	36,532
(Increase) decrease in current assets:		
Accounts receivable	(10,389)	12,623
Deposits	1,000	6,000
Increase (decrease) in current liabilities:		
Accounts payable	(83,826)	175,290
Other accrued expenses	49,172	(8,863)
Net cash provided/(used) by operating activities	<u>(10,695)</u>	<u>934,820</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Purchases of fixed assets	(379,380)	(1,432,204)
Proceeds from notes payable	200,050	950,673
Proceeds from loans from officers	-	24,690
Repayments of loans from officers	(19,862)	-
Repayments of notes payable	(27,436)	(11,996)
Net cash (used) by financing activities	<u>(226,628)</u>	<u>(468,837)</u>
 Change in cash and cash equivalents	 (237,323)	 465,983
 CASH AND CASH EQUIVALENTS - Beginning of year	 <u>476,444</u>	 <u>10,461</u>
 CASH AND CASH EQUIVALENTS - End of year	 \$ <u><u>239,121</u></u>	 \$ <u><u>476,444</u></u>

See accompanying notes to financial statements

The Humanity Alliance
Notes to the Financial Statements
December 31, 2022 and 2021

Note 1: Organization and Nature of Activities

The Humanity Alliance (the Organization), is a nonprofit charitable organization which seeks to create long-lasting community value, health and wealth, by launching and scaling disruptive models of service which break the "cycle of suffering". Inspired by the community and the people we serve, we have identified access to nutrition and affordable housing as our two initial programs. Both programs feature restoring love and dignity to our most vulnerable brothers and sisters.

Our nutrition program provides access to nutrition over the weekend to people who are experiencing food insecurity. Currently over 6,000 ready-to-eat meals are delivered on Fridays to doorsteps throughout eight Counties in the metropolitan area. Access to nutrition breaks the cycle of suffering for chronic diseases caused by food insecurity (diabetes, cardiovascular, high blood pressure).

Our affordable housing program uses a first-of-its-kind holistic approach that includes: affordable housing, a job, and mental wealth support (addiction, anxiety, depression). Our holistic approach provides a launch pad for individuals and families to break the cycle of long-term homelessness.

Note 2: Significant Accounting Policies

A. Basis of Presentation

Financial Statement Presentation

The Organization has adopted ASU No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*, which clarified how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about liquidity and availability of resources, expenses and investment returns, and cash flows.

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with United States generally accepted accounting principles. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and related changes are classified and reported as follows:

Net Assets without Donor Restrictions

Those resources over which the Organization has discretionary control. Designated amounts represent those revenues the Board of Directors has set aside for particular purposes.

Net Assets with Donor Restrictions

Those resources subject to donor-imposed restrictions which will be satisfied by actions of the Organization or the passage of time or are to be maintained permanently. The Organization had no donor restricted net assets as of December 31, 2022 or 2021.

The Humanity Alliance
Notes to the Financial Statements
December 31, 2022 and 2021

B. Advertising

The Organization expenses advertising costs when incurred. Advertising expense for the years ended December 31, 2022 and 2021, were \$1,637 and \$4,736, respectively.

C. Cash and Cash Equivalents

The Organization considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

D. Accounts and Pledges Receivable

Accounts and pledges receivable are stated at the amount management expects to collect from outstanding balances. Management of the Organization periodically evaluates uncollected pledges receivable based on aging and individual balances and provides for bad debts on the allowance method, if necessary. Management also records a discount on pledges receivable based on a collection schedule set by donors.

E. Concentrations of Credit Risk

The Organization places substantially all its cash and liquid investments with high-quality financial institutions and limits the amount of credit exposure to any one financial institution; however, cash balances may periodically exceed federally insured limits. Uninsured cash balances at December 31, 2022 and 2021 were \$0 and \$174,241, respectively.

F. Property and Equipment

Property and equipment consisted of the following at December 31:

	2022	2021
Buildings and improvements	\$ 1,232,644	\$ 1,062,714
Land	205,600	205,600
Furniture and fixtures	19,192	18,391
Computers and equipment	318,292	110,643
Vehicles	39,994	38,994
Less: Accumulated Depreciation	(119,947)	(37,042)
New Property and Equipment	\$ 1,695,775	\$ 1,399,300

Property and equipment are stated at cost, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives. Normal repair and maintenance expenses are charged to operations as incurred. The Organization capitalizes property and equipment additions in excess of \$1,000.

Assets are depreciated using the straight-line and accelerated methods over the following useful lives:

Building and improvements	5 - 39 years
Equipment and furnishings	5 - 10 years

Depreciation expense for the years ended December 31, 2022 and 2021 was \$82,905 and \$36,532, respectively.

The Humanity Alliance
Notes to the Financial Statements
December 31, 2022 and 2021

G. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses, except for certain items accounted for on a direct allocation basis, are allocated among the program and supporting service categories based on management estimates.

H. Income Tax Status

The Internal Revenue Service has determined that the Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue code. The Organization is also exempt from state income taxes. However, any unrelated business income may be subject to taxation. Because the Organization is a public charity, contributions to it may be deductible for tax purposes.

Management believes that it is not reasonably possible for any tax position benefits to increase or decrease significantly over the next 12 months. As of December 31, 2022 and 2021, there were no income tax related accrued interest or penalties recognized in either the statement of financial position or the statement of activities.

The Organization files informational returns in the U.S. federal jurisdiction and in the Minnesota state jurisdiction. U.S. federal returns and Minnesota returns prior to fiscal year 2020 are closed. No returns are currently under examination in any jurisdiction.

I: Use of Estimates

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

J. Subsequent Events

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

Note 3: In-kind Contributions and Expenses

The Organization received in-kind contributions of food and perishables from restaurants and food-shelves, and equipment and furnishings from various organizations and individuals. The value of these contributions was based on an evaluation of the market value of such items. In-kind contributions were \$54,932 and \$99,887 for the years ended December 31, 2022 and 2021, respectively.

In addition, the Organization received donated services from a variety of unpaid volunteers whose services effectively reduced personnel-related program expenses. No values have been recognized in the accompanying statements of activities because the criteria for recognition of such volunteer effort under ASC Subtopic 958-605 *Not-for-Profit Entities Revenue Recognition* have not been satisfied.

The Humanity Alliance
Notes to the Financial Statements
December 31, 2022 and 2021

Note 4: Long-term Debt

Long-term debt consisted of the following at December 31:

	<u>2022</u>	<u>2021</u>
4.50% Contract for Deed payable to a corporation in monthly payments of \$3,238, including interest. Note matures January 2024 and is secured by real property.	\$ 618,826	\$ 629,568
4.75% note payable to a bank in monthly payments of \$5,974, including interest. Note matures December 2025 and is secured by equipment.	200,050	-
0.00% note payable to Carver County Community Development Agency in monthly payments of \$300. Note matures September 2032 and is security by real property.	139,799	149,699
0.00% note payable to a related party with no scheduled payments. Note matures January 2050 and is unsecured.	122,674	122,674
5.80% note payable to a corporation in monthly payments of \$750, including interest. Note matures in August 2026 and is secured by a vehicle.	<u>29,942</u>	<u>36,736</u>
	\$ 1,111,291	\$ 938,677

Maturities of long-term debt are as follows:

Year ending December 31:	2023	\$ 96,667
	2024	696,553
	2025	92,659
	2026	20,274
	Thereafter	<u>205,138</u>
	Total	<u>\$ 1,111,291</u>

Note 5: Liquidity and Availability of Resources

The Organization has the following assets available to meet financial needs for one year:

Cash and cash equivalents	\$ 239,121
Accounts receivable	16,301
Less: amounts unavailable within one year, due to:	
Current maturities of long-term debt	(96,667)
Accounts payable and accrued expenses	<u>(141,285)</u>
Total financial assets unavailable	<u>(237,952)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	\$ <u>17,470</u>

The Humanity Alliance
Notes to the Financial Statements
December 31, 2022 and 2021

Note 6: Fair Value Measurements

Fair value measurement accounting standards establish a fair value hierarchy based on the priority of the inputs to the valuation methodologies used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets in an active market that the Organization has the ability to access.

Level 2 – Inputs to the valuation methodology include:

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

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

Financial assets recorded in the Statement of Financial Position are categorized based on the inputs to the valuation technique as follows for the year ended December 31, 2021:

	Level 1	Total
December 31, 2022		
Cash and money market funds	\$ <u>239,121</u>	\$ <u>239,121</u>
Total	\$ <u>239,121</u>	\$ <u>239,121</u>
December 31, 2021		
Cash and money market funds	\$ <u>476,444</u>	\$ <u>476,444</u>
Total	\$ <u>476,444</u>	\$ <u>476,444</u>

Note 7: Contingent Liability

During the prior four years, the Organization compensated its founder and Executive Director at a rate of compensation that was likely below prevailing market rates for comparable positions. In the future, the Board of Directors may, at its discretion, decide to raise the Executive Director's compensation going forward, and to potentially provide retroactive compensation in recognition of his willingness to work at a below market rate during the start-up phase of our operations. While such a retroactive payment could be material, it is not possible at present to ascertain the likelihood, nor to reasonably estimate the amount, of such a payment.