

**INDEPENDENCEFIRST, INC.**

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016

(With Comparative Totals for the Year Ended December 31, 2015)

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
IndependenceFirst, Inc.  
Milwaukee, Wisconsin

We have audited the accompanying consolidated financial statements of IndependenceFirst, Inc., which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities and cash flows for the year 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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

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

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

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of IndependenceFirst, Inc. as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Change in Accounting Principle***

As described in Note 9 to the financial statements, the Organization retroactively adopted the requirements in FASB ASC 835-30 to present debt issuance costs as a reduction of the carrying amount of the debt rather than as an asset. Our opinion is not modified with respect to that matter.

***Report on Summarized Comparative Information***

We have previously audited IndependenceFirst, Inc.'s 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 15, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Wegner CPAs, LLP  
Waukesha, Wisconsin  
March 21, 2017

**INDEPENDENCEFIRST, INC.**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
December 31, 2016  
With Comparative Totals for December 31, 2015

	2016	2015
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 1,395,888	\$ 2,437,997
Interest receivable	54,330	45,993
Grants and accounts receivable	1,972,133	2,071,071
Loans receivable	15,530	18,189
Allowance for refunds and uncollectible receivables	(452,717)	(1,000,608)
Inventory	312,195	305,747
Prepaid expenses	56,245	98,393
Deferred tax asset	53,805	46,932
<b>Total current assets</b>	<b>3,407,409</b>	<b>4,023,714</b>
<b>PROPERTY AND EQUIPMENT</b>		
Property and equipment	10,068,357	9,959,311
Less accumulated depreciation	(2,992,709)	(2,604,680)
<b>Property and equipment - net</b>	<b>7,075,648</b>	<b>7,354,631</b>
<b>OTHER ASSETS</b>		
Investments	20,231,525	19,029,551
Unemployment reserve - certificates of deposit	805,000	805,000
Cash surrender value of life insurance	75,397	65,257
<b>Total assets</b>	<b>\$ 31,594,979</b>	<b>\$ 31,278,153</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 480,554	\$ 405,613
Accrued payroll	1,489,021	1,367,508
Refundable advances	17,814	14,211
<b>Total current liabilities</b>	<b>1,987,389</b>	<b>1,787,332</b>
<b>LONG-TERM LIABILITIES</b>		
Equity loan payable	2,100,000	2,100,000
Mortgage payable	5,660,000	5,660,000
Debt issuance costs - net of accumulated amortization	(144,912)	(149,512)
Interest rate swap instrument	148,212	217,438
Estimated third-party PAS payer settlements	467,596	467,596
<b>Total long-term liabilities</b>	<b>8,230,896</b>	<b>8,295,522</b>
<b>Total liabilities</b>	<b>10,218,285</b>	<b>10,082,854</b>
<b>NET ASSETS</b>		
Unrestricted	18,897,925	18,853,773
Temporarily restricted	2,478,769	2,341,526
<b>Total net assets</b>	<b>21,376,694</b>	<b>21,195,299</b>
<b>Total liabilities and net assets</b>	<b>\$ 31,594,979</b>	<b>\$ 31,278,153</b>

See accompanying notes.

**INDEPENDENCEFIRST, INC.**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
Year Ended December 31, 2016  
With Comparative Totals for the Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	2016	2015
<b>SUPPORT AND REVENUE</b>				
U.S. Department of Education				
Center for Independent Living (Part C)	\$ 219,289	\$ -	\$ 219,289	\$ 304,733
U.S. Department of Health and Human Services				
ACL Centers for Independent Living	77,929	-	77,929	-
U.S. Department of Labor	4,865	-	4,865	20,346
Social Security Administration	98,250	-	98,250	77,835
Wisconsin Department of Health Services				
Center for Independent Living (Part C)	30,498	-	30,498	30,194
ADA Access	25,883	-	25,883	8,762
Wisconsin Coalition of Independent Living Centers				
AODA Projects	106,224	-	106,224	106,224
WisTech and Mobility Store grants	56,250	-	56,250	58,000
Personal assistance service	28,511,855	-	28,511,855	29,531,286
Foundation and corporate grants	114,444	10,549	124,993	282,297
United Way	37,298	33,422	70,720	52,319
Entrepreneurial ventures	15,995	-	15,995	14,560
Contributions	13,619	-	13,619	31,231
In-kind contributions	235,151	-	235,151	151,889
Program service fees	329,912	-	329,912	314,401
Mobility Store revenue	335,289	-	335,289	278,469
Fundraising event revenue	17,190	-	17,190	15,236
Fundraising event expenses	(14,509)	-	(14,509)	(7,593)
Investment return	1,184,326	191,634	1,375,960	57,350
Gain (loss) on interest rate swap instrument	69,227	-	69,227	(24,665)
Rent income	178,916	-	178,916	232,204
Recovery of WisLoan and Telework bad debt	306,771	-	306,771	-
Other revenue	74,300	-	74,300	68,744
<b>Total support and revenue</b>	<b>32,028,972</b>	<b>235,605</b>	<b>32,264,577</b>	<b>31,603,822</b>
<b>EXPENSES</b>				
Program services	28,340,306	-	28,340,306	29,115,569
Management and general	3,459,777	-	3,459,777	3,258,063
Fundraising	277,922	-	277,922	396,147
<b>Total expenses</b>	<b>32,078,005</b>	<b>-</b>	<b>32,078,005</b>	<b>32,769,779</b>
<b>OTHER CHANGES</b>				
Net assets released from restrictions	98,362	(98,362)	-	-
Controlling interest in subsidiary earnings	(3,365)	-	(3,365)	754
Noncontrolling interest in subsidiary earnings	(1,812)	-	(1,812)	406
<b>Change in net assets</b>	<b>44,152</b>	<b>137,243</b>	<b>181,395</b>	<b>(1,164,797)</b>
Net assets - beginning of year	18,853,773	2,341,526	21,195,299	22,360,096
<b>Net assets - end of year</b>	<b>\$ 18,897,925</b>	<b>\$ 2,478,769</b>	<b>\$ 21,376,694</b>	<b>\$ 21,195,299</b>

See accompanying notes.

**INDEPENDENCEFIRST, INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
Year Ended December 31, 2016  
With Comparative Totals for the Year Ended December 31, 2015

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 181,395	\$ (1,164,797)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	388,030	462,493
Amortization of debt issuance costs	4,600	4,600
Net realized and unrealized (gains) losses on investments	(978,460)	353,411
Recovery of bad debt	(306,771)	-
Loan defaults and bad debts	79,474	384,278
Change in the value of interest rate swap instrument	(69,226)	24,665
(Increase) decrease in assets		
Interest receivable	(8,337)	10,173
Grants and accounts receivable	98,938	1,006,442
Loans receivable	2,659	2,198
Allowance for refunds and uncollectible receivables	(320,594)	(47,339)
Inventory	(6,448)	1,730
Prepaid expenses	42,148	27,645
Deferred tax asset	(6,873)	(43,562)
Cash surrender value of life insurance	(10,140)	(7,974)
Increase (decrease) in liabilities		
Accounts payable	74,941	(177,258)
Accrued payroll	121,513	50,293
Refundable advances	3,603	(87,907)
<b>Net cash flows from operating activities</b>	<b>(709,548)</b>	<b>799,091</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(109,047)	(68,756)
Purchases of investments	(8,850,038)	(10,096,269)
Proceeds from the sale of investments	8,626,524	8,354,233
<b>Net cash flows from investing activities</b>	<b>(332,561)</b>	<b>(1,810,792)</b>
<b>Change in cash</b>	<b>(1,042,109)</b>	<b>(1,011,701)</b>
Cash - beginning of year	2,437,997	3,449,698
<b>Cash - end of year</b>	<b>\$ 1,395,888</b>	<b>\$ 2,437,997</b>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Cash paid for interest	\$ 274,135	\$ 275,677

See accompanying notes.

**INDEPENDENCEFIRST, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2016  
With Comparative Totals for December 31, 2015

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IndependenceFirst, Inc. (Organization) seeks to effectively facilitate empowerment of individuals with disabilities through education advocacy, independent living services, and coalition building in the four-county Metro Milwaukee area.

IndependenceFirst Foundation, Inc. (Foundation) was formed to support the charitable mission of the Organization.

IM Design Consortium, LLC provides consulting services to help clients develop products, services, and facilities, for aging adults and people with disabilities.

**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Organization, the Foundation, and the Organization's 65%-owned subsidiary, IM Design Consortium, LLC. The Foundation is consolidated since the Organization has both an economic interest in the Foundation and control of the Foundation through a majority voting interest in its governing body. All material intra-entity transactions have been eliminated.

**Basis of Presentation**

The Organization reports information regarding its financial position and activities according to three classes of net assets:

*Unrestricted net assets*—Net assets that are not restricted by donors. Designations are voluntary board-approved segregations of unrestricted net assets for specific purposes, projects, or investments.

*Temporarily restricted net assets*—Net assets whose use has been limited by donor-imposed time restrictions or purpose restrictions.

*Permanently restricted net assets*—Net assets that have been restricted by donors to be maintained by the Organization in perpetuity.

**Grants and Accounts Receivable**

Grants and accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

**INDEPENDENCEFIRST, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2016  
With Comparative Totals for December 31, 2015

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NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Promises to Give**

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

**Inventory**

The Mobility Store of the Organization receives donated wheelchairs, other mobility equipment and medical equipment which are valued at estimated fair value. Items are transferred to inventory after being refurbished by Badger State Industries. The Organization estimates the fair value of refurbished inventory based on expected future sales using discounted rates for aging inventory. Purchased inventory is recorded at the lower of cost or market, determined by the first-in, first-out method.

**Property and Equipment**

Property and equipment are recorded at cost. All acquisitions of property and equipment in excess of \$5,000 and all expenditures for repairs, maintenance, and improvements that materially prolong the useful lives of assets are capitalized. Depreciation is provided using the straight-line method over the estimated useful lives of the assets.

**Investments**

The Organization carries investments in equity securities with readily determinable fair values and all investments in debt securities at their fair values in the consolidated statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying consolidated statement of activities.

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

**Contributions**

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

**INDEPENDENCEFIRST, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2016  
With Comparative Totals for December 31, 2015

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NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Government Grants**

Certain programs of the Organization are funded in part by grants from various government agencies. Revenue from these grants is based upon the actual cost of providing services up to the maximum amount specified in the grants. Costs are allocated to these grants in accordance with established procedures and are subject to audit by various government agencies. No determination has been made regarding the effect, if any, such audits could have on the consolidated financial statements.

**Advertising Costs**

The Organization uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for 2016 and 2015 was \$118,950, and \$97,902.

**Expense Allocation**

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited. The following program services are included in the accompanying consolidated financial statements:

*Independent Living Services*—This program provides persons with disabilities with education and training to increase their ability to live independently in the community.

*WisLoan and Telework Programs*—This program is an alternative loan program for Wisconsin citizens with disabilities who desire to purchase assistive devices or services.

*Personal Assistance Service*—This program provides personal care services at home for individuals with disabilities with RN supervision and case management for participants.

*Mobility Store*—This is an innovative non-profit program that offers low cost, refurbished and sanitized mobility and medical equipment to those who lack the resources to acquire new equipment. It also offers a selection of low-cost new equipment.

*Other Programs*—The Organization offers various other programs and services to people with disabilities of all kinds, in all age groups and provide programs on disability awareness, employment tips and access to the general community.

**Estimates**

The preparation of consolidated financial statements 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**INDEPENDENCEFIRST, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2016  
With Comparative Totals for December 31, 2015

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NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Income Tax Status**

The Organization and the Foundation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities (primarily rental income on debt financed property) not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. As of December 31, 2016 and 2015, the Organization had a cumulative net operating loss of \$410,702 and \$333,561.

The Organization has determined that it is likely that the net operating loss will be realized and, therefore, has recognized a deferred tax asset of \$53,805 and \$46,932 at December 31, 2016 and 2015.

IM Design Consortium, LLC is treated as a corporation for federal and state income tax purposes. There were no federal or state income taxes paid by IM Design Consortium, LLC in 2016 or 2015.

**Donated Services**

Donated services are recorded at fair market value at the date of donation. Donated services are recognized in the consolidated financial statements at their fair value if the services require specialized skills and the services are provided by individuals possessing those skills, and the services would typically need to be purchased if not donated; or the services enhance or create a nonfinancial asset.

**Comparative Financial Information**

The consolidated 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended December 31, 2015 from which the summarized information was derived.

**Reclassifications**

Certain accounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the current year consolidated financial statements.

**Date of Management's Review**

Management has evaluated subsequent events through March 21, 2017, the date which the consolidated financial statements were available to be issued.

**INDEPENDENCEFIRST, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2016  
With Comparative Totals for December 31, 2015

NOTE 2—GRANTS AND ACCOUNTS RECEIVABLE

Grants and accounts receivable consists of the following at December 31:

	<u>2016</u>	<u>2015</u>
Personal assistance service	\$ 1,831,640	\$ 1,745,906
United Way	33,422	35,234
Social security administration	-	7,100
Wisconsin Coalition of Independent Living Centers	28,081	18,841
Wisconsin Department of Health Services		
Bond/IRIS	12,657	10,872
Independent Living	21,531	-
Wisconsin Department of Workforce Development	15,910	18,625
UW - Stout	-	15,420
Other	<u>28,892</u>	<u>219,073</u>
Grants and accounts receivable	<u>\$ 1,972,133</u>	<u>\$ 2,071,071</u>

NOTE 3—LOANS RECEIVABLE

The Organization has micro loans receivable in the amount of \$13,624 and \$15,883 and courtesy loans receivable in the amount of \$1,906 and \$2,306 at December 31, 2016 and 2015. These loans are to be collected within the following year.

NOTE 4—ALLOWANCE FOR REFUNDS AND UNCOLLECTIBLE RECEIVABLES

The Organization developed allowances for refunds and uncollectible receivables for the following accounts and programs:

	<u>2016</u>	<u>2015</u>
Personal assistance services	\$ 281,459	\$ 294,748
WisLoan and Telework loan guarantees	171,258	466,605
Rental revenue	<u>-</u>	<u>239,255</u>
Allowance for refunds and uncollectible receivables	<u>\$ 452,717</u>	<u>\$ 1,000,608</u>

NOTE 5—LIFE INSURANCE

The Organization is the owner and beneficiary of a \$223,592 life insurance policy on the life of the CEO/president. Life insurance is valued at the Organization's share of the cash surrender value on that policy. At December 31, 2016 and 2015, the amount of cash surrender value was \$75,397 and \$65,257.

**INDEPENDENCEFIRST, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2016  
With Comparative Totals for December 31, 2015

NOTE 6—PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Building	\$ 3,066,500	\$ 3,066,500
Building improvements	3,324,853	3,324,853
Land	1,218,000	1,218,000
Land improvements	243,500	243,500
Website	52,334	52,334
Milwaukee IDEA Home	109,844	100,044
Leasehold improvements	7,684	7,684
Furniture and equipment	1,929,813	1,830,567
Vehicles	<u>115,829</u>	<u>115,829</u>
Property and equipment	10,068,357	9,959,311
Less accumulated depreciation	<u>(2,992,709)</u>	<u>(2,604,680)</u>
Property and equipment - net	<u><u>\$ 7,075,648</u></u>	<u><u>\$ 7,354,631</u></u>

NOTE 7—INVESTMENTS

Investments consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Money market funds	\$ 830,093	\$ 653,129
Equity securities	10,898,030	9,728,976
Exchange traded funds	-	345,882
Treasury and federal agencies	3,101,241	3,959,726
State and municipal	-	5,000
Nongovernment obligations	3,871,440	2,949,987
Foreign obligations	672,576	645,950
Fixed income funds	<u>858,145</u>	<u>740,901</u>
	<u><u>\$ 20,231,525</u></u>	<u><u>\$ 19,029,551</u></u>

Investment return consisted of the following for 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 397,500	\$ 410,761
Net realized and unrealized gains (losses)	<u>978,460</u>	<u>(353,411)</u>
Investment return	<u><u>\$ 1,375,960</u></u>	<u><u>\$ 57,350</u></u>

**INDEPENDENCEFIRST, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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NOTE 8—UNEMPLOYMENT RESERVE

The Organization adopted the reimbursement method for state unemployment compensation purposes. As required by the treasurer of the Wisconsin Unemployment Fund, the Organization purchased and restricted a certificate of deposit as a reserve for state unemployment. At December 31, 2016 and 2015 the balance of the certificate of deposit was \$805,000.

NOTE 9—NOTES PAYABLE

The Organization received loans through the New Markets Tax Credit Program (NMTC Program) to finance the purchase of the building on 540-544 S. 1<sup>st</sup> Street in Milwaukee, Wisconsin. The NMTC Program was established to attract new or increased investments into operating businesses and real estate projects located in low-income communities. The NMTC Program attracts investment capital to low-income communities by permitting individual and corporate investors to receive a tax credit against their federal income tax return in exchange for making equity investments in specialized financial institutions called Community Development Entities (CDEs). The CDEs make loans available to Qualified Active Low Income Community Businesses like the Organization. Related to the loans received by the Organization, BMO Harris Bank N.A. (the equity investor) invested \$8,000,000 in M&I New Markets Fund, LLC (the CDE). M&I New Markets Fund, LLC in turn loaned \$7,760,000 to the Organization (the Qualified Active Low Income Community Business). The investment in the CDE by BMO Harris Bank N.A. cannot be redeemed before the end of the 7-year compliance period which ends July 23, 2020.

The Organization also received two loans in the amounts of \$5,660,000 and \$2,100,000 from M&I New Markets Fund, LLC. The \$5,660,000 loan bears an interest rate equal to the 30-day LIBOR plus 2.05%. The \$2,100,000 loan bears a fixed interest rate of 1.12721%. Each of the loans has a 35-year term with a 7-year interest only period, during which time prepayment of the principal is not allowed. After the 7-year NMTC Program compliance period, payments of principal and interest are required and will be amortized over the remaining period of the loan. The maturity date of the loans is June 30, 2048. However, following the close of the 7-year NMTC Program compliance period, the lender has the option to accelerate payment of the \$5,660,000 loan. If the lender elects to exercise such acceleration option, the lender must accept \$1,000 as full repayment of the \$2,100,000 loan.

The Organization entered into an interest rate swap agreement which exchanges the floating interest rate on the \$5,660,000 loan with a fixed interest rate. The swap instrument requires payment of 2.2925% fixed rate and a floating rate of USD-LIBOR-BBA to be paid monthly. The total interest on both the swap product and variable loan rate at December 31, 2016 and 2015 was 4.69 and 4.67%. The purpose of a swap is to limit the exposure to fluctuations in interest rates.

The loans are secured by real estate, improvements, fixtures and all property at 540-544 S. 1<sup>st</sup> Street; the assignment of leases and rents; and a securities account pledge and control agreement for securities held at the Organization.

**INDEPENDENCEFIRST, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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With Comparative Totals for December 31, 2015

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NOTE 9—NOTES PAYABLE (continued)

Terms of the agreement require the Organization to meet certain ratios including a debt service coverage ratio of net income to debt service of 1.2:1 and a loan to value ratio of 1:1.75. At December 31, 2016 and 2015, the Organization was not in compliance with the debt service coverage ratio, but it was in compliance with the loan to value ratio.

Future maturities for the subsequent years ending December 31 are as follows:

2017	\$	-
2018		-
2019		-
2020		103,391
2021		211,163
Thereafter		<u>7,445,446</u>
Total	<u>\$</u>	<u>7,760,000</u>

In 2016, the Organization retroactively adopted the requirements in FASB ASC 835-30 to present debt issuance costs as a reduction of the carrying amount of the debt rather than as an asset. Unamortized debt issuance costs as of December 31, 2015 were previously included on the consolidated statement of financial position in property and equipment. Amortization of the debt issuance costs is reported as interest expense in the consolidated statement of activities.

NOTE 10—WISLOAN ASSISTIVE TECHNOLOGY GUARANTY LOAN PROGRAM AND WISCONSIN TELEWORK LOAN PROGRAM

The Organization guarantees loans through the WisLoan Assistive Technology Guaranty Loan Program and the Wisconsin Telework Loan Program. The Organization holds cash and investment funds that are used to pay for loan defaults for each of these programs. At December 31, 2016 and 2015, the Organization had cash and investments of \$3,930,256 and \$4,147,494 restricted for use in these programs. The funds are derived from federal dollars and Organization match dollars and are restricted for program operating costs, loan default costs, and loan default reserves. As of December 31, 2016 and 2015, the funds derived from federal dollars were \$2,434,798 and \$2,243,164 and are included in temporarily restricted net assets on statement of financial position. The remaining \$1,495,458 and \$1,904,330 of the total cash and investments have been designated by the Organization for use in these programs.

Loans are provided through banks and guaranteed by the Organization. At December 31, 2016 and 2015, loans guaranteed by the Organization for the WisLoan Assistive Technology Guaranty Loan Program were approximately \$371,000 and \$609,000 and for the Wisconsin Telework Loan Program were approximately \$25,000 and \$80,000. The Organization has temporarily restricted net assets for the government funded portion of cash and investments and earnings on those funds and unrestricted net assets for the match funded portion of cash and investments.

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NOTE 11—REFUNDABLE ADVANCES

Refundable advances consisted of the following at December 31:

	2016	2015
Wisconsin Department of Health Services - Independent Living	\$ -	\$ 2,927
Stride and Glide event	7,500	4,134
Mobility Store - future sales	10,314	7,150
Refundable advances	\$ 17,814	\$ 14,211

NOTE 12—LINE OF CREDIT

The Organization has a \$1,000,000 line of credit that bears an interest rate that is based on a prime rate index of 1.75% above the British Bankers Association LIBOR, maturing on August 31, 2017. The line of credit was unused at December 31, 2016 and 2015.

NOTE 13—CONCENTRATIONS OF CREDIT RISK

The Organization maintains cash balances at two financial institutions located in Milwaukee, Wisconsin. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2016 and 2015, the Organization's uninsured cash balances totaled \$1,202,623 and \$2,214,428.

NOTE 14—NET ASSETS

Unrestricted net assets consisted of the following at December 31:

	2016	2015
Designated for equipment advance fund	\$ 24,958	\$ 23,916
Designated for building reserve	1,171,806	801,776
Designated for the WisLoan program	1,369,995	1,737,848
Designated for the Telework program	125,463	166,482
Undesignated	16,205,703	16,123,751
Unrestricted net assets	\$ 18,897,925	\$ 18,853,773

**Board Designated Net Assets**

The board designated any repayments made to the Organization from the equipment advance fund to be used in a revolving board designated equipment fund. The designated funds are to be used to provide equipment advances to clients of the Mobility Store.

The board designated a building reserve to repay the notes payable when they come due. The reserve consists of an annual allotment of board designated funds that is transferred from the Organization to the Foundation and investment return on those funds.

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NOTE 14—NET ASSETS (continued)

**Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes at December 31:

	2016	2015
WisLoan Assistive Technology Guaranty Loan Program	\$ 1,835,415	\$ 1,682,282
Wisconsin Telework Loan Program	599,383	560,882
NCIL spinal cord program	10,549	-
United Way - attendant referral	9,672	10,234
United Way - healthy girls	23,750	26,033
Youth services	-	46,835
Docklift	-	15,260
	\$ 2,478,769	\$ 2,341,526

NOTE 15—RENTAL INCOME

The Organization leases building space for another organization to use. The lease extends through August 31, 2020. Total minimum future rental receipts for the years after December 31, 2016 are as follows:

2017	\$ 184,624
2018	196,761
2019	198,940
2020	162,870
	\$ 743,195

NOTE 16—OPERATING LEASES

The Organization leases office space for the two mobility stores that it operates. One store is located in Wauwatosa, Wisconsin and the other store is located in Madison, Wisconsin. The lease for the Wauwatosa store expires May 31, 2018 and the lease for the Madison store expires April 30, 2021.

Future minimum lease payments for the years after December 31, 2016 are as follows:

2017	\$ 91,976
2018	62,469
2019	41,711
2020	42,780
2021	18,013
	\$ 256,949

Rent expense for 2016 and 2015 was \$90,449 and \$91,212.

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NOTE 17—RETIREMENT PLAN

The Organization has a tax deferred annuity plan, in accordance with the provisions of 403(b) of the Internal Revenue Code. Employees are eligible to participate in the plan after one year of service and by completing 1,000 hours of service each year. The plan is funded by the Organization and is based on a 50% match of dollars contributed up to 1.5% of an employee's salary. Annually, the board of directors determines if an additional non-match contribution will be made. For 2016 and 2015, the board voted to make a non-match contribution of 1% of each eligible employee's salary. Retirement expense was \$333,070 and \$298,429 for 2016 and 2015.

The Organization also offers a 457(b) deferred compensation plan to certain employees. Eligible employees include the top 5% of wage earners with significant management responsibilities and this plan allows either employee or employer contributions up to an additional \$18,000. Participants must leave service to take a distribution from the plan and distributions can be paid as a lump sum or as an annuity. For 2016 and 2015, there were no employer contributions to this plan.

NOTE 18—DONATED GOODS, SERVICES, AND VOLUNTEER HOURS

In 2016 and 2015, Badger State Industries donated 24,151 and 24,811 service hours to refurbish mobility equipment. The fair value of donated services that enhance nonfinancial assets are measured by the fair value of the asset enhancement resulting from the services. Donated services for 2016 and 2015 were \$235,151 and \$151,889 and consisted of in-kind contributions and cost of goods sold program expenses in the accompanying consolidated statement of activities.

In 2016 and 2015, the Organization received 5,411 and 5,731 donated hours for the computer recycling program and for general office tasks (copies made, filing for consumer intake packets, orientation packets, quarterly newsletter copies). Independent sector values those services at \$23.56 per hour. These hours did not meet the criteria for recognition for donated services and are not included in the consolidated financial statements.

NOTE 19—INTEREST IN IM DESIGN CONSORTIUM, LLC

The Organization owns a 65% controlling interest in IM Design Consortium, LLC. The change in unrestricted net assets attributed to the noncontrolling interest is as follows:

	Controlling Interest	Noncontrolling Interest	Total
January 1, 2015	\$ (76,114)	\$ (40,983)	\$ (117,097)
Net income	754	406	1,160
December 31, 2015	(75,360)	(40,577)	(115,937)
Net loss	(3,365)	(1,812)	(5,177)
December 31, 2016	<u>\$ (78,725)</u>	<u>\$ (42,389)</u>	<u>\$ (121,114)</u>

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NOTE 20—FAIR VALUE MEASUREMENTS

Fair value of assets and liabilities measured on a recurring basis at December 31, 2016 and 2015 is as follows:

	Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 830,093	\$ 830,093	\$ -	\$ -
Equity securities	10,898,030	10,898,030	-	-
Treasury and federal agencies	3,101,241	3,101,241	-	-
Nongovernment obligations	3,871,440	3,871,440	-	-
Foreign obligations	672,576	672,576	-	-
Fixed income funds	858,145	858,145	-	-
Interest rate swap instrument	(148,212)	-	-	(148,212)
2016 total	<u>\$ 20,083,313</u>	<u>\$ 20,231,525</u>	<u>\$ -</u>	<u>\$ (148,212)</u>
Money market funds	\$ 653,129	\$ 653,129	\$ -	\$ -
Equity securities	9,728,976	9,728,976	-	-
Exchange traded funds	345,882	345,882	-	-
Treasury and federal agencies	3,959,726	3,959,726	-	-
State and municipal	5,000	5,000	-	-
Nongovernment obligations	2,949,987	2,949,987	-	-
Foreign obligations	645,950	645,950	-	-
Fixed income funds	740,901	740,901	-	-
Interest rate swap instrument	(217,438)	-	-	(217,438)
2015 total	<u>\$ 18,812,113</u>	<u>\$ 19,029,551</u>	<u>\$ -</u>	<u>\$ (217,438)</u>

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair values for the interest rate swap are determined by a good faith determination of its mid-market quotations for the transactions by the lender. The quotation is based on the net present value of the expected future cash flows, which are based on the fixed rate of the swap and a projected variable rate. The net present value of expected cash flows is used with the applicable yield curve to calculate forward rates, which are then discounted. The applicable yield curve is based on inputs from LIBOR rates. The sum of these discounted cash flows is the current market value of the swap.

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NOTE 20—FAIR VALUE MEASUREMENTS (continued)

Liabilities measured at fair value on a recurring basis using significant unobservable inputs:

	Interest rate swap instrument	
	2016	2015
Beginning balance	\$ (217,438)	\$ (192,773)
Change in value of interest rate swap instrument	69,226	(24,665)
Ending balance	<u>\$ (148,212)</u>	<u>\$ (217,438)</u>

NOTE 21—FUNCTIONAL CLASSIFICATION OF EXPENSES

Expenses by function for 2016 and 2015 were as follows:

	2016	2015
Program services		
Independent living services	\$ 1,843,873	\$ 2,037,017
WisLoan and Telework programs	183,691	250,620
Personal assistance service	25,150,705	25,703,311
Mobility store	723,583	630,973
Other programs	438,454	493,648
Total program services	28,340,306	29,115,569
Supporting activities		
Management and general	3,459,777	3,258,063
Fundraising	277,922	396,147
Total expenses	<u>\$ 32,078,005</u>	<u>\$ 32,769,779</u>