Consolidated financial statements of:

THE NEIGHBORHOOD RECYCLING CORPORATION D/B/A EUREKA RECYCLING AND SUBSIDIARY

(A Non-Profit Corporation)

Years ended
December 31, 2022 and 2021

SDK
Schechter Dokken Kanter
CPAs ■ Business Advisors

Suite 1600
100 Washington Avenue South
Minneapolis, MN 55401-2192

P 612.332.5500 F 612.332.1529
www.sdkcpa.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Neighborhood Recycling Corporation
d/b/a Eureka Recycling and Subsidiary
Minneapolis, Minnesota

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of The Neighborhood Recycling Corporation d/b/a Eureka Recycling and Subsidiary (the Organization), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of The Neighborhood Recycling Corporation d/b/a Eureka Recycling and Subsidiary as of December 31, 2022 and 2021, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 for one year after the date that the consolidated 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 consolidated 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 GAAS 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 are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Emphasis of Matter – Adoption of New Accounting Standard

As discussed in Note 1 to the consolidated financial statements, on January 1, 2022, the Organization adopted new accounting guidance, Accounting Standards Update No. 2016-02, Leases (Topic 842). As a result of the adoption of the new lease accounting guidance, lease liabilities and right-of-use assets were recorded on the consolidated statement of financial position (see Note 8 and 9). Our opinion is not modified with respect to this matter.

Schechter Dokken Kanter
Andrews & Selcer Ltd.

June 2, 2023
Minneapolis, MN

	2022	2021
Assets:		
Current assets:		
Cash	**$ 2,896,863**	$ 3,836,471
Accounts receivable, net of allowance	**1,560,228**	1,842,053
Inventory	**940,987**	753,699
Prepaid expenses	**157,824**	159,331
Total current assets	**5,555,902**	6,591,554
Property, plant, equipment, and finance lease right-of-use assets, net	**12,372,153**	9,180,722
Operating lease right-of-use assets	**859,984**	-
Other assets, security deposits	**148,536**	76,536
Total long-term assets	**13,380,673**	9,257,258
Total assets	**$ 18,936,575**	$ 15,848,812
Liabilities and net assets:		
Current liabilities:		
Accounts payable	**$ 1,099,182**	$ 1,261,564
Accrued expenses	**445,862**	439,994
Notes payable, current portion	**1,841,129**	1,658,722
Finance lease liabilities, current portion	**750,913**	702,362
Operating lease liabilities, current portion	**770,959**	-
Total current liabilities	**4,908,045**	4,062,642
Long-term liabilities:		
Notes payable, net of current portion and debt issuance fees	**6,120,200**	3,998,712
Finance lease liabilities	**1,660,212**	2,435,873
Operating lease liabilities	**168,155**	-
Deferred rent	**-**	141,300
Total long-term liabilities	**7,948,567**	6,575,885
Total liabilities	**12,856,612**	10,638,527
Net assets:		
Without donor restrictions	**5,897,564**	5,158,112
With donor restrictions	**182,399**	52,173
Total net assets	**6,079,963**	5,210,285
Total liabilities and net assets	**$ 18,936,575**	$ 15,848,812

	2022			2021		
	Without donor restrictions	**With donor restrictions**	**Total**	Without donor restrictions	With donor restrictions	Total
Public support and revenue:						
Public support:						
Government contracts	**$ 6,389,746**		**$ 6,389,746**	$ 5,973,732		$ 5,973,732
Grants	**155,000**	**$ 711,486**	**866,486**	-	$ 332,640	332,640
Contributions	**11,774**		**11,774**	3,249		3,249
Net assets released from restrictions	**581,260**	**(581,260)**	**-**	617,092	(617,092)	-
Total public support	**7,137,780**	**130,226**	**7,268,006**	6,594,073	(284,452)	6,309,621
Revenue:						
Program service fees	**16,513,010**		**16,513,010**	17,501,827		17,501,827
Revenue/cost share	**(3,337,676)**		**(3,337,676)**	(4,262,491)		(4,262,491)
Rental income	**365,000**		**365,000**			
Investment income	**10,187**		**10,187**	5,484		5,484
Paycheck protection program loan forgiveness	**-**		**-**	1,373,900		1,373,900
Miscellaneous revenue	**39,345**		**39,345**	125,667		125,667
Total revenue	**13,589,866**		**13,589,866**	14,744,387		14,744,387
Total public support and revenue	**20,727,646**	**130,226**	**20,857,872**	21,338,460	(284,452)	21,054,008
Cost of good sold, processing and shipping costs	**(616,585)**		**(616,585)**	(560,895)		(560,895)
Total public support and revenue less cost of goods sold	**20,111,061**	**130,226**	**20,241,287**	20,777,565	(284,452)	20,493,113
Expenses:						
Program services	**18,119,226**		**18,119,226**	15,926,672		15,926,672
Management and general	**1,252,383**		**1,252,383**	1,223,917		1,223,917
Total expenses	**19,371,609**		**19,371,609**	17,150,589		17,150,589
Change in net assets	**739,452**	**130,226**	**869,678**	3,626,976	(284,452)	3,342,524
Net assets, beginning	**5,158,112**	**52,173**	**5,210,285**	1,531,136	336,625	1,867,761
Net assets, ending	**$ 5,897,564**	**$ 182,399**	**$ 6,079,963**	$ 5,158,112	$ 52,173	$ 5,210,285

See notes to consolidated financial statements.

THE NEIGHBORHOOD RECYCYLING CORPORATION
D/B/A EUREKA RECYCLING AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2022

	2022	2021
Cash flows from operating activities:		
Change in net assets	**$ 869,678**	$ 3,342,524
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**2,742,910**	2,508,068
Accretion of debt financing costs	**28,242**	23,662
Loss on sale of equipment	**15,833**	7,361
Paycheck protection program loan forgiveness		(1,373,900)
Decrease (increase) in:		
Accounts receivable	**281,825**	(409,469)
Inventory	**(187,288)**	(208,429)
Prepaid expenses	**1,507**	196,221
Other assets	**(72,000)**	-
Increase (decrease) in:		
Accounts payable	**(162,382)**	759,028
Accrued expenses	**5,868**	29,685
Deferred rent		(44,600)
Operating leases, right-of-use assets, lease liabilities and deferred rent	**(62,170)**	-
Net cash provided by operating activities	**3,462,023**	4,830,151
Cash flows used in investing activities, purchase of property and equipment	**(1,958,174)**	(863,164)
Cash flows from financing activities:		
Payments on:		
Notes payable	**(1,625,758)**	(1,692,058)
Capital leases	**-**	(624,759)
Finance leases	**(727,110)**	-
Payments for debt issuance fees	**(90,589)**	(2,027)
Net cash used in financing activities	**(2,443,457)**	(2,318,844)
Net change in cash	**(939,608)**	1,648,143
Cash, beginning of year	**3,836,471**	2,188,328
Cash, end of year	**$ 2,896,863**	$ 3,836,471
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 425,172**	$ 610,755
Supplemental disclosure of non-cash investing and financing activities:		
Note payable incurred for building purchase	**$ 3,992,000**	

THE NEIGHBORHOOD RECYCYLING CORPORATION
D/B/A EUREKA RECYCLING AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31

	2022			2021		
	Program services	Management and general	Total	Program services	Management and general	Total
Salaries	**$ 7,585,720**	**$ 551,701**	**$ 8,137,421**	$ 6,510,732	$ 540,088	$ 7,050,820
Employee benefits	**991,150**	**86,894**	**1,078,044**	767,770	69,398	837,168
Payroll taxes	**538,255**	**52,667**	**590,922**	426,166	38,804	464,970
Total salaries and related expenses	**9,115,125**	**691,262**	**9,806,387**	7,704,668	648,290	8,352,958
Advertising	**2,420**	**-**	**2,420**	3,693	-	3,693
Bad debt expense	**-**	**-**	**-**	42,526	-	42,526
Conferences and meetings	**137,430**	**74,993**	**212,423**	51,222	47,949	99,171
Contractual services	**170,035**	**111,891**	**281,926**	121,328	136,550	257,878
Dues and subscriptions	**74,198**	**45,677**	**119,875**	72,032	54,798	126,830
Equipment maintenance	**1,446,561**	**28,680**	**1,475,241**	1,137,423	42,787	1,180,210
Fleet maintenance	**381,630**	**-**	**381,630**	539,588	-	539,588
Fuel	**853,702**	**-**	**853,702**	584,320	-	584,320
Hauler fees	**185,984**	**1,257**	**187,241**	119,629	179	119,808
Grants and other assistance	**163,311**	**400**	**163,711**	394,064	-	394,064
Insurance	**334,283**	**10,439**	**344,722**	316,583	15,758	332,341
Interest expense	**443,326**	**634**	**443,960**	571,685	138	571,823
Licenses and permits	**35,764**	**175**	**35,939**	31,128	-	31,128
Recycling bins	**42,667**	**-**	**42,667**	3,443	-	3,443
Miscellaneous	**132,143**	**57,158**	**189,301**	209,098	64,465	273,563
Occupancy	**920,585**	**18,348**	**938,933**	973,503	18,613	992,116
Postage	**2,889**	**1,537**	**4,426**	6,379	1,066	7,445
Printing and publications	**22,341**	**339**	**22,680**	13,907	933	14,840
Professional fees	**27,305**	**48,765**	**76,070**	14,358	38,003	52,361
Supplies	**142,406**	**10,648**	**153,054**	141,736	10,868	152,604
Real estate taxes	**95,605**	**-**	**95,605**	-	-	-
Telephone and communication	**63,566**	**8,360**	**71,926**	55,664	13,615	69,279
Travel	**39,978**	**646**	**40,624**	15,559	112	15,671
Truck rental	**235,684**	**-**	**235,684**	32,877	-	32,877
Uniforms	**67,356**	**-**	**67,356**	59,258	49	59,307
Utilities	**373,577**	**7,619**	**381,196**	320,879	11,798	332,677
Total functional expenses before depreciation, amortization and cost of goods sold	**15,509,871**	**1,118,828**	**16,628,699**	13,536,550	1,105,971	14,642,521
Depreciation and amortization	**2,609,355**	**133,555**	**2,742,910**	2,390,122	117,946	2,508,068
Cost of goods sold, included with revenue on the consolidated statement of activities	**616,585**		**616,585**	560,895		560,895
Total functional expenses	**18,735,811**	**1,252,383**	**19,988,194**	16,487,567	1,223,917	17,711,484
Less cost of goods sold, included with revenue on the consolidated statement of activities	**(616,585)**	**-**	**(616,585)**	(560,895)	-	(560,895)
Total expenses included in the expense section on the consolidated statement of activities	**$ 18,119,226**	**$ 1,252,383**	**$ 19,371,609**	$ 15,926,672	$ 1,223,917	$ 17,150,589

See notes to consolidated financial statements.

1. Summary of significant accounting policies:

Nature of business:

Eureka Recycling and Subsidiary (Eureka) was incorporated under the laws of the State of Minnesota in November 2001, as a 501(c)(3) non-profit organization, classified as a public charity. Eureka Recycling's mission is to demonstrate that waste is preventable, not inevitable. Eureka is a zero-waste organization located in the Twin Cities of Minneapolis and Saint Paul with a wide range of initiatives focusing on reusing, recycling, composting, waste reduction, producer responsibility and more.

Additionally, Eureka is the sole member of a newly formed LLC called Keep it in the Ground, LLC (the LLC). In 2022, the LLC was formed to hold Eureka's land and certain building assets. The LLC received initial funding from Eureka and receives rental income from the renters located at the purchased property.

Description of programs:

Eureka Recycling's services, program, and policy work present solutions to the social, environmental, and health problems caused by wasting.

Perhaps most well-known for its recycling operations, the Organization has provided curbside and apartment recycling services, education, and advocacy since 2001. The Organization operates a material recovery facility, opened in 2004, where collected recyclables are sorted into different commodity categories and then marketed to different markets to be turned into new products. Eureka researches, develops and promotes best practices around sorting recycling to achieve environmental highest and best use and shares these practices nationally. Eureka provides hundreds of tours of the facility to educate the community and businesses on recycling and zero waste and does educational events for schools and community organizations.

Eureka Recycling has a wide range of initiatives designed to prevent the needless wasting of our discards through reuse, recycling, composting, waste reduction, proper responsibility and more. These initiatives provide over a hundred jobs for individuals who demonstrate their mission every day in the work that they do. Eureka Recycling provides consulting to events in the community on how to be zero waste and manages the waste discards for several events in the Twin Cities. Eureka Recycling collaborates with individuals and organizations to move our community towards zero waste. Eureka Recycling also examines how waste can be prevented before we turn to recycling and composting and calls for accountability from the producers of packaging and products to better design their goods.

By its efforts in programs, services and advocacy, Eureka Recycling aspires to help individuals, organizations, and communities understand the significance of zero waste and to achieve their own zero-waste goals.

Principles of consolidation:

The consolidated financial statements include the LLC. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as the Organization.

1. Summary of significant accounting policies (continued):

Income tax:

The Organization is exempt, as a public charity, from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state income tax laws.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain tax position that more likely than not would not be sustained upon examination by taxing authorities. Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

Accounting for net assets:

The Organization's financial statements are segregated into classes of net assets according to the use of related resources. These classes of net assets are summarized as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net assets with donor restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization did not have any restrictions that were held in perpetuity as of December 31, 2022 and 2021. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Adoption of new lease standard:

As of January 1, 2022, the Organization adopted ASU 2016-12 – Leases (Topic 842) under the modified retrospective approach and has chosen the transition method of not adjusting comparative periods. Under this standard, the Organization determines if an arrangement is a lease at inception.

The Organization leases a building and certain equipment. These qualify as operating leases and are included in operating lease right-of-use ("ROU") assets, current portion of operating lease liabilities and long-term portion of operating lease liabilities in its consolidated statement of financial position (see Note 9). Operating lease ROU assets and operating lease liabilities are recognized based on the present value of lease payments over the lease term at the commencement date. Because one of the Organization's operating leases does not provide an implicit rate of return, the Organization has elected the option to use the risk-free rate using a period comparable to the lease term. The Organization uses the ten-year U.S. Treasury Note rate respective to the life of the lease based on the information available at commencement date in determining the present value of lease payments. Operating lease ROU assets are reduced by lease incentives received. The Organization has adopted other accounting policy elections related to this standard including election of not recognizing right-of-use assets and lease liabilities arising from short-term leases for any class of underlying assets.

Additionally, the Organization has leases that meet the finance lease criteria, which were previously recorded as capital leases in 2021 (see Note 8).

1. Summary of significant accounting policies (continued):

Revenue recognition:

Government contracts:

Government contracts relate to collections of unprocessed recyclable materials for the recycling program. Revenues are recognized over time as collections are completed and in accordance with each city contract. Cities are located in the Twin Cities metro area.

Revenue/cost share:

Revenue share is related to government and private contracts that agree to share the revenue earned from the sale of a city's recyclable materials. Revenue is earned over time as recycling material is processed. In these contracts, the net revenue earned from the sale of processed recycled material is shared with the city and therefore results in a cost to the Organization. Similarly, if the cost to process the recyclable material is more than the processed material can be sold for, a city will reimburse the organization for the excess cost to process their recyclable material which, therefore, results in income to the Organization. In 2022 and 2021, this process yielded a cost to the Organization shown as an expense on the consolidated statement of activities.

Program service fees:

Program service fees primarily relate to the sale of processed recyclable materials to manufacturers across the U.S. Revenues are recognized at the time of sale of the material, which can be at the shipping point or destination based on the contract and are based on tonnage sold.

Grants and contributions:

Grants and contributions received are recorded as with or without donor restrictions depending on the existence and/or nature of any donor restrictions. All grants and contributions are considered without donor restrictions unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or restricted purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

Rental income:

Rental income is an exchange transaction and is recorded as revenue each month as rents become due each month.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Inventory is considered a significant estimate.

1. Summary of significant accounting policies (continued):

Accounts receivable:

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management reviews outstanding balances and provides an allowance against those that are deemed to be uncollectible. After management has used exhaustive collection efforts, accounts receivable balances are written off against the allowance. At December 31, 2022 and 2021 an allowance of $6,622 was recorded.

Opening and closing balances for contract assets, and accounts receivable arising from contracts with customers include:

	December 31, 2022	December 31, 2021	January 1, 2021
Accounts receivable, net	**$ 1,560,228**	$ 1,842,053	$ 1,432,584

Inventory:

Recycling inventory is composed of processed and unprocessed recyclable materials collected through curbside pick-up or from third party haulers. Since inventory is not purchased, inventory is stated at the lower of cost or net realizable value. Costs consist of processing and shipping. Net realizable value is based upon commodity prices at the consolidated statement of financial position date. The Organization's processing and shipping fees are included in cost of sales on the consolidated statements of activities and functional expenses.

Inventory for truck and machine parts is maintained on a periodic system and is stated at cost. Inventory is generally recorded as expenditures/expenses when consumed.

Property and equipment and depreciation:

Equipment is stated at cost or fair market value on the date of acquisition or donation. Depreciation is provided using the straight-line method over the estimated useful lives. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to expense as incurred, whereas significant betterments greater than $5,000 are capitalized.

Other assets, security deposits:

The Organization paid security deposits in accordance with the terms of its lease agreements.

Collective bargaining agreement:

The Organization has two collective bargaining agreements that expire on November 6, 2027 and September 1, 2025, respectively. At December 31, 2022 and 2021, approximately 33% of the Organization's employees were covered by the agreements.

Functional allocation of expenses:

The costs of providing the various programs operated by the Organization have been presented on a functional basis. The Organization budgets and tracks expenses by department, and departments are assigned to program or management and general expenses. Additionally, certain costs (ex. occupancy, and utilities) have been allocated among the departments, and therefore the programs and supporting services benefited.

The fundraising expenses of the Organization are insignificant and have been included with management and general expenses.

1. Summary of significant accounting policies (continued):

Reclassifications:

Certain reclassifications have been made to the 2021 financial statements to conform to the 2022 presentation.

Subsequent events:

The Organization evaluated for subsequent events through June 2, 2023, the date the financial statements were available for issuance.

2. Liquidity and availability:

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2022	2021
Financial assets at year-end:		
Cash	**$ 2,896,863**	$ 3,836,471
Accounts receivable, net of allowance	**1,560,228**	1,842,053
Financial assets available to meet general expenditures over the next twelve months	**$ 4,457,091**	$ 5,678,524

While the Organization has net assets with donor restrictions as to purpose as of December 31, 2022 and 2021, these assets are expected to be spent within one year. The Organization's liquidity goal is to have approximately $350,000 in cash.

The Organization also has a line of credit available to meet short-term needs. See Note 5 for information regarding the line of credit. The Organization has certain debt covenants with which the Organization must comply related to the Organization's line of credit and notes payable as described in Note 5 and 6.

3. Cash in excess of insured limits:

The Organization maintains cash deposits with financial institutions in amounts that, from time to time, may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit. No losses have been incurred with respect to such deposits.

4. Property, plant, equipment, and finance lease right-of-use assets:

Property, plant, equipment, and finance lease right-of-use assets consist of the following at December 31:

	2022	2021
Land	**$ 1,908,112**	$ -
Building	**2,975,505**	-
Vehicles	**4,630,698**	8,070,007
Equipment	**350,218**	506,238
Recycling carts	**1,012,459**	926,596
Processing equipment	**10,391,241**	11,283,583
Leasehold improvements	**1,009,717**	981,867
Finance lease right-of-use assets	**4,344,527**	-
Construction in process - equipment	**554,719**	353,146
	27,177,196	22,121,437
Less accumulated depreciation	**(14,805,043)**	(12,940,715)
Net property and equipment, and finance lease right-of-use assets	**$ 12,372,153**	$ 9,180,722

Depreciation expense was $2,742,910 and $2,508,068 in 2022 and 2021, respectively.

5. Line of credit:

During the year ended December 31, 2022 the Organization entered into a line of credit agreement up to $1,000,000, expiring February 11, 2024 with an interest rate of 7.75%. The line of credit is collateralized by substantially all business assets of the Organization and includes various covenants, including a certain financial ratio, with which the Organization must comply. At December 31, 2022, no advances were outstanding under the line of credit agreement.

6. Notes payable, net of debt issuance fees:

	2022	2021
Notes payable, due in varying amounts through May 2027, with interest varying between 3.25% and 4.50%. The notes are secured by business assets, including recycling trucks and equipment.	**$ 8,039,601**	$ 5,673,359
Less debt issuance fees, net	**(78,272)**	(15,925)
Total notes payable, net of debt issuance fees	**7,961,329**	5,657,434
Less current portion	**(1,841,129)**	(1,658,722)
Total notes payable, net of current portion and debt issuance fees	**$ 6,120,200**	$ 3,998,712

6. Notes payable, net of debt issuance fees (continued):

Future minimum debt payments are as follows:

2023	$ 1,841,129
2024	1,944,622
2025	425,199
2026	110,676
2027	3,717,975
Total notes payable	$ 8,039,601

	2022	2021
Debt issuance fees	**$ 94,995**	$ 104,780
Less accretion of debt financing costs	**(16,723)**	(88,855)
Debt issuance fees, net	**$ 78,272**	$ 15,925

Accretion of debt financing costs for the years ended December 31, 2022 and 2021 was $28,242 and $23,611, respectively, and is included in interest expense.

Estimated accretion of debt financing costs is as follows for the next five years and thereafter: $21,994 in 2023, $21,565 in 2024, $15,167 in 2025, $13,097 in 2026, $6,449 in 2027.

7. Net assets with donor restrictions:

Net assets with donor restrictions are restricted for the following purpose:

	2022	2021
Net assets with donor restrictions subject to expenditure for passage of time	**$ 155,000**	$ -
Net assets with donor restrictions subject to expenditure for specified purpose, support the creation of an association of mission based recyclers	**27,399**	52,173
Total net assets with donor restrictions	**$ 182,399**	$ 52,173

7. Net assets with donor restrictions (continued):

		2022		2021
Net assets released from donor restrictions subject to expenditure for specified purpose,				
Support the work of Alliance of Mission Based Recyclers from Schmidt Foundation and Plastics Solutions Fund	**$**	**393,174**	$	558,502
Schmidt		**-**		50,000
Green cost shares		**50,000**		-
Department of Energy electric truck grant		**41,891**		-
TRP grant		**80,000**		-
Minnesota dual training		**16,195**		8,590
Total net assets released from restrictions	**$**	**581,260**	$	617,092

8. Finance Leases:

The Organization has several finance leases with interest ranging from 0% to 7.20% and monthly principal and interest payments ranging from $1,002 to $40,082 with maturity dates through March 2027. The balance is secured by vehicles.

The cost and accumulated amortization related to assets that were held under finance leases are as follows:

		2022		2021
Cost	**$**	**4,344,527**	$	4,312,037
Less accumulated amortization		**(2,125,793)**		(1,353,174)
Net book value	**$**	**2,218,734**	$	2,958,863

Amortization expense relating to the finance leases, which is included in depreciation expense, was $770,557 and $669,879 for 2022 and 2021, respectively.

8. Finance Leases (continued):

Future principal and interest payments under all finance leases as of December 31, 2022, are as follows:

Year ending December 31	Amount
2023	$ 861,886
2024	765,644
2025	585,816
2026	406,118
2027	28,135
Total minimum finance lease payments	2,647,599
Less amount representing interest	236,474
Present value of net minimum finance lease payments	$ 2,411,125

The weighted-average remaining lease term is 3.4 years (or 40.6 months) for finance leases, as of December 31, 2022. The weighted-average discount rate is 4.78% for finance leases, as of December 31, 2022.

9. Operating Leases:

Operating leases:

The Organization maintains operating lease agreements for an office building, operating facility, and office equipment. The agreements expire at various dates through September 2026. The Organization must also pay a certain proportionate share of operating expenses including utilities and real estate taxes.

Total rental and operating lease expense was $784,562 and $992,116 for the years ended December 31, 2022 and 2021, respectively.

9. Operating Leases (continued):

Operating leases (continued):

The future minimum lease payments for operating lease liabilities as of December 31, 2022, are as follows:

Year ending December 31	Amount
2023	$ 783,275
2024	144,367
2025	19,916
2026	4,617
	952,175
Less amount representing interest	13,061
Total operating lease liabilities	$ 939,114

The weighted-average remaining lease term is 1.2 years or (14.5 months) for operating leases, as of December 31, 2022. The weighted-average discount rate is 2.44% for operating leases, as of December 31, 2022.

10. Pension plan:

The Organization sponsors a defined contribution pension plan whereby it contributes a discretionary percentage of an employee's gross salary to a 403(b) Retirement Plan. All employees are eligible to participate in this plan after being employed for one year.

Beginning on July 16, 2021 all employees, including those covered under the collective bargaining agreement, received a 2% employer contribution made in the year ended December 31, 2022. The two collective bargaining agreements require the Organization to contribute 1% and 2% of the gross wages for employees covered under the collective bargaining agreements, respectively. Employer contributions over the amount required by the collective bargaining agreement, and for employees not covered by the agreement, were discretionary. The Organization contributed $140,220 and $67,650 to the plan during the years ended December 31, 2022 and 2021 respectively.

Subsequent to year end, beginning May 1, 2023, the Organization will, on behalf of employees covered under one of the collective bargaining agreements, contribute $4.38 to the benefit plan for each hour worked as defined by the agreement up to a maximum of 40 hours per week.

11. Concentrations:

The Organization has a five-year contract to provide recycling services for the City of St. Paul, which had an initial expiration of April 2022. The parties went through the renewal process and operated under similar terms until a new contract was signed with an effective date of May 1, 2023, and expiration date of October 31, 2024. The revenue earned under this contract, included in government contracts, for the years ended December 31, 2022 and 2021, was $4,987,340 and $4,888,762, respectively, representing 25% and 24% of total public support and revenue, respectively.

The Organization sold recyclable materials to one major customer in 2022 and 2021. Sales to this customer, included in program fees, for the years ended December 31, 2022 and 2021, were $5,667,316 and $6,127,234, respectively, representing 29% and 30%, respectively, of the total public support and revenue.

At December 31, 2022 and 2021, one customer accounted for approximately 29% and 12% of the accounts receivable balances, respectively.

	Eureka	Keep It In the Ground, LLC	Eliminations	Total
Assets:				
Current assets:				
Cash	$ 2,736,024	$ 160,839	$ -	$ 2,896,863
Accounts receivable, net of allowance	1,560,228	-	-	1,560,228
Inventory	940,987	-	-	940,987
Prepaid expenses	157,824	-	-	157,824
Total current assets	5,395,063	160,839	-	5,555,902
Property, plant, equipment, and finance lease right-of-use assets, net	7,539,399	4,832,754	-	12,372,153
Operating lease right-of-use assets, net	859,984	-	-	859,984
Other assets, security deposits	76,536	72,000	-	148,536
Total long-term assets	8,475,919	4,904,754	-	13,380,673
Total assets	$ 13,870,982	$ 5,065,593	$ -	$ 18,936,575
Liabilities and net assets:				
Current liabilities:				
Accounts payable	$ 1,095,560	$ 3,622	$ -	$ 1,099,182
Accrued expenses	445,862	-	-	445,862
Notes payable, current portion	1,841,129	-	-	1,841,129
Finance lease liabilities, current portion	750,913	-	-	750,913
Operating lease liabilities, current portion	770,959	-	-	770,959
Total current liabilities	4,904,423	3,622	-	4,908,045
Long-term liabilities:				
Notes payable, net of current portion and debt issuance fees	2,186,683	3,933,517	-	6,120,200
Finance lease liabilities	1,660,212	-	-	1,660,212
Operating lease liabilities	168,155	-	-	168,155
Total long-term liabilities	4,015,050	3,933,517	-	7,948,567
Total liabilities	8,919,473	3,937,139	-	12,856,612
Net assets:				
Without donor restrictions	4,769,110	1,128,454	-	5,897,564
With donor restrictions	182,399	-	-	182,399
Total net assets	4,951,509	1,128,454	-	6,079,963
Total liabilities and net assets	$ 13,870,982	$ 5,065,593	$ -	$ 18,936,575

	Eureka			Keep It In the Ground, LLC		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions Total	Eliminations	Total
Public support and revenue:						
Public support:						
Government contracts	$ 6,389,746	$ -	$ 6,389,746	$ -	$ -	$ 6,389,746
Grants	155,000	711,486	866,486	-		866,486
Contributions	11,774		11,774	1,023,143	(1,023,143)	11,774
Net assets released from restrictions	581,260	(581,260)	-	-		-
Total public support	7,137,780	130,226	7,268,006	1,023,143	(1,023,143)	7,268,006
Revenue:						
Program service fees	16,513,010		16,513,010	-		16,513,010
Revenue/cost share	(3,337,676)		(3,337,676)	-		(3,337,676)
Rental income	-		-	365,000		365,000
Investment income	10,111		10,111	76		10,187
Paycheck protection program loan forgiveness	-		-	-		-
Miscellaneous revenue	39,345		39,345	-	-	39,345
Total revenue	13,224,790		13,224,790	365,076	-	13,589,866
Total public support and revenue	20,362,570	130,226	20,492,796	1,388,219	(1,023,143)	20,857,872
Cost of good sold, processing and shipping costs	(616,585)		(616,585)	-	-	(616,585)
Total public support and revenue less cost of goods sold	19,745,985	130,226	19,876,211	1,388,219	(1,023,143)	20,241,287
Expenses:						
Program services	18,882,604		18,882,604	259,765	(1,023,143)	18,119,226
Management and general	1,252,383		1,252,383	-		1,252,383
Total expenses	20,134,987		20,134,987	259,765	(1,023,143)	19,371,609
Change in net assets	(389,002)	130,226	(258,776)	1,128,454		869,678
Net assets, beginning	5,158,112	52,173	5,210,285	-	-	5,210,285
Net assets, ending	$ 4,769,110	$ 182,399	$ 4,951,509	$ 1,128,454	$ -	$ 6,079,963

	Eureka	Keep It In the Ground, LLC	Eliminations	Total
Cash flows from operating activities:				
Change in net assets	$ (258,776)	$ 1,128,454	$ -	$ 869,678
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation and amortization	2,692,047	50,863		2,742,910
Accretion of debt financing costs	21,744	6,498		28,242
Loss on sale of equipment	15,833	-		15,833
Decrease (increase) in:				
Accounts receivable	281,825	-		281,825
Inventory	(187,288)	-		(187,288)
Prepaid expenses	1,507	-		1,507
Other assets	-	(72,000)		(72,000)
Increase (decrease) in:				
Accounts payable	(166,004)	3,622		(162,382)
Accrued expenses	5,868	-		5,868
Operating leases, right-of-use assets, lease liabilities and deferred rent	(62,170)	-		(62,170)
Net cash provided by operating activities	2,344,586	1,117,437		3,462,023
Cash flows from investing activities, purchase of property and equipment	(1,066,557)	(891,617)		(1,958,174)
Cash flows from financing activities:				
Payments on:				
Notes payable	(1,625,758)	-		(1,625,758)
Finance leases	(727,110)	-		(727,110)
Payments for debt issuance fees	(25,608)	(64,981)		(90,589)
Net cash (used in) provided by financing activities	(2,378,476)	(64,981)		(2,443,457)
Net change in cash and restricted cash	(1,100,447)	160,839		(939,608)
Cash, beginning of year	3,836,471	-		3,836,471
Cash, end of year	$ 2,736,024	$ 160,839		$ 2,896,863
Supplemental disclosure of cash flow information:				
Cash paid for interest	$ 342,115	$ 83,057	$ -	$ 425,172
Non-cash investing and financing activity:				
Loan incurred for building purchase		$ 3,992,000		

Financial statements of:

THE NEIGHBORHOOD RECYCLING CORPORATION D/B/A EUREKA RECYCLING

(A Non-Profit Corporation)

Years ended
December 31, 2021 and 2020

SDK
Schechter Dokken Kanter
CPAs ■ Business Advisors

Suite 1600
100 Washington Avenue South
Minneapolis, MN 55401-2192

P 612.332.5500 F 612.332.1529
www.sdkcpa.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Neighborhood Recycling Corporation
d/b/a Eureka Recycling
Minneapolis, Minnesota

Opinion

We have audited the financial statements of The Neighborhood Recycling Corporation d/b/a Eureka Recycling (the Organization), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2021 and 2020, 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 audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the financial statements are 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 GAAS 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 are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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.

Schechter Dokken Kanter
Andrews & Selcer Ltd.

April 29, 2022

THE NEIGHBORHOOD RECYCYLING CORPORATION
D/B/A EUREKA RECYCLING

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31

	2021	2020
Assets:		
Current assets:		
Cash	**$ 3,836,471**	$ 2,177,269
Accounts receivable, net of allowance in 2021	**1,842,053**	1,432,584
Inventory	**753,699**	545,270
Prepaid expenses	**159,331**	355,552
Total current assets	**6,591,554**	4,510,675
Property, plant and equipment, net	**9,180,722**	9,930,531
Restricted cash, funds held for others	**-**	11,059
Other assets, security deposits	**76,536**	76,536
Total long-term assets	**9,257,258**	10,018,126
Total assets	**$ 15,848,812**	$ 14,528,801
Liabilities and net assets:		
Current liabilities:		
Accounts payable	**$ 1,261,564**	$ 502,536
Accrued expenses	**439,994**	410,309
Notes payable, current portion	**1,658,722**	1,690,259
Capital leases, current portion	**702,362**	533,341
Total current liabilities	**4,062,642**	3,136,445
Long-term liabilities:		
Notes payable, net of current portion and debt issuance fees	**4,058,191**	7,070,977
Capital leases, net of current portion	**2,376,394**	2,267,718
Deferred rent	**141,300**	185,900
Total long-term liabilities	**6,575,885**	9,524,595
Total liabilities	**10,638,527**	12,661,040
Net assets:		
With donor restrictions	**52,173**	336,625
Without donor restrictions	**5,158,112**	1,531,136
Total net assets	**5,210,285**	1,867,761
Total liabilities and net assets	**$ 15,848,812**	$ 14,528,801

	2021			2020		
	Without donor restrictions	**With donor restrictions**	**Total**	Without donor restrictions	With donor restrictions	Total
Public support and revenue:						
Public support:						
Government contracts	**$ 5,973,732**		**$ 5,973,732**	$ 5,801,701		$ 5,801,701
Grants		**$ 332,640**	**332,640**	-	$ 458,379	458,379
Contributions	**3,249**		**3,249**	13,077		13,077
Net assets released from restrictions	**617,092**	**(617,092)**	**-**	223,138	(223,138)	-
Total public support	**6,594,073**	**(284,452)**	**6,309,621**	6,037,916	235,241	6,273,157
Revenue:						
Program service fees	**17,501,827**		**17,501,827**	8,961,676		8,961,676
Revenue/cost share	**(4,262,491)**		**(4,262,491)**	1,630,306		1,630,306
Investment income	**5,484**		**5,484**	2,558		2,558
Paycheck protection program loan forgiveness	**1,373,900**		**1,373,900**	-		-
Miscellaneous revenue	**125,667**		**125,667**	8,081		8,081
Total revenue	**14,744,387**		**14,744,387**	10,602,621		10,602,621
Total public support and revenue	**21,338,460**	**(284,452)**	**21,054,008**	16,640,537	235,241	16,875,778
Cost of good sold, processing and shipping costs	**(560,895)**		**(560,895)**	(528,056)		(528,056)
Total public support and revenue less cost of goods sold	**20,777,565**	**(284,452)**	**20,493,113**	16,112,481	235,241	16,347,722
Expenses:						
Program services	**15,926,672**		**15,926,672**	14,589,155		14,589,155
Management and general	**1,223,917**		**1,223,917**	774,975		774,975
Total expenses	**17,150,589**		**17,150,589**	15,364,130		15,364,130
Change in net assets	**3,626,976**	**(284,452)**	**3,342,524**	748,351	235,241	983,592
Net assets, beginning	**1,531,136**	**336,625**	**1,867,761**	782,785	101,384	884,169
Net assets, ending	**$ 5,158,112**	**$ 52,173**	**$ 5,210,285**	$ 1,531,136	$ 336,625	$ 1,867,761

THE NEIGHBORHOOD RECYCLING CORPORATION
D/B/A EUREKA RECYCLING

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31

	2021	2020
Cash flows from operating activities:		
Change in net assets	**$ 3,342,524**	$ 983,592
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**2,508,068**	2,522,417
Accretion of debt financing costs	**23,662**	12,818
Loss on sale of equipment	**7,361**	64,699
Paycheck protection program loan forgiveness	**(1,373,900)**	
Decrease (increase) in:		
Accounts receivable	**(409,469)**	1,611
Inventory	**(208,429)**	(226,135)
Prepaid expenses	**196,221**	(243,449)
Increase (decrease) in:		
Accounts payable	**759,028**	(118,191)
Accrued expenses	**29,685**	9,200
Deferred rent	**(44,600)**	(12,000)
Net cash provided by operating activities	**4,830,151**	2,994,562
Cash flows from investing activities		
Purchase of property and equipment	**(863,164)**	(701,513)
Proceeds on sale of equipment	**-**	717,146
Net cash (used in) provided by investing activities	**(863,164)**	15,633
Cash flows from financing activities:		
Net payments on line of credit	**-**	(500,000)
Payments on:		
Long-term debt	**(1,692,058)**	(1,877,655)
Capital leases	**(624,759)**	(413,056)
Proceeds from long-term debt	**-**	1,733,865
Payments for debt issuance fees	**(2,027)**	(2,430)
Net cash used in financing activities	**(2,318,844)**	(1,059,276)
Net change in cash and restricted cash	**1,648,143**	1,950,919
Cash and restricted cash, beginning of year	**2,188,328**	237,409
Cash and restricted cash, end of year	**$ 3,836,471**	$ 2,188,328
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 610,755**	$ 636,365
Supplemental disclosure of non-cash investing and financing activities:		
Capital lease obligations incurred for equipment	**$ 902,456**	$ 1,155,286

See notes to financial statements.

THE NEIGHBORHOOD RECYCYLING CORPORATION
D/B/A EUREKA RECYCLING

STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31

	2021			2020		
	Program services	**Management and general**	**Total**	Program services	Management and general	Total
Salaries	**$ 6,510,732**	**$ 540,088**	**$ 7,050,820**	$ 6,302,806	$ 389,827	$ 6,692,633
Employee benefits	**767,770**	**69,398**	**837,168**	672,185	19,220	691,405
Payroll taxes	**426,166**	**38,804**	**464,970**	390,824	36,702	427,526
Total salaries and related expenses	**7,704,668**	**648,290**	**8,352,958**	7,365,815	445,749	7,811,564
Advertising	**3,693**	**-**	**3,693**	559	-	559
Bad debt expense	**42,526**	**-**	**42,526**	-	-	-
Conferences and meetings	**51,222**	**47,949**	**99,171**	32,835	26,595	59,430
Contractual services	**121,328**	**136,550**	**257,878**	136,245	104,716	240,961
Covid-19 supplies	**-**	**-**	**-**	28,184	3,132	31,316
Dues and subscriptions	**72,032**	**54,798**	**126,830**	42,190	27,336	69,526
Equipment and computer maintenance	**1,137,423**	**42,787**	**1,180,210**	681,205	3,283	684,488
Fleet maintenance	**539,588**	**-**	**539,588**	539,875	-	539,875
Fuel	**584,320**	**-**	**584,320**	417,441	-	417,441
Hauler fees	**119,629**	**179**	**119,808**	79,558	132	79,690
Grants and other assistance	**394,064**	**-**	**394,064**	-	-	-
Insurance	**316,583**	**15,758**	**332,341**	412,889	19,021	431,910
Interest expense	**571,685**	**138**	**571,823**	635,360	1,005	636,365
Licenses and permits	**31,128**	**-**	**31,128**	30,604	870	31,474
Materials	**3,443**	**-**	**3,443**	1,941	-	1,941
Miscellaneous	**209,098**	**64,465**	**273,563**	207,202	22,538	229,740
Occupancy	**973,503**	**18,613**	**992,116**	948,621	10,934	959,555
Postage	**6,379**	**1,066**	**7,445**	1,974	817	2,791
Printing and publications	**13,907**	**933**	**14,840**	10,260	518	10,778
Professional fees	**14,358**	**36,753**	**51,111**	31,717	50,068	81,785
Retirement administration	**-**	**1,250**	**1,250**	-	1,567	1,567
Supplies	**141,736**	**10,868**	**152,604**	117,799	2,848	120,647
Telephone and communication	**55,664**	**13,615**	**69,279**	50,981	12,259	63,240
Travel	**48,436**	**112**	**48,548**	8,308	-	8,308
Uniforms	**59,258**	**49**	**59,307**	57,256	-	57,256
Utilities	**320,879**	**11,798**	**332,677**	265,935	3,571	269,506
Total functional expenses before depreciation, amortization and cost of goods sold	**13,536,550**	**1,105,971**	**14,642,521**	12,104,754	736,959	12,841,713
Depreciation and amortization	**2,390,122**	**117,946**	**2,508,068**	2,484,401	38,016	2,522,417
Cost of goods sold, included with revenue on the statement of activities	**560,895**		**560,895**	528,056		528,056
Total functional expenses	**16,487,567**	**1,223,917**	**17,711,484**	15,117,211	774,975	15,892,186
Less cost of goods sold, included with revenue on the statement of activities	**(560,895)**		**(560,895)**	(528,056)		(528,056)
Total expenses included in the expense section on the statement of activities	**$ 15,926,672**	**$ 1,223,917**	**$ 17,150,589**	$ 14,589,155	$ 774,975	$ 15,364,130

See notes to financial statements.

1. Summary of significant accounting policies:

Nature of business:

Eureka Recycling (the Organization) was incorporated under the laws of the State of Minnesota in November 2001, as a non-profit organization. Eureka is a zero-waste organization located in the Twin Cities of Minneapolis and Saint Paul with a wide range of initiatives focusing on reusing, recycling, composting, waste reduction, producer responsibility and more.

Description of programs:

Eureka Recycling's services, program, and policy work present solutions to the social, environmental, and health problems caused by wasting. A 501(c)(3) nonprofit organization, based in the Twin Cities of Saint Paul and Minneapolis, Eureka Recycling's mission is to demonstrate that waste is preventable, not inevitable.

Perhaps most well-known for its recycling operations, the Organization has provided curbside and apartment recycling services, education, and advocacy since 2001. The Organization operates a material recovery facility, opened in 2004, where collected recyclables are sorted into different commodity categories and then marketed to different markets to be turned into new products. Eureka researches, develops and promotes best practices around sorting recycling to achieve environmental highest and best use and shares these practices nationally. Eureka provides hundreds of tours of the facility to educate the community and businesses on recycling and zero waste and does educational events for schools and community organizations.

Eureka Recycling has a wide range of initiatives designed to prevent the needless wasting of our discards through reuse, recycling, composting, waste reduction, proper responsibility and more. These initiatives provide over a hundred jobs for individuals who demonstrate their mission every day in the work that they do. Eureka Recycling provides consulting to events in the community on how to be zero waste and manages the waste discards for several events in the Twin Cities. Eureka Recycling collaborates with individuals and organizations to move our community towards zero waste. Eureka Recycling also examines how waste can be prevented before we turn to recycling and composting and calls for accountability from the producers of packaging and products to better design their goods.

By its efforts in programs, services and advocacy, Eureka Recycling aspires to help individuals, organizations, and communities understand the significance of zero waste and to achieve their own zero-waste goals.

Income tax:

The Organization is exempt, as a public charity, from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state income tax laws.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain tax position that more likely than not would not be sustained upon examination by taxing authorities. Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

1. Summary of significant accounting policies (continued):

Accounting for net assets:

The Organization's financial statements are segregated into classes of net assets according to the use of related resources. These classes of net assets are summarized as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net assets with donor restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization did not have any restrictions that were perpetual in nature as of December 31, 2021 and 2020. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue recognition:

Government contracts:

Government contracts relate to collections of unprocessed recyclable materials for the recycling program. Revenues are recognized over time as collections are completed and in accordance with each city contract. Cities are located in the Twin Cities metro area.

Revenue/cost share:

Revenue share is related to government and private contracts that agree to share the revenue earned from the sale of a city's recyclable materials. Revenue is earned over time as recycling material is processed. In these contracts, the net revenue earned from the sale of processed recycled material is shared with the city and therefore results in a cost to the Organization. Similarly, if the cost to process the recyclable material is more than the processed material can be sold for, a city will reimburse the organization for the excess cost to process their recyclable material which, therefore, results in income to the Organization. In 2021, this process yielded a cost to the Organization shown as an expense on the statement of activities. In 2020, this process yielded a reimbursement to the Organization shown in revenue on the statement of activities.

Program service fees:

Program service fees primarily relate to the sale of processed recyclable materials to manufacturers across the U.S. Revenues are recognized at the time of sale of the material, which can be at the shipping point or destination based on the contract and are based on tonnage sold.

1. Summary of significant accounting policies (continued):

Revenue recognition (continued):

Grants and contributions:

Grants and contributions received are recorded as with or without donor restrictions depending on the existence and/or nature of any donor restrictions. All grants and contributions are considered without donor restrictions unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or restricted purpose 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.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Inventory is considered a significant estimate.

Accounts receivable:

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management reviews outstanding balances and provides an allowance against those that are deemed to be uncollectible. After management has used exhaustive collection efforts, accounts receivable balances are written off against the allowance. At December 31, 2021 an allowance of $6,622 was recorded. Accounts receivable at December 31, 2020 were deemed collectible; therefore no allowance was recorded.

Inventory:

Recycling inventory is composed of processed and unprocessed recyclable materials collected through curbside pick-up or from third party haulers. Since inventory is not purchased, inventory is stated at the lower of cost or net realizable value. Costs consist of processing and shipping. Net realizable value is based upon commodity prices at the statement of financial position date. The Organization’s processing and shipping fees are included in cost of sales on the statements of activities and functional expenses.

Inventory for truck and machine parts is maintained on a periodic system and is stated at cost. Inventory is generally recorded as expenditures/expenses when consumed.

Property and equipment and depreciation:

Equipment is stated at cost or fair market value on the date of acquisition or donation. Depreciation is provided using the straight-line method over the estimated useful lives. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to expense as incurred, whereas significant betterments greater than $5,000 are capitalized.

1. Summary of significant accounting policies (continued):

Other assets, security deposits:

The Organization paid security deposits in accordance with the terms of its lease agreements.

Collective bargaining agreement:

The Organization has two collective bargaining agreements that expire on November 5, 2022 and September 1, 2025, respectively. At December 31, 2021 and 2020, approximately 33% of the Organization’s employees were covered by the agreements.

Functional allocation of expenses:

The costs of providing the various programs operated by the Organization have been presented on a functional basis. The Organization budgets and tracks expenses by department, and departments are assigned to program or management and general expenses. Additionally, certain costs (ex. occupancy, and utilities) have been allocated among the departments, and therefore the programs and supporting services benefited.

The fundraising expenses of the Organization are insignificant and have been included with management and general expenses.

COVID-19 pandemic and PPP loan:

On March 11, 2020, the World Health Organization ("WHO") recognized COVID-19 as a global pandemic, prompting many national, regional and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary store closures and wide-sweeping quarantines and stay-at-home orders. As a result, COVID-19 and the related restrictive measures have had a significant adverse impact upon many sectors of the economy. The Organization continued to provide services to its community during this time.

During 2020, the Organization received a Paycheck Protection Program loan (PPP loan) from the Small Business Administration for $1,373,900 on April 15, 2020. Under the program the loan can be forgiven if the funds are spent on eligible expenses. As of December 31, 2020, the funds were recorded as a loan with a maturity date of April 15, 2022 and an interest rate of 1% per annum. The loan amount was included in notes payable in the statement of financial position at year end December 31, 2020. The Organization applied for forgiveness, and on February 24, 2021, the PPP loan was forgiven in full; loan forgiveness income was recognized in February 2021.

Reclassifications:

Certain reclassifications have been made to the 2020 financial statements to conform to the 2021 presentation.

Subsequent events:

The Organization evaluated for subsequent events through April 29, 2022, the date the financial statements were available for issuance.

2. Liquidity and availability:

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2021	2020
Financial assets at year-end:		
Cash	**$ 3,836,471**	$ 2,177,269
Accounts receivable, net of allowance	**1,842,053**	1,432,584
Financial assets available to meet general expenditures over the next twelve months	**$ 5,678,524**	$ 3,609,853

While the Organization has net assets with donor restrictions as to purpose as of December 31, 2021 and 2020, these assets are expected to be spent within one year. The Organization's liquidity goal is to have approximately $350,000 in cash.

The Organization also has a line of credit available to meet short-term needs. See Note 5 for information regarding the line of credit.

The Organization has certain debt covenants with which the Organization must comply related to the Organization's line of credit and notes payable as described in Note 5 and 6.

3. Cash in excess of insured limits:

The Organization maintains cash deposits with financial institutions in amounts that, from time to time, may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit. No losses have been incurred with respect to such deposits.

4. Property and equipment:

Property and equipment consist of the following at December 31:

	2021	2020
Vehicles	**$ 8,070,007**	$ 8,057,397
Equipment	**506,238**	442,538
Recycling carts	**926,596**	852,667
Processing equipment	**11,283,583**	10,344,779
Leasehold improvements	**981,867**	715,846
Construction in process - equipment	**353,146**	197,736
	22,121,707	20,610,963
Less accumulated depreciation	**(12,940,985)**	(10,680,432)
Net property and equipment	**$ 9,180,722**	$ 9,930,531

Depreciation expense was $2,508,068 and $2,522,417 in 2021 and 2020, respectively.

5. Line of credit:

During the year ended December 31, 2020, the Organization had a line of credit agreement with an unrelated non-profit organization providing up to $500,000, which expired on May 20, 2021. This agreement charged interest at 1% above the prime rate as established by the non-profit lender. The non-profit lender's prime rate was 5% at December 31, 2020. Therefore, the Organization's effective interest rate at December 31, 2020, was 6%. The line of credit was collateralized by substantially all business assets of the Organization and includes various covenants, including a certain financial ratio, with which the Organization did comply. At December 31, 2020 there was no outstanding balance on the line of credit.

Subsequent to the 2021 year end, the Organization entered into a line of credit agreement up to $1,000,000, expiring February 11, 2023 with an interest rate of 3.5%. The line of credit is collateralized by substantially all business assets of the Organization and includes various covenants, including a certain financial ratio, with which the Organization must comply.

6. Notes payable, net of debt issuance fees:

	2021	2020
Notes payable, due in varying amounts through March 2026, with interest varying between 1.6% and 6.25%. The notes are secured by business assets, including recycling trucks and equipment.	**$ 5,732,838**	$ 7,424,896
PPP Loan, with interest of 1%, unsecured, forgiven in 2021 (see Note 1)	**-**	1,373,900
Less debt issuance fees, net	**(15,925)**	(37,560)
Total notes payable, net of debt issuance fees	**5,716,913**	8,761,236
Less current portion	**(1,658,722)**	(1,690,259)
Total notes payable, net of current portion and debt issuance fees	**$ 4,058,191**	$ 7,070,977

Subsequent to year end, on February 11, 2022 the Organization entered into two notes payable for $3,255,536 and $1,700,000. The loans have a rate of interest of 3.25%, and mature on February 11, 2025. The loans are secured by essentially all of the Organization's assets. These loans contain certain covenants with which the Organization must comply.

Subsequent to year end, on February 11, 2022 the Organization entered into a note payable for $521,085. The loan has a rate of interest of 3.75%, and matures on February 11, 2025. The loan is secured by essentially all of the Organization's assets. The loans contain certain covenants with which the Organization must comply.

Included in the above notes payable is a revolving equipment loan where advances can be drawn up to $1,650,000 through December 20, 2025. The Organization had an outstanding balance of $1,097,000 as of December 31, 2021 and $1,330,000 as of December 31, 2020.

Future minimum debt payments are as follows:

2022	$ 1,658,722
2023	1,864,473
2024	1,892,463
2025	315,408
2026	1,772
Total notes payable	$ 5,732,838

	2021	2020
Debt issuance fees	**$ 104,780**	$ 102,753
Less accretion of debt financing costs	**(88,855)**	(65,193)
Debt issuance fees, net	**$ 15,925**	$ 37,560

6. Notes payable, net of debt issuance fees (continued):

Accretion of debt financing costs for the years ended December 31, 2021 and 2020 was $11,048 and $12,818, respectively, and is included in interest expense.

Estimated accretion of debt financing costs is as follows for the next five years and thereafter: $5,747 for the year 2022, $5,341 in 2023, and $3,359 in 2024 and 2025, and $101 in 2026.

7. Net assets with donor restrictions:

Net assets with donor restrictions are restricted for the following purpose:

	2021	2020
Net assets with donor restrictions subject to expenditure for specified purpose, support the creation of an association of mission based recyclers	**$ 52,173**	$ 336,625

	2021	2020
Net assets released from donor restrictions subject to expenditure for specified purpose,		
Support the creation of an association of mission based recyclers	**$ 558,502**	$ 45,309
Schmidt AMP	**50,000**	-
Research recycling waste textiles	**-**	59,964
Vehicle updates	**-**	80,000
COVID-19 supplies	**-**	10,000
MN dual training	**8,590**	2,865
Vision based MRF intelligence	**-**	25,000
Total net assets released from restrictions	**$ 617,092**	$ 223,138

8. Conditional grants:

The Organization had two conditional grants totaling approximately $300,000 as of December 31, 2021, and the Organization expects to meet the conditions and recognize revenue of $300,000 in the year ending December 31, 2022.

9. Commitments:

Operating leases:

The Organization maintains operating lease agreements for office space and office equipment. The leases require base monthly rents approximately ranging between $701 and $53,333 including escalating payments, and as a result, deferred rent has been recorded for the office space. The agreements expire at various dates through February 2024. The Organization must also pay a certain proportionate share of operating expenses including utilities and real estate taxes.

Minimum future base rental payments under all operating leases as of December 31, 2021, are as follows:

Year ending December 31,	Amount
2022	$ 811,094
2023	733,105
2024	122,605
	$ 1,666,804

Total rent expense for the years ended December 31, 2021 and 2020, was $992,116 and $959,555, respectively.

Capital leases:

During 2021 the Organization had 18 capital leases for vehicles with interest rates ranging from 0.0% to 7.2% and monthly principal and interest payments ranging between $990 and $9,853. The agreements expire at various dates through April 2027. The outstanding balances are secured by vehicles.

The cost and accumulated amortization related to assets that were held under capital leases are as follows:

	2021	2020
Cost	**$ 4,042,627**	$ 3,435,836
Less accumulated amortization	**(1,269,688)**	(723,983)
Net book value	**$ 2,772,939**	$ 2,711,853

Amortization expense relating to the capital leases, which is included in depreciation expense, was approximately $645,000 and $473,000 for the years ended December 31, 2021 and 2020, respectively.

9. Commitments (continued):

Capital leases (continued):

Future amortization expense under capital leases as of December 31, 2021, is approximately as follows:

Year ending December 31,	Amount
2022	$ 707,110
2023	684,773
2024	574,133
2025	443,091
2026	307,175
Thereafter	56,657
Total future amortization	$ 2,772,939

Future principal and interest payments under capital leases as of December 31, 2021, are as follows:

Year ending December 31,	Amount
2022	$ 852,557
2023	835,802
2024	759,091
2025	580,867
2026	410,099
Thereafter	30,393
Total minimum capital lease payments	3,468,808
Less amount representing interest	(390,052)
Present value of net minimum capital lease payments	$ 3,078,756

10. Pension plan:

The Organization sponsors a defined contribution pension plan whereby it contributes a discretionary percentage of an employee's gross salary to a 403(b) Retirement Plan. All employees are eligible to participate in this plan after being employed for one year.

Beginning on July 16, 2021 all employees, including those covered under the collective bargaining agreement, received a 2% employer contribution made in the year ended December 31, 2021. The two collective bargaining agreements require the Organization to contribute 1% and 2% of the gross wages for employees covered under the collective bargaining agreements, respectively. Employer contributions over the amount required by the collective bargaining agreement, and for employees not covered by the agreement, were discretionary. There was no discretionary employer contribution made in the year ended December 31, 2020.The Organization contributed $67,650 and $22,737 to the plan during the years ended December 31, 2021 and 2020 respectively.

11. Concentrations:

The Organization has a five-year contract to provide recycling services for the City of St. Paul, which had an initial expiration of April 2022, and is in the process of being renewed. The revenue earned under this contract, included in government contracts, for the years ended December 31, 2021 and 2020, was $4,888,762 and $4,805,392, respectively, representing 24% and 29% of total public support and revenue, respectively.

The Organization sold recyclable materials to one major customer in 2021 and 2020. Sales to this customer, included in program fees, for the years ended December 31, 2021 and 2020, were $6,127,234 and $3,394,518, respectively, representing 30% and 21%, respectively, of the total public support and revenue.

At December 31, 2021 and 2020, one customer accounted for approximately 12% and 43% of the accounts receivable balances, respectively.

12. Pending accounting standard:

The Financial Accounting Standards Board (FASB) has issued a new lease accounting standard that has not yet been implemented by the Organization but is expected to impact future financial statements. This lease standard will be effective for the Organization beginning with its year ended December 31, 2022. Under this new standard, the Organization’s leases with terms of more than twelve months will be required to be recognized as assets and liabilities. The Organization is currently assessing the impact of this new lease standard on its financial statements.

Financial statements of:

THE NEIGHBORHOOD RECYCLING CORPORATION
D/B/A EUREKA RECYCLING

(A Non-Profit Corporation)

Years ended
December 31, 2020 and 2019

SDK
Schechter Dokken Kanter
CPAs ■ Business Advisors

Suite 1600
100 Washington Avenue South
Minneapolis, MN 55401-2192

P 612.332.5500 F 612.332.1529
www.sdkcpa.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Neighborhood Recycling Corporation
d/b/a Eureka Recycling
Minneapolis, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of The Neighborhood Recycling Corporation d/b/a Eureka Recycling (the Organization), which comprise the statements of financial position as of December 31, 2020 and 2019, the related statements of activities and changes in net assets, 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 of 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 Organization'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 The Neighborhood Recycling Corporation d/b/a Eureka Recycling as of December 31, 2020 and 2019, 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.

Schechter Dokken Kanter
Andrews & Selcer Ltd.

April 30, 2021

THE NEIGHBORHOOD RECYCLING CORPORATION STATEMENTS OF FINANCIAL POSITION
D/B/A EUREKA RECYCLING DECEMBER 31

	2020	2019
Assets:		
Current assets:		
Cash	**$ 2,177,269**	$ 237,409
Accounts receivable	**1,432,584**	1,434,195
Inventory	**545,270**	319,135
Prepaid expenses	**355,552**	112,103
Total current assets	**4,510,675**	2,102,842
Property, plant and equipment, net	**9,930,531**	11,377,994
Restricted cash, funds held for others	**11,059**	-
Other assets, security deposits	**76,536**	76,536
Total long-term assets	**10,018,126**	11,454,530
Total assets	**$ 14,528,801**	$ 13,557,372
Liabilities and net assets:		
Current liabilities:		
Accounts payable	**$ 502,536**	$ 620,727
Accrued expenses	**410,309**	401,109
Line of credit	**-**	500,000
Notes payable, current portion	**1,690,259**	1,560,602
Capital leases, current portion	**533,341**	352,002
Total current liabilities	**3,136,445**	3,434,440
Long-term liabilities:		
Notes payable, net of current portion and debt issuance fees	**7,070,977**	7,334,036
Capital Leases, net of current portion	**2,267,718**	1,706,827
Deferred rent	**185,900**	197,900
Total long-term liabilities	**9,524,595**	9,238,763
Total liabilities	**12,661,040**	12,673,203
Net assets:		
With donor restrictions	**336,625**	101,384
Without donor restrictions	**1,531,136**	782,785
Total net assets	**1,867,761**	884,169
Total liabilities and net assets	**$ 14,528,801**	$ 13,557,372

See notes to financial statements.

	2020			2019		
	Without donor restrictions	**With donor restrictions**	**Total**	Without donor restrictions	With donor restrictions	Total
Public support and revenue:						
Public support:						
Government contracts	**$ 5,801,701**		**$ 5,801,701**	$ 5,678,906		$ 5,678,906
Grants		**$ 458,379**	**458,379**	50,000	$ 240,000	290,000
Contributions	**13,077**		**13,077**	17,602		17,602
Net assets released from restrictions	**223,138**	**(223,138)**	**-**	238,616	(238,616)	-
Total public support	**6,037,916**	**235,241**	**6,273,157**	5,985,124	1,384	5,986,508
Revenue:						
Program service fees	**8,961,676**		**8,961,676**	6,706,841		6,706,841
Revenue/cost share	**1,630,306**		**1,630,306**	1,708,544		1,708,544
Investment income	**2,558**		**2,558**	2,433		2,433
Miscellaneous revenue	**8,081**		**8,081**	32,286		32,286
Total revenue	**10,602,621**		**10,602,621**	8,450,104		8,450,104
Total public support and revenue	**16,640,537**	**235,241**	**16,875,778**	14,435,228	1,384	14,436,612
Cost of good sold, processing and shipping costs	**(528,056)**		**(528,056)**	(728,841)		(728,841)
Total public support and revenue less cost of goods sold	**16,112,481**	**235,241**	**16,347,722**	13,706,387	1,384	13,707,771
Expenses:						
Program services	**14,589,155**		**14,589,155**	13,775,377		13,775,377
Management and general	**774,975**		**774,975**	627,987		627,987
Total expenses	**15,364,130**		**15,364,130**	14,403,364		14,403,364
Change in net assets	**748,351**	**235,241**	**983,592**	(696,977)	1,384	(695,593)
Net assets, beginning	**782,785**	**101,384**	**884,169**	1,479,762	100,000	1,579,762
Net assets, ending	**1,531,136**	**336,625**	**1,867,761**	$ 782,785	$ 101,384	$ 884,169

See notes to financial statements.

	2020	2019
Cash flows from operating activities:		
Change in net assets	**$ 983,592**	$ (695,593)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**2,522,417**	2,217,046
Accretion of debt financing costs	**12,818**	23,571
Loss on sale of equipment	**64,699**	53,506
Decrease (increase) in:		
Accounts receivable	**1,611**	(171,888)
Inventory	**(226,135)**	361,169
Prepaid expenses	**(243,449)**	689
Increase (decrease) in:		
Accounts payable	**(118,191)**	(174,994)
Accrued expenses	**9,200**	77,154
Deferred rent	**(12,000)**	(18,800)
Net cash provided by operating activities	**2,994,562**	1,671,860
Cash flows used in investing activities		
Purchase of property and equipment	**(701,513)**	(1,637,112)
Proceeds on sale of equipment	**717,146**	183,000
Net cash provided by (used in) investing activities	**15,633**	(1,454,112)
Cash flows from financing activities:		
Net (payments) proceeds on line of credit	**(500,000)**	176,413
Payments on:		
Long-term debt	**(1,877,655)**	(1,656,888)
Capital leases	**(413,056)**	(303,701)
Proceeds from long-term debt	**1,733,865**	1,616,195
Payments for debt issuance fees	**(2,430)**	(8,225)
Net cash (used in) financing activities	**(1,059,276)**	(176,206)
Net change in cash and restricted cash	**1,950,919**	41,542
Cash and restricted cash, beginning of year	**237,409**	195,867
Cash and restricted cash, end of year	**$ 2,188,328**	$ 237,409
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 636,365**	$ 677,289
Supplemental disclosure of non-cash investing and financing activities:		
Capital lease obligations incurred for equipment	**$ 1,155,286**	$ 1,789,774

See notes to financial statements.

	2020			2019		
	Program services	**Management and general**	**Total**	Program services	Management and general	Total
Salaries	**$ 6,302,806**	**$ 389,827**	**$ 6,692,633**	$ 5,474,804	$ 373,769	$ 5,848,573
Employee benefits	**672,185**	**19,220**	**691,405**	708,566	24,504	733,070
Payroll taxes	**390,824**	**36,702**	**427,526**	403,543	36,867	440,410
Total salaries and related expenses	**7,365,815**	**445,749**	**7,811,564**	6,586,913	435,140	7,022,053
Advertising	**559**	**-**	**559**	3,876	257	4,133
Conferences and meetings	**32,835**	**26,595**	**59,430**	45,500	32,518	78,018
Contractual services	**136,245**	**104,716**	**240,961**	171,952	23,690	195,642
Covid-19 supplies	**28,184**	**3,132**	**31,316**			
Dues and subscriptions	**42,190**	**27,336**	**69,526**	38,203	6,192	44,395
Equipment and computer maintenance	**681,205**	**3,283**	**684,488**	615,287	6,071	621,358
Fleet maintenance	**539,875**	**-**	**539,875**	771,988	-	771,988
Fuel	**417,441**	**-**	**417,441**	458,218	-	458,218
Hauler fees	**79,558**	**132**	**79,690**	91,302	238	91,540
Insurance	**412,889**	**19,021**	**431,910**	236,905	9,445	246,350
Interest expense	**635,360**	**1,005**	**636,365**	670,814	12,294	683,108
Licenses and permits	**30,604**	**870**	**31,474**	22,917	981	23,898
Materials	**1,941**	**-**	**1,941**	1,342	-	1,342
Miscellaneous	**207,202**	**22,538**	**229,740**	333,332	14,644	347,976
Occupancy	**948,621**	**10,934**	**959,555**	967,313	10,604	977,917
Postage	**1,974**	**817**	**2,791**	4,262	1,965	6,227
Printing and publications	**10,260**	**518**	**10,778**	33,905	794	34,699
Professional fees	**31,717**	**50,068**	**81,785**	11,166	21,018	32,184
Retirement administration	**-**	**1,567**	**1,567**	-	2,500	2,500
Supplies	**117,799**	**2,848**	**120,647**	140,224	6,302	146,526
Telephone and communication	**50,981**	**12,259**	**63,240**	61,965	11,387	73,352
Travel	**8,308**	**-**	**8,308**	22,104	44	22,148
Uniforms	**57,256**	**-**	**57,256**	56,710	-	56,710
Utilities	**265,935**	**3,571**	**269,506**	240,956	3,080	244,036
Total functional expenses before depreciation, amortization and cost of goods sold	**12,104,754**	**736,959**	**12,841,713**	11,587,154	599,164	12,186,318
Depreciation and amortization	**2,484,401**	**38,016**	**2,522,417**	2,188,223	28,823	2,217,046
Cost of goods sold, included with revenue on the statement of activities	**528,056**		**528,056**	728,841		728,841
Total functional expenses	**15,117,211**	**774,975**	**15,892,186**	14,504,218	627,987	15,132,205
Less: cost of goods sold, included with revenue on the statement of activities	**(528,056)**		**(528,056)**	(728,841)		(728,841)
Total expenses included in the expense section on the statement of activities on the statement of activities	**$ 14,589,155**	**$ 774,975**	**$ 15,364,130**	$ 13,775,377	$ 627,987	$ 14,403,364

See notes to financial statements.

1. Summary of significant accounting policies:

Nature of business:

Eureka Recycling (the Organization) was incorporated under the laws of the State of Minnesota in November 2001, as a non-profit organization. Eureka is a zero-waste organization located in the Twin Cities of Minneapolis and Saint Paul with a wide range of initiatives focusing on reusing, recycling, composting, waste reduction, producer responsibility and more.

Description of programs:

Eureka Recycling's services, program, and policy work present solutions to the social, environmental, and health problems caused by wasting. A 501(c)(3) nonprofit organization, based in the Twin Cities of Saint Paul and Minneapolis, Eureka Recycling's mission is to demonstrate that waste is preventable, not inevitable.

Perhaps most well-known for its recycling operations, the Organization has provided curbside and apartment recycling services, education, and advocacy since 2001. The Organization operates a material recovery facility, opened in 2004, where collected recyclables are sorted into different commodity categories and then marketed to different markets to be turned into new products. Eureka researches, develops and promotes best practices around sorting recycling to achieve environmental highest and best use and shares these practices nationally. Eureka provides hundreds of tours of the facility to educate the community and businesses on recycling and zero waste and does educational events for schools and community organizations.

Eureka Recycling has a wide range of initiatives designed to prevent the needless wasting of our discards through reuse, recycling, composting, waste reduction, proper responsibility and more. These initiatives provide over a hundred jobs for individuals who demonstrate their mission every day in the work that they do. Eureka Recycling provides consulting to events in the community on how to be zero waste and manages the waste discards for several events in the Twin Cities. Eureka Recycling collaborates with individuals and organizations to move our community towards zero waste. Eureka Recycling also examines how waste can be prevented before we turn to recycling and composting and calls for accountability from the producers of packaging and products to better design their goods.

By its efforts in programs, services and advocacy, Eureka Recycling aspires to help individuals, organizations, and communities understand the significance of zero waste and to achieve their own zero-waste goals.

Income tax:

The Organization is exempt, as a public charity, from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state income tax laws.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain tax position that more likely than not would not be sustained upon examination by taxing authorities. Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

1. Summary of significant accounting policies (continued):

Accounting for net assets:

The Organization's financial statements are segregated into classes of net assets according to the use of related resources. These classes of net assets are summarized as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net assets with donor restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization did not have any restrictions that were perpetual in nature as of December 31, 2020 and 2019. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue recognition:

Government contracts:

Government contracts relate to collections of unprocessed recyclable materials for the recycling program. Revenues are recognized over time as collections are completed and in accordance with each city contract. Cities are located in the Twin Cities metro area.

Revenue/cost share:

Revenue share is related to government and private contracts that agree to share the revenue earned from the sale of a city's recyclable materials. Revenue is earned over time as recycling material is processed. In these contracts, the net revenue earned from the sale of processed recycled material is shared with the city and therefore results in a cost to the Organization. Similarly, if the cost to process the recyclable material is more than the processed material can be sold for, a city will reimburse the organization for the excess cost to process their recyclable material and therefore results in income to the Organization. In 2020 and 2019, this process yielded a reimbursement to the Organization shown as income on the statement of activities.

Program service fees:

Program service fees primarily relate to the sale of processed recyclable materials to manufacturers across the U.S. Revenues are recognized at the time of sale of the material, which can be at the shipping point or destination based on the contract, and are based on tonnage sold.

1. Summary of significant accounting policies (continued):

Revenue recognition (continued):

Grants and contributions:

Grants and contributions received are recorded as with or without donor restrictions depending on the existence and/or nature of any donor restrictions. All grants and contributions are considered without donor restrictions unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or restricted purpose 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.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Inventory is considered a significant estimate.

Accounts receivable:

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management reviews outstanding balances and provides an allowance against those that are deemed to be uncollectible. After management has used exhaustive collection efforts, accounts receivable balances are written off against the allowance. Accounts receivable at December 31, 2020 and 2019 are deemed collectible; therefore no allowance has been recorded.

Inventory:

Inventory is composed of processed and unprocessed recyclable materials collected through curbside pick-up or from third party haulers. Since inventory is not purchased, inventory is stated at the lower of cost or net realizable value. Costs consist of processing and shipping. Net realizable value is based upon commodity prices at the statement of financial position date. The Organization’s processing and shipping fees are included in cost of sales on the statements of activities and functional expenses.

Property and equipment and depreciation:

Equipment is stated at cost or fair market value on the date of acquisition or donation. Depreciation is provided using the straight-line method over the estimated useful lives. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to expense as incurred, whereas significant betterments greater than $5,000 are capitalized.

1. Summary of significant accounting policies (continued):

Other assets, security deposits:

The Organization paid security deposits in accordance with the terms of its lease agreements.

Collective bargaining agreement:

The Organization has two collective bargaining agreement that expire on November 5, 2022 and September 1, 2025. At December 31, 2020 and 2019, approximately 33% of the Organization's employees were covered by the agreements.

Functional allocation of expenses:

The costs of providing the various programs operated by the Organization have been presented on a functional basis. The Organization budgets and tracks expenses by department, and departments are assigned to program or management and general expenses. Additionally, certain costs (ex. occupancy, and utilities) have been allocated among the departments, and therefore the programs and supporting services benefited.

The fundraising expenses of the Organization are insignificant and have been included with management and general expenses.

COVID-19 pandemic and PPP loan:

On March 11, 2020, the World Health Organization ("WHO") recognized COVID-19 as a global pandemic, prompting many national, regional and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary store closures and wide-sweeping quarantines and stay-at-home orders. As a result, COVID-19 and the related restrictive measures have had a significant adverse impact upon many sectors of the economy. The Organization continued to provide services to its community during this time.

The extent to which the COVID-19 pandemic impacts the Organization's future results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and actions taken to contain the coronavirus or its impact, among others.

During 2020, the Organization received a Paycheck Protection Program loan (PPP loan) from the Small Business Administration for $1,373,900 on April 15, 2020. Under the program the loan can be forgiven if the funds are spent on eligible expenses. As of December 31, 2020, the funds were recorded as a loan with a maturity date of April 15, 2022 and an interest rate of 1% per annum. The loan amount is included in notes payable in the statement of financial position. See Note 6. The Organization applied for forgiveness, and as of February 24, 2021, the PPP loan was forgiven in full, and loan forgiveness income will be recognized in 2021.

1. Summary of significant accounting policies (continued):

Reclassifications:

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 presentation.

Subsequent events:

The Organization evaluated for subsequent events through April 30, 2021, the date the financial statements were available for issuance.

2. Liquidity and availability:

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2020	2019
Financial assets at year-end:		
Cash	**$ 2,177,269**	$ 237,409
Accounts receivable	**1,432,584**	1,434,195
Financial assets available to meet general expenditures over the next twelve months	**$ 3,609,853**	$ 1,671,604

While the Organization has net assets with donor restrictions as to purpose as of December 31, 2020 and 2019, these assets are expected to be spent within one year. The Organization's liquidity goal is to have approximately $350,000 in cash.

The Organization also has a line of credit available to meet short-term needs. See Note 5 for information regarding the line of credit.

The Organization has certain debt covenants with which the Organization must comply related to the Organization's line of credit and notes payable as described in Note 5 and 6.

3. Cash in excess of insured limits:

The Organization maintains cash deposits with financial institutions in amounts that, from time to time, may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit. No losses have been incurred with respect to such deposits.

4. Property and equipment:

Property and equipment consist of the following at December 31:

	2020	2019
Vehicles	**$ 8,057,397**	$ 8,119,834
Equipment	**442,538**	390,793
Recycling carts	**852,667**	826,634
Processing equipment	**10,344,779**	10,135,648
Leasehold improvements	**715,846**	681,309
Construction in process - equipment	**197,736**	6,678
	20,610,963	20,160,896
Less accumulated depreciation	**(10,680,432)**	(8,782,902)
Net property and equipment	**$ 9,930,531**	$ 11,377,994

Depreciation expense was $2,048,931 and $2,004,347 in 2020 and 2019, respectively.

5. Line of credit:

At December 31, 2020 and 2019, the Organization has a line of credit agreement with an unrelated non-profit organization providing up to $500,000, expiring on May 20, 2021. This agreement charges interest at 1% above the prime rate as established by the non-profit lender. The non-profit lender's prime rate was 5% and 5.5% at December 31, 2020 and 2019, respectively. Therefore, the Organization's effective interest rate at December 31, 2020 and 2019, was 6% and 6.5%, respectively. The line of credit is collateralized by substantially all business assets of the Organization and includes various covenants, including a certain financial ratio, with which the Organization must comply.

6. Notes payable, net of debt issuance fees:

	2020	2019
Notes payable, due in varying amounts through March 2026, with interest varying between 1.6% and 6.25%. The notes are secured by business assets, including recycling trucks and equipment.	**$ 7,424,896**	$ 8,942,586
PPP Loan, with interest of 1%, unsecured, forgiven in 2021 (see Note 1)	**1,373,900**	
Less debt issuance fees, net	**(37,560)**	(47,948)
Total notes payable, net of debt issuance fees	**8,761,236**	8,894,638
Less current portion	**(1,690,259)**	(1,560,602)
Total notes payable, net of current portion and debt issuance fees	**$ 7,070,977**	$ 7,334,036

6. Notes payable, net of debt issuance fees (continued):

Included in the above notes payable is a revolving equipment loan where advances can be drawn up to $1,650,000 through December 20, 2025. The Organization had drawn approximately $1,330,000 as of December 31, 2020 and $1,550,000 as of December 31, 2019.

Future minimum debt payments are as follows:

2021	$ 1,690,259
2022	4,570,697
2023	389,433
2024	375,212
2025	397,516
Thereafter	1,779
Total	7,424,896
PPP loan, forgiven in 2021	1,373,900
Total notes payable	$ 8,798,796

	2020	2019
Debt issuance fees	**$ 102,753**	$ 100,323
Less accretion of debt financing costs	**(65,193)**	(52,375)
Debt issuance fees, net	**$ 37,560**	$ 47,948

Accretion of debt financing costs for the years ended December 31, 2020 and 2019 was $12,818 and $23,571, respectively, and is included in interest expense. Estimated accretion of debt financing costs is as follows for the next five years and thereafter: $17,281 for the year 2021, $5,341 in 2022, and $2,954 in 2023, 2024, and 2025.

7. Net assets with donor restrictions:

Net assets with donor restrictions are restricted for the following purpose:

	2020	2019
Net assets with donor restrictions subject to expenditure for specified purpose,		
Support the creation of an association of mission based recyclers	**$ 152,325**	46,384
Research recycling waste textiles		30,000
Plastic solutions fund	**184,300**	
Vision based MRF intelligence		$ 25,000
Total net assets with donor restrictions	**$ 336,625**	$ 101,384

7. Net assets with donor restrictions (continued):

	2020	2019
Net assets released from donor restrictions subject to expenditure for specified purpose,		
Support the creation of an association of mission based recyclers	**$ 45,309**	$ 43,616
Research recycling waste textiles	**59,964**	120,000
Vehicle updates	**80,000**	
COVID-19 supplies	**10,000**	
MN dual training	**2,865**	
Vision based MRF intelligence	**25,000**	75,000
Total net assets released from restrictions	**$ 223,138**	$ 238,616

8. Conditional grants:

The Organization had one conditional grant totaling $122,800 as of December 31, 2020. The Organization expects to meet the conditions and recognize revenue of $122,800 in the year ending December 31, 2021.

9. Commitments:

Operating leases:

The Organization maintains operating lease agreements for office space and office equipment. The leases require base monthly rents approximately ranging between $700 and $56,000, including escalating payments, and as a result, deferred rent has been recorded for the office space. The agreements expire at various dates through February 2024. The Organization must also pay a certain proportionate share of operating expenses including utilities and real estate taxes.

Minimum future base rental payments under all operating leases as of December 31, 2020, are as follows:

Year ending December 31,	Amount
2021	$ 793,573
2022	804,040
2023	718,714
2024	122,605
	$ 2,438,932

Total rent expense for the years ended December 31, 2020 and 2019, was $959,555 and $977,917, respectively.

9. Commitments (continued):

Capital leases:

During 2020 the Organization had 18 capital leases for vehicles with interest rates ranging from 2.76% to 6.3% and monthly principal and interest payments ranging between $990 and $9,853. The agreements expire at various dates through April 2027. The outstanding balance is secured by vehicles.

The cost and accumulated amortization related to assets that were held under capital leases are as follows:

	2020	2019
Cost	**$ 3,435,836**	$ 2,280,350
Less accumulated amortization	**(723,983)**	(250,497)
Net book value	**$ 2,711,853**	$ 2,029,853

Amortization expense relating to the capital leases, which is included in depreciation expense, was approximately $473,000 and $212,000 for the years ended December 31, 2020 and 2019, respectively.

Future amortization expense under capital leases as of December 31, 2020, is approximately as follows:

Year ending December 31,	Amount
2021	$ 452,006
2022	444,786
2023	432,010
2024	352,170
2025	216,791
Thereafter	340,604
Total future amortization	$ 2,711,853

9. Commitments (continued):

Capital leases (continued):

Future principal and interest payments under capital leases as of December 31, 2020, are as follows:

Year ending December 31,	Amount
2021	$ 662,541
2022	654,618
2023	637,862
2024	561,152
2025	456,710
Thereafter	208,636
Total minimum capital lease payments	3,181,518
Less amount representing interest	(380,459)
Present value of net minimum capital lease payments	$ 2,801,059

10. Pension plan:

The Organization sponsors a defined contribution pension plan whereby it contributes a discretionary percentage of an employee's gross salary to a 403(b) Retirement Plan. All employees are eligible to participate in this plan after being employed for one year. There was no discretionary employer contribution made in the years ended December 31, 2020 and 2019.

The Organization is required by the collective bargaining agreement to contribute 1% of the gross wages for employees covered under the collective bargaining agreement. The Organization contributed $22,737 and $14,711 to the plan during the years ended December 31, 2020 and 2019 respectively.

11. Concentrations:

The Organization has a five-year contract to provide recycling services for the City of St. Paul, through April 2022. The revenue earned under this contract, included in government contracts, for the years ended December 31, 2020 and 2019, was $4,805,392 and $4,845,532, respectively, representing 29% and 35% of total public support and revenue, respectively.

The Organization sold recyclable materials to one major customer in 2020 and 2019. Sales to this customer, included in program fees, for the years ended December 31, 2020 and 2019, were $3,394,518 and $2,427,983, respectively, representing 21% and 18%, respectively, of the total public support and revenue.

At December 31, 2020 and 2019, one customer accounted for approximately 43% and 44% of the accounts receivable balances, respectively.