

LITERACY MINNESOTA

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

For The Years Ended
June 30, 2020 and 2019

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LITERACY MINNESOTA
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Literacy Minnesota
Saint Paul, Minnesota

We have audited the accompanying financial statements of Literacy Minnesota (a nonprofit organization), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Literacy Minnesota as of June 30, 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.



REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

September 15, 2020

FINANCIAL STATEMENTS

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LITERACY MINNESOTA
STATEMENTS OF FINANCIAL POSITION
June 30, 2020 and 2019

Statement 1

	<u>2020</u>	<u>2019</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$562,049	\$439,849
Accounts receivable	-	60
Accounts receivable - insurance proceeds	25,840	-
Grants receivable	-	60,000
Pledges receivable, current portion	9,622	12,415
Government grants receivable	324,994	478,441
Prepaid expenses	130,845	114,807
Total current assets	<u>1,053,350</u>	<u>1,105,572</u>
Fixed assets, net	70,365	13,515
Pledges receivable, net	11,909	15,034
Cash and cash equivalents - board designated for:		
Operating reserve	500,000	500,000
Special purpose reserve	200,000	200,000
Beneficial interest in assets held by Community Foundation	742,323	773,921
Total assets	<u><u>\$2,577,947</u></u>	<u><u>\$2,608,042</u></u>
Liabilities and net assets:		
Current liabilities:		
Accounts payable	\$58,860	\$62,907
Accrued expenses	246,551	191,196
Fiscal agency obligation	41,706	35,824
Deferred revenue	133,914	108,080
Total current liabilities	<u>481,031</u>	<u>398,007</u>
Net assets:		
Net assets without donor restrictions:		
Undesignated	198,255	354,425
Board designated for operating reserve	500,000	500,000
Board designated for special purpose reserve	200,000	200,000
Board designated for endowment permanently held by Community Foundation	<u>677,575</u>	<u>735,223</u>
Total net assets without donor restrictions	1,575,830	1,789,648
Net assets with donor restrictions	<u>521,086</u>	<u>420,387</u>
Total net assets	<u>2,096,916</u>	<u>2,210,035</u>
Total liabilities and net assets	<u><u>\$2,577,947</u></u>	<u><u>\$2,608,042</u></u>

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

LITERACY MINNESOTA
STATEMENTS OF ACTIVITIES
For The Years Ended June 30, 2020 and 2019

Statement 2

	2020				2019								
	Without Donor Restrictions		With Donor Restrictions		Without Donor Restrictions		With Donor Restrictions						
	Undesignated and Designated Reserves	Board Designated for Endowment	Undesignated and Designated Reserves	Board Designated for Endowment	Undesignated and Designated Reserves	Board Designated for Endowment	Undesignated and Designated Reserves	Board Designated for Endowment					
Contributions and support:													
Government grants	\$3,001,987	\$ -	\$3,001,987	\$ -	\$3,169,066	\$ -	\$5,125	\$3,174,191					
Corporation/foundation grants	42,116	-	397,149	-	39,321	-	291,295	330,616					
Contributions	323,954	-	472,847	-	311,248	-	65,059	376,307					
In-kind contributions	11,200	-	11,200	-	11,200	-	-	11,200					
Memberships	-	-	13,750	-	-	-	30,850	30,850					
Pass-through government grants	17,578	-	17,578	-	16,253	-	-	16,253					
Total contributions and support	3,396,835	0	3,914,511	0	3,547,088	0	392,329	3,939,417					
Other revenue:													
Program service fees	1,014,039	-	1,014,039	-	895,444	-	-	895,444					
Other revenue	42,475	-	42,475	-	34,260	-	-	34,260					
Endowment distributions and interest	28,454	-	28,454	-	31,389	-	-	31,389					
Total other revenue	1,084,968	0	1,084,968	0	961,093	0	0	961,093					
Net assets released from restrictions	416,977	-	(416,977)	-	500,941	-	(500,941)	-					
Total revenues	4,898,780	0	4,999,479	0	5,009,122	0	(108,612)	4,900,510					
Expenses:													
Program services	4,029,830	-	4,029,830	-	3,955,371	-	-	3,955,371					
Management and general	596,368	-	596,368	-	580,370	-	-	580,370					
Fundraising	428,752	-	428,752	-	444,225	-	-	444,225					
Total expenses	5,054,950	0	5,054,950	0	4,979,966	0	0	4,979,966					
Change in net assets before unrealized loss	(156,170)	-	(55,471)	-	29,156	-	(108,612)	(79,456)					
Unrealized loss in beneficial interest	-	(57,648)	(57,648)	-	-	(4,722)	-	(4,722)					
Change in net assets	(156,170)	(57,648)	(113,119)	(4,722)	29,156	(4,722)	(108,612)	(84,178)					
Net assets - beginning of year	1,054,425	735,223	2,210,035	739,945	1,025,269	739,945	528,999	2,294,213					
Net assets - end of year	\$898,255	\$677,575	\$2,096,916	\$735,223	\$1,054,425	\$735,223	\$420,387	\$2,210,035					

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

LITERACY MINNESOTA
STATEMENTS OF FUNCTIONAL EXPENSES
For The Years Ended June 30, 2020 and 2019

Statement 3

	2020			
	Program Services	Management and General	Fundraising	Total
Salaries	\$1,664,998	\$381,303	\$266,088	\$2,312,389
Employee benefits and payroll taxes	489,566	78,983	68,255	636,804
Total salaries and related expenses	<u>2,154,564</u>	<u>460,286</u>	<u>334,343</u>	<u>2,949,193</u>
AmeriCorps allowances, benefits and taxes	366,723	-	-	366,723
Occupancy	278,961	35,485	23,473	337,919
Professional services	859,869	54,582	10,262	924,713
Recruitment/staff development	61,802	12,054	9,012	82,868
Travel/meetings	23,664	6,591	803	31,058
Hosted training and events	26,702	2,043	30,099	58,844
Supplies and equipment	200,246	15,719	10,269	226,234
Printing/postage	19,173	7,069	8,704	34,946
Depreciation/amortization	9,348	2,539	1,787	13,674
In-kind/pass-through expenses	28,778	-	-	28,778
Total expenses	<u>\$4,029,830</u>	<u>\$596,368</u>	<u>\$428,752</u>	<u>\$5,054,950</u>
	2019			
	Program Services	Management and General	Fundraising	Total
Salaries	\$1,519,605	\$352,561	\$259,403	\$2,131,569
Employee benefits and payroll taxes	422,693	78,494	62,315	563,502
Total salaries and related expenses	<u>1,942,298</u>	<u>431,055</u>	<u>321,718</u>	<u>2,695,071</u>
AmeriCorps allowances, benefits and taxes	368,488	-	-	368,488
Occupancy	288,568	37,436	22,149	348,153
Professional services	946,040	74,775	18,537	1,039,352
Recruitment/staff development	63,238	10,050	5,324	78,612
Travel/meetings	37,682	9,310	899	47,891
Hosted training and events	48,139	1,328	60,383	109,850
Supplies and equipment	212,411	11,451	2,260	226,122
Printing/postage	19,332	3,671	12,095	35,098
Depreciation/amortization	1,722	1,294	860	3,876
In-kind/pass-through expenses	27,453	-	-	27,453
Total expenses	<u>\$3,955,371</u>	<u>\$580,370</u>	<u>\$444,225</u>	<u>\$4,979,966</u>

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

LITERACY MINNESOTA
STATEMENTS OF CASH FLOWS
For The Years Ended June 30, 2020 and 2019

Statement 4

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	(\$113,119)	(\$84,178)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation/amortization	13,674	3,876
Unrealized loss in beneficial interest	57,648	4,722
Change in assets and liabilities:		
Accounts receivable	(25,780)	(40)
Grants receivable	60,000	(60,000)
Pledges receivable	5,918	879
Government grants receivable	153,447	(88,220)
Prepaid expenses	(16,038)	44,455
Accounts payable	(4,047)	(51,722)
Accrued expenses	55,355	22,849
Fiscal agency obligation	5,882	(9,116)
Deferred revenue	25,834	18,438
Net cash provided by (used in) operating activities	<u>218,774</u>	<u>(198,057)</u>
Cash flows from investing activities:		
Purchase of fixed assets	(70,524)	-
Additions to beneficial interest	<u>(26,050)</u>	<u>(4,043)</u>
Net cash used in investing activities	<u>(96,574)</u>	<u>(4,043)</u>
Net increase (decrease) in cash and cash equivalents	122,200	(202,100)
Cash and cash equivalents - beginning of year	<u>1,139,849</u>	<u>1,341,949</u>
Cash and cash equivalents - end of year	<u>\$1,262,049</u>	<u>\$1,139,849</u>
Cash and cash equivalents are reported on the statements of financial position as follows:		
Cash and cash equivalents	\$562,049	\$439,849
Cash and cash equivalents board designated for:		
Operating reserve	500,000	500,000
Special purpose reserve	<u>200,000</u>	<u>200,000</u>
Total cash and cash equivalents	<u>\$1,262,049</u>	<u>\$1,139,849</u>

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

LITERACY MINNESOTA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. NATURE OF OPERATIONS

Literacy Minnesota is a nonprofit corporation dedicated to sharing the power of learning through education, community building and advocacy. As a leading partner in the literacy field, we are building a local, regional and national movement to put life-changing learning within everyone's reach.

Effective January 1, 2020, Literacy Minnesota changed their name from Minnesota Literacy Council, Inc. to Literacy Minnesota.

Literacy Minnesota operates programs for adults, children and families in Minnesota and provides training and resources to literacy programs and community partners across the state and country.

Minnesota Programs

- Open Door Learning Centers - Six Twin Cities sites offering English, GED, computer, citizenship, job-readiness and other basic-skills classes for adults. Our Arlington Hills location in Saint Paul also has a preschool program for children of adult students.
- Parenting Program - Provides families with tools to break through inequitable power structures and create a more just education system.
- Adult Literacy Hotline - Online and phone referral service to adult literacy programs across Minnesota.
- Tutor Training - Pre-service and in-service workshops for literacy volunteers and educators.
- Technology Services - Coaching for teachers on classroom technology integration and online tools for volunteers and students.
- AmeriCorps VISTA
 - Summer Reads - Provides reading tutors and mentors for children entering grades K-4.
 - Literacy Leadership Program - Engages VISTA members to design and carry out literacy initiatives in partnership with schools and community organizations.
- Volunteer Recruitment – Recruits and places volunteers into service organizations across Minnesota.

National Programs

- Northstar Digital Literacy - Assesses digital skills through online modules and provides classroom curriculum and self-directed online learning.
- Advocacy - Mobilizes to influence policy and legislation around the literacy cause.
- Curriculum & Resources - Searchable online library of literacy curriculum and teaching tools.
- Journeys - An anthology of adult student writing with accompanying classroom resources.
- Literacy Strategies - Consulting services to help organizations launch and develop literacy programming.
- Open Door Collective - Combats poverty through literacy education, policy and research.

B. BASIS OF PRESENTATION

These financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP), which requires Literacy Minnesota to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

C. NET ASSETS AND DONOR RESTRICTIONS

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. This category includes funds that have been internally designated by Literacy Minnesota.

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 donor stipulates that resources be maintained in perpetuity. 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.

D. CASH AND CASH EQUIVALENTS

Literacy Minnesota considers all investments with an original maturity of three months or less to be cash and cash equivalents. Cash equivalents includes money market mutual funds that are valued at cost which approximates fair value. At times, bank balances may be in excess of the Federal Deposit Insurance Corporation (FDIC) Limit. Literacy Minnesota has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

E. PROMISES TO GIVE AND GRANTS RECEIVABLE

Literacy Minnesota records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are discounted using the federal mid-term Applicable Federal Rates (AFR). Literacy Minnesota uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. Pledges receivable are presented net of allowances for bad debts of \$2,731 and \$4,371 at June 30, 2020 and 2019, respectively. All grants receivable are expected to be collected within one year. As of June 30, 2020 and 2019, Literacy Minnesota had no reserve for uncollectible grants receivable.

F. ACCOUNTS RECEIVABLE

Receivables from contracts with customers are reported as accounts receivable in the accompanying statements of financial position. Accounts receivable are primarily from corporations and are stated at the amount management expects to collect from balances outstanding at year end. Literacy Minnesota uses the allowance method to determine uncollectible receivables. The allowance is based on prior years' experience and management's analysis of specific receivables. As of June 30, 2020 and 2019, Literacy Minnesota had no reserve for uncollectible receivables.

G. FIXED ASSETS

Expenditures for fixed assets are stated at cost less accumulated depreciation. Literacy Minnesota capitalizes all additions and improvements over \$5,000. Donated assets are valued at their estimated fair values on the date of contribution. Depreciation is calculated on the straight-line method over the estimated useful lives of between two to five years.

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 recognized in income for the period. The cost of maintenance and repairs is expensed as incurred.

H. AGENCY OBLIGATIONS

Literacy Minnesota was the fiscal sponsor for Literacy Action Network (LAN) for several years. As of July 2010, that agency became a 501(c)(3) organization. Literacy Minnesota continues to maintain LAN's assets and provides bookkeeping services. Literacy Minnesota held \$41,706 and \$35,824 of assets for LAN at June 30, 2020 and 2019, respectively.

I. BENEFICIAL INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION

Literacy Minnesota has established funds held by the St. Paul Foundation (the Community Foundation).

As is standard practice, Literacy Minnesota granted variance power to the Community Foundation and thus relinquished all control over the assets. Literacy Minnesota is only entitled to annual income based on the Community Foundation's spending policy and the Community Foundation can change this policy at any time. Based on current generally accepted accounting principles, these funds are recorded at the fair value of the Community Foundation's underlying assets.

Distributions received from the Community Foundation are accounted for as revenue. The remaining net change in the endowment is reported as unrealized changes in net assets.

J. REVENUE AND REVENUE RECOGNITION

Literacy Minnesota recognizes contributions and support revenue when cash or an unconditional promise to give is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and right of return, are not recognized until the conditions on which they depend have been met.

Literacy Minnesota has various government grants that are generally cost-reimbursable agreements, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenditures. Revenue is recognized as qualifying expenditures are incurred, or other contractual conditions are met. Consequently, at June 30, 2020 and 2019, conditional contributions approximating \$220,000 and \$340,000, for which no amounts had been received in advance, have not been recognized in the accompanying financial statements.

LITERACY MINNESOTA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

Program service fee revenues represents NorthStar Digital Literacy contracts, VISTA cost share contracts, and workshop and conference registration fees. Revenue from NorthStar Digital Literacy and VISTA cost share contracts are recognized pro-ratably over the underlying contract period. Workshop and conference registration fees and book sales are recognized at a point in time, when the goods or services are provided. Liabilities related to these contracts with customers are reported as deferred revenue in the accompanying statements of financial position.

The following represents Literacy Minnesota's disaggregated revenue as of June 30:

	<u>2020</u>	<u>2019</u>
Revenue recognized over time:		
NorthStar Digital Literacy	\$884,580	\$772,388
Vista cost share	109,992	95,149
Revenue recognized at a point in time:		
Workshop and conference	15,000	17,470
Book sales	<u>4,467</u>	<u>10,437</u>
 Total program service fees	 <u><u>\$1,014,039</u></u>	 <u><u>\$895,444</u></u>

K. FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. Salaries and related expenses are allocated based on time records. Rent and utilities are allocated based on square footage. Other expenses that are not directly identifiable by program or support service are allocated based on actual hours charged to programs and support services.

L. DONATED SERVICES AND USE OF SPACE

Donations of goods and other noncash assets are recorded at the estimated fair value on the date received. Contributed services, which require special skill that Literacy Minnesota would have paid for if not donated, are recorded at their estimated fair value when the services are rendered.

M. USE OF ESTIMATES

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

LITERACY MINNESOTA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

N. INCOME TAX STATUS

Literacy Minnesota has a tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to income taxes except federal and state income taxes on any unrelated business income (UBI). Literacy Minnesota has not had any material UBI activities.

A tax expense or benefit from an uncertain income tax position (including tax-exempt status) may be recognized only when it is more likely than not that the position will be sustained upon examination by taxing authorities. Management believes Literacy Minnesota has no uncertain income tax positions that would result in an accrual, expense or benefit under the more likely than not standard.

O. RECLASSIFICATION

Certain prior year amounts have been reclassified to conform to the current year presentation. There was no impact from the reclassification on the fiscal year 2019 net assets or change in net assets.

Note 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 balance sheet date, comprise the following:

	<u>2020</u>	<u>2019</u>
Financial assets, as of June 30:	\$2,376,737	\$2,479,720
Less those unavailable for general expenditures within one year, due to:		
Fiscal agency obligation	(41,706)	(35,824)
Restricted by donor with time or purpose restriction	(521,086)	(420,387)
Board designations:		
Quasi endowment fund, beneficial interest in assets held by Community Foundation	(677,575)	(735,223)
Designated for programming, infrastructure and reserve	(500,000)	(500,000)
Designated for special purpose reserve	<u>(200,000)</u>	<u>(200,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$436,370</u>	<u>\$588,286</u>

* Total assets, less nonfinancial assets (fixed assets and prepaid expenses)

Due to the nature of the restrictions from contributions received from donors, Literacy Minnesota has omitted all restricted contributions. Amounts that have been board designated have also been omitted from assets available for general expenditure. However, in the event of an unanticipated liquidity need, these amounts could be drawn upon in a manner consistent with board approved policy. Literacy Minnesota structures its financial assets to be available as its general expenditures, liabilities and other obligations come due.

LITERACY MINNESOTA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

Note 3 FIXED ASSETS

The following is a summary of fixed assets as of June 30:

	<u>2020</u>	<u>2019</u>
Equipment	\$142,452	\$142,452
Leasehold improvements	13,956	13,956
Website	<u>70,525</u>	<u>-</u>
Gross fixed assets	226,933	156,408
Less accumulated depreciation/amortization	<u>(156,568)</u>	<u>(142,893)</u>
Net fixed assets	<u><u>\$70,365</u></u>	<u><u>\$13,515</u></u>

Depreciation and amortization expense was \$13,674 and \$3,876 for the years ended June 30, 2020 and 2019, respectively.

Note 4 PLEDGES RECEIVABLE

Collection of pledges receivable is expected as follows:

	<u>2020</u>	<u>2019</u>
Due in one year	\$9,622	\$12,415
Due in two to five years	<u>15,000</u>	<u>20,000</u>
Total	24,622	32,415
Less - allowance	(2,731)	(4,371)
Less - discount	<u>(360)</u>	<u>(595)</u>
Total	<u><u>\$21,531</u></u>	<u><u>\$27,449</u></u>

Note 5 OPERATING LEASES

Literacy Minnesota leases office space located at 700 Raymond Ave, St. Paul, Minnesota. The operating lease is effective through October 31, 2023. Minimum monthly lease payments started November 1, 2015 at \$10,825 and increased 3% annually until October 31, 2018. On November 1, 2018, minimum monthly lease payments started at \$11,780 and will increase 2% annually for the remainder of the lease period.

Literacy Minnesota also has operating leases for ancillary locations for its programs. In addition, there are various month-to-month leases that have not been included in the future minimum lease payments.

LITERACY MINNESOTA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

Future minimum lease payments are as follows:

2021	\$153,422
2022	149,508
2023	152,560
2024	51,192
2025	-
Thereafter	-
Total	<u>\$506,682</u>

Rent expenses for 2020 and 2019 were \$272,463 and \$279,601, respectively.

Note 6 NET ASSETS WITH DONOR RESTRICTIONS

The following is a summary of net assets with donor restrictions as of June 30:

	<u>2020</u>	<u>2019</u>
Restricted as to purpose:		
Adult Basic Education	\$217,028	\$156,953
AmeriCorps - Summer Reads	20,649	16,200
Family Literacy	84,501	95,091
Health Literacy Partnership	18,990	29,553
Kraemer Memorial Education Grant Fund	40,902	40,655
Fischer Award	21,684	21,695
St. Paul Library Strategies	-	21,166
Adult Indirect Service	19,061	10,040
Tech Fund Admin	6,361	-
Restricted as to time:		
General operating	<u>91,910</u>	<u>29,034</u>
Total net assets with donor restrictions	<u>\$521,086</u>	<u>\$420,387</u>

LITERACY MINNESOTA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

Note 7 NET ASSETS RELEASED FROM RESTRICTIONS

Restrictions are satisfied through passage of time or by expenditure for purpose. A recap of net assets released from restriction is as follows:

	<u>2020</u>	<u>2019</u>
Purpose restricted expenditures:		
Adult Basic Education	\$51,848	\$62,304
AmeriCorps - Summer Reads	23,726	11,333
Family Literacy	110,370	103,100
Health Literacy Partnership	24,314	24,354
Fischer Award	3,316	250
St. Paul Library Strategies	21,667	48,661
Kraemer Memorial Education Grant Fund	2,102	-
Adult Indirect Service	29,950	40,396
Tech Fund Admin	684	
Passage of time:		
General operating	149,000	190,543
Software license	-	20,000
	<u> </u>	<u> </u>
Total net assets released from restrictions	<u>\$416,977</u>	<u>\$500,941</u>

Note 8 NET ASSETS WITHOUT DONOR RESTRICTIONS - BOARD DESIGNATED

As of June 30, 2020 and 2019, the Board of Directors had designated \$500,000 to provide an internal source of funds for situations such as a sudden increase in expenses, one-time unbudgeted expenses, unanticipated loss in funding, or uninsured losses.

As of June 30, 2020 and 2019, the Board of Directors designated \$200,000 to provide funding to meet special targets of opportunity or need that further the mission of the organization which may or may not have specific expectation of incremental or long-term increased income.

LITERACY MINNESOTA
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Note 9 ENDOWMENT

Literacy Minnesota has established three funds held by the St. Paul Foundation (the Community Foundation). In 1999, a board designated endowment fund without donor restrictions was established. In 2016, the Kraemer Memorial Education Grant Fund with donor restrictions was established. In 2019, the Lucille L. Fischer Adult Basic Education Fund with donor restrictions was established.

Endowment Investment and Spending Policies

Literacy Minnesota is subject to the investment and spending policies established by the Community Foundation. The Community Foundation has adopted investment and spending policies for endowment assets that seek to provide a predictable stream of funding to programs supported by its endowment while maintaining the purchasing power of the endowment assets.

The Community Foundation has adopted an investment strategy that invests in domestic equities, international equities, private capital, fixed income, real assets and absolute return strategies. Diversification by asset class, investment style, investment manager, etc. is employed to avoid undue risk concentration and enhance total return. The primary performance objective is to achieve an annualized total rate of return, net of investment fees, that is equal to or greater than the Community Foundation's spending policy payout rate plus inflation over long periods of time.

The Community Foundation's current spending policy is to distribute an amount equal to 5.00% of a moving twenty-one quarter average but not less than 4.25% or greater than 5.50% of current market value.

The composition of endowment net assets by fund type is as follows as of June 30:

	<u>2020</u>	<u>2019</u>
Endowment Fund - board designated	\$681,580	\$735,223
Kraemer Memorial Education Grant Fund - with donor restrictions	37,282	38,698
Lucille L. Fischer Education Fund - with donor restrictions	<u>23,461</u>	<u>-</u>
Total	<u>\$742,323</u>	<u>\$773,921</u>

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Change in endowment net assets for the years ending June 30, 2020 and 2019 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - June 30, 2018	\$739,945	\$34,655	\$774,600
Investment return:			
Interest and dividends	12,568	611	13,179
Net unrealized appreciation	21,516	1,228	22,744
Admin fees and investment expense	(9,791)	(466)	(10,257)
Total investment return	24,293	1,373	25,666
Other additions:			
Transfers to Community Foundation	-	4,043	4,043
Total other additions	0	4,043	4,043
Appropriation of endowment assets for expenditure	(29,015)	(1,373)	(30,388)
Endowment net assets - June 30, 2019	735,223	38,698	773,921
Investment return:			
Interest and dividends	13,186	1,114	14,300
Net unrealized appreciation	(28,016)	(1,781)	(29,797)
Admin fees and investment expense	(9,557)	(780)	(10,337)
Total investment return	(24,387)	(1,447)	(25,834)
Other additions:			
Transfers to Community Foundation	-	26,050	26,050
Total other additions	0	26,050	26,050
Appropriation of endowment assets for expenditure	(29,256)	(2,558)	(31,814)
Endowment net assets - June 30, 2020	\$681,580	\$60,743	\$742,323

Note 10 FAIR VALUE OF ASSETS AND LIABILITIES

Literacy Minnesota has determined the fair value of certain assets and liabilities in accordance with provisions of generally accepted accounting principles (GAAP), which provides a framework for measuring fair value under GAAP.

GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. GAAP also establishes a fair value hierarchy which prioritizes the valuation inputs into three broad levels.

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Level 1 inputs consist of quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

Literacy Minnesota uses Level 1 inputs to determine the fair value of all assets and liabilities with the exception of the endowment held at a community foundation and promises to give.

Level 3 inputs are used to determine the fair value of the endowment held at a community foundation. Although the fair value of the endowment is reported on a quarterly basis by the Community Foundation, shares in the investment pool are not traded on the open market. Thus the Level 3 input classification.

Assets and liabilities measured at fair value on a recurring basis at June 30, 2020 and 2019, respectively, are as follows:

	<u>Level 3</u>	
	<u>2020</u>	<u>2019</u>
Beneficial interest in assets held by Community Foundation	<u>\$742,323</u>	<u>\$773,921</u>

The fair value of the beneficial interest in assets held by the Community Foundation is provided through quarterly statements by the Community Foundation and shares in the Community Foundation investment pool are not traded on the open market. Fair value of promises to give is determined based upon future cash flows.

Following is a reconciliation of activity for assets measured at fair value on a recurring basis based upon significant unobservable (level 3) information:

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$773,921	\$774,600
Net change in fair value	(25,834)	25,666
Transfers to Community Foundation	26,050	4,043
Distributions	<u>(31,814)</u>	<u>(30,388)</u>
Balance, end of year	<u>\$742,323</u>	<u>\$773,921</u>

Note 11 RETIREMENT PLAN

Literacy Minnesota offers a 401(k) plan for employees meeting certain eligibility requirements. Contributions to the plan are currently equal to the employee's deferrals up to 3% of the employee's compensation. Contributions during the year ending June 30, 2020 and 2019 were \$55,171 and \$51,651, respectively.

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Note 12 DONATED SERVICES AND USE OF SPACE

Literacy Minnesota records in-kind contributions at fair value at the date of the donation, if measurable.

In-kind contributions include the following:

	<u>2020</u>	<u>2019</u>
Rent for Rondo Learning Center	<u>\$11,200</u>	<u>\$11,200</u>

Literacy Minnesota also received approximately 18,553 and 25,700 hours of volunteer time that did not meet the criteria for recognition in the fiscal years ended June 30, 2020 and 2019, respectively.

Note 13 SOFTWARE RIGHTS

During 2004, Literacy Minnesota acquired the rights to software used to fulfill the Minnesota Department of Education’s Adult Basic Education (ABE) reporting requirements. Rights to the software were transferred from another ABE organization in accordance with an agreement between the two organizations and the Minnesota Department of Education. An asset value has not been recorded for financial statement purposes because no fair value existed at the time of transfer and no cost accrued to Literacy Minnesota upon acquiring the rights.

Note 14 CONTINGENCIES

The continuation of funding from federal and other sources is contingent upon availability of funds and project performance. The funds are awarded annually based either upon receipt and approval of a program application or upon completion of a performance review. In addition, expenditures made under federal grants are subject to review and audit by the grantor agencies. To the extent, if any, that such a review or audit reduces expenditures allowable under these contracts, Literacy Minnesota will record such disallowances at the time the final assessment is made. Management believes that any liabilities for reimbursement, which may arise as a result of these audits, are not material.

Note 15 CHANGES IN ACCOUNTING PRINCIPLE

Literacy Minnesota implemented the provisions of Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, and ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The intent of the new standards is to improve the usefulness and understandability of the Literacy Minnesota’s financial reporting.

ASU 2014-09 provides new revenue recognition standards, eliminating the transaction- and industry-specific revenue recognition guidance and replaces it with a principle-based approach for determining revenue recognition. ASU 2018-08 clarifies and improves existing guidance related to contributions received and contributions made. The presentation and disclosures of revenue have been enhanced in accordance with this standard. Analysis of the various provisions of these two ASU’s resulted in no significant changes in the way Literacy Minnesota recognizes revenue, and therefore no changes to the Literacy Minnesota’s 2019 Financial Statements were required on a retrospective basis.

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ASU 2016-18 requires that all cash and cash equivalents be included as components of total cash and cash equivalents presented on the statement of cash flows. The provisions of ASU 2016-18 have been applied retrospectively for all prior periods presented.

Note 16 SUBSEQUENT EVENTS AND UNCERTAINTIES

Management has evaluated subsequent events through September 15, 2020, the date that the financial statements were available to be issued.

The COVID-19 pandemic continues to cause rapidly changing disruptions worldwide. Management has evaluated these conditions and believes that it is not possible to reasonably estimate the financial impact, if any, of COVID-19 on Literacy Minnesota's future operations.