

LITERACY MINNESOTA

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

For The Years Ended
June 30, 2021 and 2020

LITERACY MINNESOTA
TABLE OF CONTENTS

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



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, 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.

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. For the year ended June 30, 2021, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. For the year ended June 30, 2020, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2021, on our consideration of Literacy Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Literacy Minnesota's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Literacy Minnesota's internal control over financial reporting and compliance.



REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

October 13, 2021

FINANCIAL STATEMENTS

LITERACY MINNESOTA
STATEMENTS OF FINANCIAL POSITION
June 30, 2021 and 2020

Statement 1

	2021	2020
Assets:		
Current assets:		
Cash and cash equivalents	\$997,617	\$562,049
Accounts receivable	322	-
Accounts receivable - insurance proceeds	-	25,840
Pledges receivable, current portion	6,770	9,622
Government grants receivable	313,602	324,994
Prepaid expenses	128,313	130,845
Total current assets	1,446,624	1,053,350
Fixed assets, net	42,977	70,365
Pledges receivable, net	8,231	11,909
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	926,037	742,323
Total assets	<u>\$3,123,869</u>	<u>\$2,577,947</u>
Liabilities and net assets:		
Current liabilities:		
Accounts payable	\$65,638	\$58,860
Accrued expenses	247,609	246,551
Fiscal agency obligation	(58,837)	41,706
Deferred revenue	405,986	133,914
Total current liabilities	<u>660,396</u>	<u>481,031</u>
Net assets:		
Net assets without donor restrictions:		
Undesignated	340,473	198,255
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	848,207	677,575
Total net assets without donor restrictions	1,888,680	1,575,830
Net assets with donor restrictions	574,793	521,086
Total net assets	<u>2,463,473</u>	<u>2,096,916</u>
Total liabilities and net assets	<u>\$3,123,869</u>	<u>\$2,577,947</u>

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

LITERACY MINNESOTA
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2021 and 2020

Statement 2

	2021				2020			
	Without Donor Restrictions		With		Without Donor Restrictions		With	
	Undesignated	Board	Donor	Total	Undesignated	Board	Donor	Total
	and Designated	Designated for	Restrictions		and Designated	Designated for	Restrictions	
	Reserves	Endowment			Reserves	Endowment		
Contributions and support:								
Government grants	\$2,933,646	\$ -	\$ -	\$2,933,646	\$3,001,987	\$ -	\$ -	\$3,001,987
Government grants - COVID	255,131	-	-	255,131	-	-	-	-
Corporation/foundation grants	43,881	-	313,055	356,936	42,116	-	355,033	397,149
Contributions	358,840	-	144,628	503,468	323,954	-	148,893	472,847
In-kind contributions	11,200	-	-	11,200	11,200	-	-	11,200
Memberships	-	-	22,000	22,000	-	-	13,750	13,750
Pass-through government grants	10,595	-	-	10,595	17,578	-	-	17,578
Total contributions and support	3,613,293	0	479,683	4,092,976	3,396,835	0	517,676	3,914,511
Other revenue:								
Program service fees	1,099,199	-	-	1,099,199	1,014,039	-	-	1,014,039
Other revenue	148,509	-	-	148,509	42,475	-	-	42,475
Endowment distributions and interest	31,138	-	-	31,138	28,454	-	-	28,454
Total other revenue	1,278,846	0	0	1,278,846	1,084,968	0	0	1,084,968
Net assets released from restrictions	438,908	-	(438,908)	-	416,977	-	(416,977)	-
Total revenues	5,331,047	0	40,775	5,371,822	4,898,780	0	100,699	4,999,479
Expenses:								
Program services	4,147,561	-	-	4,147,561	4,029,830	-	-	4,029,830
Management and general	672,221	-	-	672,221	596,368	-	-	596,368
Fundraising	369,047	-	-	369,047	428,752	-	-	428,752
Total expenses	5,188,829	0	0	5,188,829	5,054,950	0	0	5,054,950
Change in net assets before unrealized gain (loss)	142,218	-	40,775	182,993	(156,170)	-	100,699	(55,471)
Unrealized gain (loss) in beneficial interest	-	170,632	12,932	183,564	-	(57,648)	-	(57,648)
Change in net assets	142,218	170,632	53,707	366,557	(156,170)	(57,648)	100,699	(113,119)
Net assets - beginning of year	898,255	677,575	521,086	2,096,916	1,054,425	735,223	420,387	2,210,035
Net assets - end of year	\$1,040,473	\$848,207	\$574,793	\$2,463,473	\$898,255	\$677,575	\$521,086	\$2,096,916

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

LITERACY MINNESOTA
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2021 and 2020

Statement 3

	2021			
	Program Services	Management and General	Fundraising	Total
Salaries	\$1,854,669	\$416,069	\$240,299	\$2,511,037
Employee benefits and payroll taxes	526,681	65,623	57,768	650,072
Total salaries and related expenses	2,381,350	481,692	298,067	3,161,109
AmeriCorps allowances, benefits and taxes	389,683	-	-	389,683
Occupancy	198,885	54,339	13,887	267,111
Professional services	860,956	73,533	20,590	955,079
Recruitment/staff development	51,378	8,884	7,767	68,029
Travel/meetings	948	2,555	102	3,605
Hosted training and events	17,717	-	3,242	20,959
Supplies and equipment	193,295	33,065	4,747	231,107
Printing/postage	17,446	10,125	15,393	42,964
Depreciation/amortization	14,108	8,028	5,252	27,388
In-kind/pass-through expenses	21,795	-	-	21,795
Total expenses	<u>\$4,147,561</u>	<u>\$672,221</u>	<u>\$369,047</u>	<u>\$5,188,829</u>
	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	2,154,564	460,286	334,343	2,949,193
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>

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

LITERACY MINNESOTA
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2021 and 2020

Statement 4

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$366,557	(\$113,119)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation/amortization	27,388	13,674
Unrealized (gain) loss in beneficial interest	(183,564)	57,648
Change in assets and liabilities:		
Accounts receivable	25,518	(25,780)
Grants receivable	-	60,000
Pledges receivable	6,530	5,918
Government grants receivable	11,392	153,447
Prepaid expenses	2,532	(16,038)
Accounts payable	6,778	(4,047)
Accrued expenses	1,058	55,355
Fiscal agency obligation	(100,543)	5,882
Deferred revenue	272,072	25,834
Net cash provided by operating activities	<u>435,718</u>	<u>218,774</u>
Cash flows from investing activities:		
Purchase of fixed assets	-	(70,524)
Additions to beneficial interest	(150)	(26,050)
Net cash used in investing activities	<u>(150)</u>	<u>(96,574)</u>
Net increase in cash and cash equivalents	435,568	122,200
Cash and cash equivalents - beginning of year	<u>1,262,049</u>	<u>1,139,849</u>
Cash and cash equivalents - end of year	<u><u>\$1,697,617</u></u>	<u><u>\$1,262,049</u></u>
Cash and cash equivalents are reported on the statements of financial position as follows:		
Cash and cash equivalents	\$997,617	\$562,049
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><u>\$1,697,617</u></u>	<u><u>\$1,262,049</u></u>

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

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.

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, including a parenting program equipping families to navigate the school system. Our Arlington Hills location in Saint Paul also has a preschool program for children of adult students.
- 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
 - 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 include 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 \$1,589 and \$2,731 at June 30, 2021 and 2020, respectively. All grants receivable are expected to be collected within one year. As of June 30, 2021 and 2020, 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, 2021 and 2020, Literacy Minnesota had no reserve for uncollectible receivables.

LITERACY MINNESOTA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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. As of June 30, 2021, Literacy Minnesota was owed \$58,837 from LAN, and as of June 30, 2020 held \$41,706 of assets for LAN.

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, 2021 and 2020, conditional contributions approximating \$245,000 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, 2021 and 2020

Program service fee revenues represent 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:

	2021	2020
Revenue recognized over time:		
NorthStar Digital Literacy	\$902,565	\$884,580
Vista cost share	87,218	109,992
MDE libraries project	100,000	-
Revenue recognized at a point in time:		
Workshop and conference	1,880	15,000
Book sales	7,536	4,467
	<u>\$1,099,199</u>	<u>\$1,014,039</u>
Total program service fees	<u>\$1,099,199</u>	<u>\$1,014,039</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, 2021 and 2020

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.

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>2021</u>	<u>2020</u>
Financial assets, as of June 30: *	\$2,952,579	\$2,376,737
Less those unavailable for general expenditures within one year, due to:		
Fiscal agency obligation	-	(41,706)
Restricted by donor with time or purpose restriction	(574,793)	(521,086)
Board designations:		
Quasi endowment fund, beneficial interest	(848,207)	(677,575)
Designated for programming, infrastructure and reserve	(500,000)	(500,000)
Designated for special purpose reserve	<u>(200,000)</u>	<u>(200,000)</u>
Total	<u>\$829,579</u>	<u>\$436,370</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, 2021 and 2020

Note 3 FIXED ASSETS

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

	<u>2021</u>	<u>2020</u>
Equipment	\$142,452	\$142,452
Leasehold improvements	13,956	13,956
Website	<u>70,525</u>	<u>70,525</u>
Gross fixed assets	226,933	226,933
Less: accumulated depreciation/amortization	<u>(183,956)</u>	<u>(156,568)</u>
Net fixed assets	<u><u>\$42,977</u></u>	<u><u>\$70,365</u></u>

Depreciation and amortization expense was \$27,388 and \$13,674 for the years ended June 30, 2021 and 2020, respectively.

Note 4 PLEDGES RECEIVABLE

Collection of pledges receivable is expected as follows:

	<u>2021</u>	<u>2020</u>
Due in one year	\$6,770	\$9,622
Due in two to five years	<u>10,000</u>	<u>15,000</u>
Total	16,770	24,622
Less: allowance	(1,589)	(2,731)
Less: discount	<u>(180)</u>	<u>(360)</u>
Total	<u><u>\$15,001</u></u>	<u><u>\$21,531</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, 2021 and 2020

Future minimum lease payments are as follows:

2022	\$167,508
2023	152,560
2024	<u>51,192</u>
Total	<u><u>\$371,260</u></u>

Rent expenses for June 30, 2021 and 2020 were \$192,161 and \$272,463, respectively.

Note 6 NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2021</u>	<u>2020</u>
Restricted as to purpose:		
Adult Basic Education	\$245,776	\$217,028
AmeriCorps - Summer Reads	18,763	20,649
Family Literacy	38,533	84,501
Health Literacy Partnership	19,905	18,990
Kraemer Memorial Education Grant Fund	46,670	40,902
Fischer Award	28,423	21,684
Adult Indirect Service	-	19,061
Tech Fund Admin	31,825	6,361
Restricted as to time:		
General operating	<u>144,898</u>	<u>91,910</u>
Total net assets with donor restrictions	<u><u>\$574,793</u></u>	<u><u>\$521,086</u></u>

LITERACY MINNESOTA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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>2021</u>	<u>2020</u>
Purpose restricted expenditures:		
Adult Basic Education	\$27,123	\$51,848
AmeriCorps - Summer Reads	38,386	23,726
Family Literacy	121,549	110,370
Health Literacy Partnership	33,585	24,314
Fischer Award	750	3,316
St. Paul Library Strategies	-	21,667
Kraemer Memorial Education Grant Fund	2,430	2,102
Adult Indirect Service	19,501	29,950
Tech Fund Admin	27,251	684
Passage of time:		
General operating	<u>168,333</u>	<u>149,000</u>
Total net assets released from restrictions	<u><u>\$438,908</u></u>	<u><u>\$416,977</u></u>

Note 8 NET ASSETS WITHOUT DONOR RESTRICTIONS - BOARD DESIGNATED

As of June 30, 2021 and 2020, 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, 2021 and 2020, 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
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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>2021</u>	<u>2020</u>
Endowment Fund - board designated	\$850,178	\$681,580
Kraemer Memorial Education Grant Fund - with donor restrictions	46,670	37,282
Lucille L. Fischer Education Fund - with donor restrictions	<u>29,189</u>	<u>23,461</u>
Total	<u><u>\$926,037</u></u>	<u><u>\$742,323</u></u>

LITERACY MINNESOTA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

Change in endowment net assets for the years ending June 30, 2021 and 2020 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
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
Investment return:			
Interest and dividends	12,269	1,092	13,361
Net unrealized appreciation	194,785	17,335	212,120
Admin fees and investment expense	(9,230)	(857)	(10,087)
Total investment return	197,824	17,570	215,394
Other additions:			
Transfers to Community Foundation	-	150	150
Total other additions	0	150	150
Appropriation of endowment assets for expenditure	(29,226)	(2,604)	(31,830)
Endowment net assets - June 30, 2021	\$850,178	\$75,859	\$926,037

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.

LITERACY MINNESOTA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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, 2021 and 2020, respectively, are as follows:

	Level 3	
	2021	2020
Beneficial interest in assets held by Community Foundation	<u>\$926,037</u>	<u>\$742,323</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:

	2021	2020
Balance - beginning of year	\$742,323	\$773,921
Total investment returns	215,394	(25,834)
Transfers to Community Foundation	150	26,050
Distributions	<u>(31,830)</u>	<u>(31,814)</u>
Balance - end of year	<u>\$926,037</u>	<u>\$742,323</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, 2021 and 2020 were \$59,637 and \$55,171, respectively.

LITERACY MINNESOTA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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>2021</u>	<u>2020</u>
Rent for Rondo Learning Center	<u>\$11,200</u>	<u>\$11,200</u>

Literacy Minnesota also received approximately 13,459 and 18,553 hours of volunteer time that did not meet the criteria for recognition in the fiscal years ended June 30, 2021 and 2020, 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 SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 13, 2021, the date that the financial statements were available to be issued.