

LITERACY MINNESOTA

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

For The Years Ended
June 30, 2023 and 2022

LITERACY MINNESOTA
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Literacy Minnesota
Saint Paul, Minnesota

Opinion

We have audited the accompanying financial statements of Literacy Minnesota (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, 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 financial statements referred to above present fairly, in all material respects, the financial position of Literacy Minnesota as of June 30, 2023 and 2022, 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 Literacy Minnesota and to meet our other ethical responsibilities in accordance with the relevant ethical requirements related 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 Literacy Minnesota's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of 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 Literacy Minnesota'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 Literacy Minnesota'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.

A handwritten signature in black ink that reads "Redpath and Company, LLC". The signature is written in a cursive, flowing style.

REDPATH AND COMPANY, LLC
St. Paul, Minnesota

November 22, 2023

FINANCIAL STATEMENTS

LITERACY MINNESOTA
STATEMENTS OF FINANCIAL POSITION
June 30, 2023 and 2022

Statement 1

	2023	2022
Assets:		
Current assets:		
Cash and cash equivalents	\$1,505,876	\$1,201,445
Accounts receivable	113,085	18,900
Pledges receivable, current portion	4,750	5,000
Contributions and grants receivable	564,697	664,648
Prepaid expenses	206,913	167,587
Total current assets	2,395,321	2,057,580
Fixed assets, net	3,825	20,507
Right-of-use asset, operating lease	136,202	-
Pledges receivable, net	-	4,190
Cash and cash equivalents - board designated for:		
Operating reserve	500,000	500,000
Special purpose reserve	127,851	200,000
Beneficial interest in assets held by the Community Foundation	861,974	857,098
Total assets	\$4,025,173	\$3,639,375
Liabilities and net assets:		
Current liabilities:		
Accounts payable	\$94,536	\$153,088
Accrued expenses	214,857	145,018
Fiscal agency obligation	75,073	55,486
Deferred revenue	824,545	479,885
Operating lease liability, current portion	73,251	-
Total current liabilities	1,282,262	833,477
Noncurrent liabilities:		
Operating lease liability, net of current portion	63,204	-
Total liabilities	1,345,466	833,477
Net assets:		
Net assets without donor restrictions:		
Undesignated	742,334	683,638
Board designated for operating reserve	500,000	500,000
Board designated for special purpose reserve	127,851	200,000
Board designated for endowment permanently held by Community Foundation	790,912	785,737
Total net assets without donor restrictions	2,161,097	2,169,375
Net assets with donor restrictions	518,610	636,523
Total net assets	2,679,707	2,805,898
Total liabilities and net assets	\$4,025,173	\$3,639,375

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

LITERACY MINNESOTA
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2023 and 2022

Statement 2

	2023				2022			
	Without Donor Restrictions		With Donor Restrictions	Total	Without Donor Restrictions		With Donor Restrictions	Total
	Undesignated and Designated Reserves	Board Designated for Endowment			Undesignated and Designated Reserves	Board Designated for Endowment		
Contributions and support:								
Government grants	\$2,981,339	\$ -	\$ -	\$2,981,339	\$3,050,538	\$ -	\$ -	\$3,050,538
Government grants - COVID	62,442	-	-	62,442	293,772	-	-	293,772
Corporation and foundation grants	55,176	-	198,486	253,662	23,000	-	383,403	406,403
Contributions	387,322	-	75,591	462,913	389,058	-	80,280	469,338
In-kind contributions	-	-	-	-	1,867	-	-	1,867
Memberships	-	-	22,000	22,000	-	-	26,550	26,550
Pass-through government grants	14,225	-	-	14,225	4,200	-	-	4,200
Total contributions and support	<u>3,500,504</u>	<u>0</u>	<u>296,077</u>	<u>3,796,581</u>	<u>3,762,435</u>	<u>0</u>	<u>490,233</u>	<u>4,252,668</u>
Other revenue:								
Program service fees	2,172,344	-	-	2,172,344	1,628,599	-	-	1,628,599
Other revenue	66,569	-	-	66,569	49,955	-	-	49,955
Endowment distributions and interest	45,794	-	-	45,794	32,955	-	-	32,955
Total other revenue	<u>2,284,707</u>	<u>0</u>	<u>0</u>	<u>2,284,707</u>	<u>1,711,509</u>	<u>0</u>	<u>0</u>	<u>1,711,509</u>
Net assets released from restrictions	414,439	-	(414,439)	-	421,832	-	(421,832)	-
Total revenues	<u>6,199,650</u>	<u>0</u>	<u>(118,362)</u>	<u>6,081,288</u>	<u>5,895,776</u>	<u>0</u>	<u>68,401</u>	<u>5,964,177</u>
Expenses:								
Program services	4,739,921	-	-	4,739,921	4,450,535	-	-	4,450,535
Management and general	1,044,391	-	-	1,044,391	842,177	-	-	842,177
Fundraising	428,791	-	-	428,791	259,899	-	-	259,899
Total expenses	<u>6,213,103</u>	<u>0</u>	<u>0</u>	<u>6,213,103</u>	<u>5,552,611</u>	<u>0</u>	<u>0</u>	<u>5,552,611</u>
Change in net assets before unrealized gain (loss)	(13,453)	-	(118,362)	(131,815)	343,165	-	68,401	411,566
Unrealized gain (loss) in beneficial interest	-	5,175	449	5,624	-	(62,470)	(6,671)	(69,141)
Change in net assets	(13,453)	5,175	(117,913)	(126,191)	343,165	(62,470)	61,730	342,425
Net assets - beginning of year	1,383,638	785,737	636,523	2,805,898	1,040,473	848,207	574,793	2,463,473
Net assets - end of year	<u>\$1,370,185</u>	<u>\$790,912</u>	<u>\$518,610</u>	<u>\$2,679,707</u>	<u>\$1,383,638</u>	<u>\$785,737</u>	<u>\$636,523</u>	<u>\$2,805,898</u>

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

LITERACY MINNESOTA
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2023 and 2022

Statement 3

	2023			
	Program Services	Management and General	Fundraising	Total
Salaries	\$1,965,496	\$349,355	\$221,894	\$2,536,745
Employee benefits and payroll taxes	536,354	98,048	49,327	683,729
Total salaries and related expenses	2,501,850	447,403	271,221	3,220,474
AmeriCorps allowances, benefits and taxes	204,999	-	-	204,999
Occupancy	300,377	65,859	20,647	386,883
Professional services	1,214,879	435,646	39,522	1,690,047
Recruitment/staff development	52,614	34,105	10,387	97,106
Travel/meetings	28,929	11,131	836	40,896
Hosted training and events	24,624	7,782	64,901	97,307
Supplies and equipment	373,280	34,548	13,493	421,321
Printing/postage	14,310	3,458	5,177	22,945
Interest expense	-	218	-	218
Depreciation/amortization	9,834	4,241	2,607	16,682
In-kind/pass-through expenses	14,225	-	-	14,225
Total expenses	\$4,739,921	\$1,044,391	\$428,791	\$6,213,103
	2022			
	Program Services	Management and General	Fundraising	Total
Salaries	\$1,881,814	\$374,941	\$157,951	\$2,414,706
Employee benefits and payroll taxes	554,302	93,673	37,250	685,225
Total salaries and related expenses	2,436,116	468,614	195,201	3,099,931
AmeriCorps allowances, benefits and taxes	370,886	-	-	370,886
Occupancy	270,521	58,981	12,458	341,960
Professional services	884,026	244,777	24,272	1,153,075
Recruitment/staff development	53,377	28,112	7,522	89,011
Travel/meetings	17,707	2,212	117	20,036
Hosted training and events	13,697	4,367	7,807	25,871
Supplies and equipment	368,632	21,994	1,671	392,297
Printing/postage	12,696	4,618	8,228	25,542
Depreciation/amortization	16,810	8,502	2,623	27,935
In-kind/pass-through expenses	6,067	-	-	6,067
Total expenses	\$4,450,535	\$842,177	\$259,899	\$5,552,611

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

LITERACY MINNESOTA
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2023 and 2022

Statement 4

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	(\$126,191)	\$342,425
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	16,682	27,935
Unrealized (gain) loss in beneficial interest	(4,626)	69,141
Noncash operating lease expense	253	-
Change in assets and liabilities:		
Accounts receivable	(94,185)	(18,578)
Pledges receivable	4,440	5,811
Contributions and grants receivable	99,951	(351,046)
Prepaid expenses	(39,326)	(39,274)
Accounts payable	(58,552)	87,450
Accrued expenses	69,839	(102,591)
Fiscal agency obligation	19,587	114,323
Deferred revenue	344,660	73,899
Net cash provided by operating activities	<u>232,532</u>	<u>209,495</u>
Cash flows from investing activities:		
Purchase of fixed assets	-	(5,465)
Additions to beneficial interest	(250)	(202)
Net cash used in investing activities	<u>(250)</u>	<u>(5,667)</u>
Net increase in cash and cash equivalents	232,282	203,828
Cash and cash equivalents - beginning of year	<u>1,901,445</u>	<u>1,697,617</u>
Cash and cash equivalents - end of year	<u>\$2,133,727</u>	<u>\$1,901,445</u>
Cash and cash equivalents are reported on the statements of financial position as follows:		
Cash and cash equivalents	\$1,505,876	\$1,201,445
Cash and cash equivalents board designated for:		
Operating reserve	500,000	500,000
Special purpose reserve	127,851	200,000
Total cash and cash equivalents	<u>\$2,133,727</u>	<u>\$1,901,445</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 - Five 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 and webinars 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.
- Volunteer Recruitment - Recruits and places volunteers into service organizations across Minnesota.

National Programs

- Northstar Digital Strategies – Providing a leading-edge online platform to assess and build digital skills along with curriculum and self-directed online learning. Establishes digital literacy standards and informs policy and funding opportunities across the country.
- AmeriCorps VISTA- Literacy for All and Digital Literacy – Two tracks/cohorts that engage VISTA members to design and carry out literacy initiatives in partnership with schools and community organizations.
- 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 in its 34th year with accompanying classroom resources for Adult Basic Education instructors.
- 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 \$250 and \$750 at June 30, 2023 and 2022, respectively. All grants receivable are expected to be collected within one year. As of June 30, 2023 and 2022, 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, 2023 and 2022, 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 \$75,073 and \$55,486 of assets for LAN as of June 30, 2023 and 2022, 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, 2023 and 2022, conditional contributions approximating \$104,000 and \$284,000 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, 2023 and 2022

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:

	<u>2023</u>	<u>2022</u>
Revenue recognized over time:		
NorthStar Digital Literacy	\$1,840,039	\$1,528,998
Vista cost share	181,950	95,210
Revenue recognized at a point in time:		
Workshop and conference	392	120
Book sales	5,503	4,271
Northstar projects	78,533	-
Curriculum sales	65,927	-
	<u> </u>	<u> </u>
Total program service fees	<u>\$2,172,344</u>	<u>\$1,628,599</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.

Literacy Minnesota received approximately 15,758 and 13,459 hours of volunteer time that did not meet the criteria for recognition in the fiscal years ended June 30, 2023 and 2022, respectively.

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.

N. LEASES

For leases with an initial term in excess of 12 months, the related leased asset and liability are recognized on the statements of financial position as either operating or finance leases at the inception of an agreement where it is determined that a lease exists. Literacy Minnesota has elected to exclude short-term leases for all classes of underlying assets from balance sheet recognition. A lease is considered to be short-term if it contains a lease term of 12 months or less. Lease expense related to short term leases is recognized on a straight-line basis over the term of the lease. Literacy Minnesota may enter into leases that contain both lease and non-lease components. Literacy Minnesota elected the practical expedient to combine lease and non-lease components when feasible.

Operating lease assets are included in operating lease right-of-use (“ROU”) assets. ROU assets represent the right to use an underlying asset for the lease term and operating lease liabilities represent the obligation to make lease payments arising from the related operating lease. These assets and liabilities are recognized based on the present value of future payments over the lease term at the commencement date. Literacy Minnesota has elected to use the risk-free rate as the discount factor in lieu of determining the incremental borrowing rate for all classes of underlying assets when the implicit rate is not readily determinable.

O. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

Literacy Minnesota adopted the provisions of ASC 842, Leases, using the modified retrospective approach with July 1, 2022, as the date of initial adoption. Literacy Minnesota elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed Literacy Minnesota to carry forward the historical lease classification. In addition, Literacy Minnesota elected the practical expedient to use hindsight in determining the lease term for existing leases, which resulted in shortening the lease terms for certain existing leases. Upon implementation, operating lease right-of-use assets and lease liabilities increased by increased by \$239,496 which resulted in a cumulative effect adjustment to net assets of \$0 as of July 1, 2022. Adoption of the new standard did not materially impact Literacy Minnesota’s net income and had no impact on cash flows.

P. 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.

LITERACY MINNESOTA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

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>2023</u>	<u>2022</u>
Financial assets, as of June 30: *	\$3,678,233	\$3,451,281
Less those unavailable for general expenditures within one year, due to:		
Fiscal agency obligation	(75,073)	(55,486)
Restricted by donor with time or purpose restriction	(518,610)	(636,523)
Board designations:		
Quasi endowment fund, beneficial interest	(790,912)	(785,737)
Designated for programming, infrastructure and reserve	(500,000)	(500,000)
Designated for special purpose reserve	<u>(127,851)</u>	<u>(200,000)</u>
 Total	 <u>\$1,665,787</u>	 <u>\$1,273,535</u>

* Total assets, less nonfinancial assets (fixed assets, right-of-use asset, 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.

Note 3 FIXED ASSETS

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

	<u>2023</u>	<u>2022</u>
Equipment	\$147,917	\$147,917
Leasehold improvements	13,956	13,956
Website	<u>70,525</u>	<u>70,525</u>
Gross fixed assets	232,398	232,398
Less: Accumulated depreciation/amortization	<u>(228,573)</u>	<u>(211,891)</u>
 Fixed assets, net	 <u>\$3,825</u>	 <u>\$20,507</u>

Depreciation and amortization expense was \$16,682 and \$27,935 for the years ended June 30, 2023 and 2022, respectively.

LITERACY MINNESOTA
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

Note 4 PLEDGES RECEIVABLE

Collection of pledges receivable is expected as follows:

	<u>2023</u>	<u>2022</u>
Due in one year	\$5,000	\$5,000
Due in two to five years	-	5,000
Total	<u>5,000</u>	<u>10,000</u>
Less: Allowance	(250)	(750)
Less: Discount	<u>-</u>	<u>(60)</u>
Total	<u><u>\$4,750</u></u>	<u><u>\$9,190</u></u>

Note 5 LEASES

Literacy Minnesota leases office space located at 700 Raymond Avenue in St. Paul, Minnesota under an operating lease agreement. The office space lease is effective through October 31, 2023, with monthly lease payments increasing 2% annually through the remainder of the lease period. Literacy Minnesota also leases certain office equipment under operating lease agreements that end at various times through May 31, 208.

Literacy Minnesota includes in the determination of the right-of-use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised.

The weighted average remaining lease term in 2.77 years and the weighted average discount rate is 3.22%. Total operating lease expense for the year ended June 30, 2023 was \$179,688.

The following table summarizes the supplemental cash flow information for the year ended June 30, 2023:

<u>Cash paid for amounts included in the measurement of lease liabilities:</u>	
Operating cash flows from operating leases	<u><u>\$164,620</u></u>
<u>Right-of-use assets obtained in exchange for lease liabilities:</u>	
Operating leases	<u><u>\$296,544</u></u>

LITERACY MINNESOTA
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The future maturity of lease liabilities are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2024	\$75,960
2025	21,672
2026	18,576
2027	15,153
2028	<u>11,649</u>
Total lease payments	143,010
Less: Present value discount	<u>(6,555)</u>
Present value of lease liabilities	<u><u>\$136,455</u></u>

Note 6 NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2023</u>	<u>2022</u>
Restricted as to purpose:		
Adult Basic Education	\$248,686	\$229,217
AmeriCorps - Summer Reads	51,741	38,232
Family Literacy	20,510	18,586
Health Literacy Partnership	26,042	25,075
Kraemer Memorial Education Grant Fund	43,964	43,379
Fischer Award	27,098	26,984
Tech Fund Admin	34,325	34,325
Equity services	33,494	19,868
Restricted as to time:		
General operating	<u>32,750</u>	<u>200,857</u>
Total net assets with donor restrictions	<u><u>\$518,610</u></u>	<u><u>\$636,523</u></u>

LITERACY MINNESOTA
NOTES TO FINANCIAL STATEMENTS
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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>2023</u>	<u>2022</u>
Purpose restricted expenditures:		
Adult Basic Education	\$27,024	\$67,773
AmeriCorps - Summer Reads	43,772	28,030
Family Literacy	89,641	103,107
Health Literacy Partnership	21,634	21,980
Kraemer Memorial Education Grant Fund	-	810
Equity services	36,374	30,132
Passage of time:		
General operating	<u>195,994</u>	<u>170,000</u>
Total net assets released from restrictions	<u><u>\$414,439</u></u>	<u><u>\$421,832</u></u>

Note 8 NET ASSETS WITHOUT DONOR RESTRICTIONS - BOARD DESIGNATED

As of June 30, 2023 and 2022, 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, 2023 and 2022, the Board of Directors designated \$127,851 and \$200,000, respectively, 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.

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.

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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>2023</u>	<u>2022</u>
Endowment Fund - board designated	\$790,912	\$786,735
Kraemer Memorial Education Grant Fund - with donor restrictions	43,964	43,379
Lucille L. Fischer Education Fund - with donor restrictions	<u>27,098</u>	<u>26,984</u>
Total	<u>\$861,974</u>	<u>\$857,098</u>

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Change in endowment net assets for the years ending June 30, 2023 and 2022 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets - June 30, 2021	<u>\$850,178</u>	<u>\$75,859</u>	<u>926,037</u>
Investment return:			
Interest and dividends	21,869	1,959	23,828
Net unrealized appreciation	(42,076)	(3,760)	(45,836)
Admin fees and investment expense	<u>(12,504)</u>	<u>(1,148)</u>	<u>(13,652)</u>
Total investment return	<u>(32,711)</u>	<u>(2,949)</u>	<u>(35,660)</u>
Other additions:			
Transfers to Community Foundation	<u>-</u>	<u>202</u>	<u>202</u>
Appropriation of endowment assets for expenditure	<u>(30,732)</u>	<u>(2,749)</u>	<u>(33,481)</u>
Endowment net assets - June 30, 2022	<u>786,735</u>	<u>70,363</u>	<u>857,098</u>
Investment return:			
Interest and dividends	12,980	1,163	14,143
Net unrealized appreciation	29,460	2,643	32,103
Admin fees and investment expense	<u>(6,887)</u>	<u>(613)</u>	<u>(7,500)</u>
Total investment return	<u>35,553</u>	<u>3,193</u>	<u>38,746</u>
Other additions:			
Transfers to Community Foundation	<u>-</u>	<u>250</u>	<u>250</u>
Appropriation of endowment assets for expenditure	<u>(31,376)</u>	<u>(2,744)</u>	<u>(34,120)</u>
Endowment net assets - June 30, 2023	<u><u>\$790,912</u></u>	<u><u>\$71,062</u></u>	<u><u>\$861,974</u></u>

LITERACY MINNESOTA
NOTES TO FINANCIAL STATEMENTS
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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.

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, 2023 and 2022, respectively, are as follows:

	Level 3	
	2023	2022
Beneficial interest in assets held by Community Foundation	<u>\$861,974</u>	<u>\$857,098</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:

NOT

	2023	2022
Balance - beginning of year	\$857,098	\$926,037
Total investment returns	38,746	(35,660)
Transfers to Community Foundation	250	202
Distributions	<u>(34,120)</u>	<u>(33,481)</u>
Balance - end of year	<u>\$861,974</u>	<u>\$857,098</u>

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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, 2023 and 2022 were \$50,552 and \$53,136, respectively.

Note 12 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 13 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 14 SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 22, 2023, the date that the financial statements were available to be issued.

On July 14, 2023, Literacy Minnesota entered into a lease agreement for a program facility rental on Broadway Avenue in Minneapolis, Minnesota. The lease requires monthly base rent payments of \$6,354 over the term of the lease, which expires on August 31, 2028.

On October 11, 2023, Literacy Minnesota extended the terms of their lease agreement for their Raymond Avenue facility. Monthly base rent payments range from \$13,244-\$14,995 over the term of the lease, which expires on October 31, 2029.

Literacy Minnesota has experienced a significant reduction in core grant revenue from the State of Minnesota for the learning centers, from approximately \$1,800,000 in 2023 to an approximate \$1,300,000 in 2024. This decrease in funding is primarily due to the loss of learner hours from the pandemic. It is expected that levels of learner hours will gradually increase over time, with subsequent increases in related grant revenue. In the meantime, certain staff positions that were open have not been filled and Literacy Minnesota will plan to use reserve funds to cover gaps in funding as needed.