

WHITE BEAR LAKE AREA EDUCATIONAL FOUNDATION

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2019**

WHITE BEAR LAKE AREA EDUCATIONAL FOUNDATION

FINANCIAL STATEMENTS

For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

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Mahoney Ulbrich Christiansen Russ P.A.

CERTIFIED PUBLIC ACCOUNTANTS

10 River Park Plaza, Suite 800 | Saint Paul, MN 55107

Phone: 651.227.6695 Fax: 651.227.9796 | www.mucr.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
White Bear Lake Area Educational Foundation
White Bear Lake, Minnesota

We have audited the accompanying financial statements of White Bear Lake Area Educational Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of White Bear Lake Area Educational Foundation as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, White Bear Lake Area Educational Foundation has adopted Accounting Standards Update (ASU) No. 2016-14, (*Presentation of Financial Statements of Not-for-Profit Entities*). Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited White Bear Lake Area Educational Foundation's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 5, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Mahoney Ulbrich
Christiansen Russ P.A.*

November 20, 2019

WHITE BEAR LAKE AREA EDUCATIONAL FOUNDATION

STATEMENT OF FINANCIAL POSITION

June 30, 2019
(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash	\$ 13,684	\$ 55,642
Accounts receivable	1,822	800
Prepaid expenses	4,093	4,000
Office equipment, net of accumulated depreciation of \$3,389 in 2019 and \$3,246 in 2018	-	143
Investments	<u>3,455,150</u>	<u>3,258,807</u>
Total assets	<u>\$ 3,474,749</u>	<u>\$ 3,319,392</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and other accruals	<u>\$ 24,085</u>	<u>\$ 21,045</u>
Net assets:		
Without donor restrictions	214,884	183,529
With donor restrictions	<u>3,235,780</u>	<u>3,114,818</u>
Total net assets	<u>3,450,664</u>	<u>3,298,347</u>
Total liabilities and net assets	<u>\$ 3,474,749</u>	<u>\$ 3,319,392</u>

See Accompanying Notes to the Financial Statements.

WHITE BEAR LAKE AREA EDUCATIONAL FOUNDATION

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenues and support:				
Contributions	\$ 19,500	\$ 84,191	\$ 103,691	\$ 140,353
Special events:				
Fall fundraising event, net of direct donor benefits of \$26,615 for 2019 and \$23,983 for 2018	76,845	-	76,845	67,877
Golf tournament, net of direct donor benefits of \$22,187 for 2019 and \$22,041 for 2018	33,527	-	33,527	31,382
Investment income, net	-	217,609	217,609	194,693
Foundation management fees	39,220	(39,220)	-	-
Net assets released from restrictions	141,618	(141,618)	-	-
 Total revenues and support	 310,710	 120,962	 431,672	 434,305
Expenses:				
Program services	177,524	-	177,524	173,563
Management and general	72,406	-	72,406	62,831
Fundraising	29,425	-	29,425	30,836
 Total expenses	 279,355	 -	 279,355	 267,230
 Change in net assets	 31,355	 120,962	 152,317	 167,075
Net assets:				
Beginning of year	183,529	3,114,818	3,298,347	3,131,272
 End of year	 \$ 214,884	 \$ 3,235,780	 \$ 3,450,664	 \$ 3,298,347

See Accompanying Notes to the Financial Statements.

WHITE BEAR LAKE AREA EDUCATIONAL FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

	2019				2018
	Program services	Management and general	Fundraising	Total	
Salaries and related benefits:					
Salaries	\$ 32,462	\$ 21,822	\$ 21,280	\$ 75,564	\$ 74,456
Payroll taxes and other benefits	2,532	1,702	1,660	5,894	5,867
Total salaries and related benefits	34,994	23,524	22,940	81,458	80,323
Office and other expenses:					
Scholarships and awards	141,618	-	-	141,618	138,206
Newsletter and advertising	-	-	4,391	4,391	6,344
Rent	912	619	613	2,144	2,144
Insurance	-	1,873	-	1,873	1,815
Accounting services	-	8,412	-	8,412	8,053
Office expense	-	9,261	1,481	10,742	9,284
Investment fees	-	21,189	-	21,189	18,333
Technology	-	7,385	-	7,385	2,508
Depreciation	-	143	-	143	220
Functional expenses	177,524	72,406	29,425	279,355	267,230
Direct donor benefits deducted from related revenues	-	-	-	48,802	46,024
Total expenses	\$ 177,524	\$ 72,406	\$ 29,425	\$ 328,157	\$ 313,254

See Accompanying Notes to the Financial Statements.

WHITE BEAR LAKE AREA EDUCATIONAL FOUNDATION

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

Increase (Decrease) in Cash

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 152,317	\$ 167,075
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation	143	220
Gain income, net	(217,609)	(194,693)
Changes in operating assets and liabilities:		
Accounts receivable	(1,022)	10,148
Prepaid expenses	(93)	(3,500)
Accounts payable and other accruals	3,040	(1,889)
Net cash from operating activities	<u>(63,224)</u>	<u>(22,639)</u>
Cash flows from investing activities:		
Proceeds from sales of investments	674,392	1,141,588
Purchase of investments	(653,126)	(1,157,430)
Net cash from investing activities	<u>21,266</u>	<u>(15,842)</u>
Net decrease in cash	(41,958)	(38,481)
Cash, beginning of year	<u>55,642</u>	<u>94,123</u>
Cash, end of year	<u>\$ 13,684</u>	<u>\$ 55,642</u>

See Accompanying Notes to the Financial Statements.

WHITE BEAR LAKE AREA EDUCATIONAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

1. ORGANIZATION

White Bear Lake Area Educational Foundation (Foundation) is a nonprofit organization established in 1993 to enhance the White Bear Lake Area School District's ability to provide excellence in education for all students. The Foundation's goals are to (1) support educational programs and services in the School District by providing funds not available through local, state, or federal sources, (2) involve the community in the support of high-quality public education, (3) provide a perpetual source of funds through gifts from individuals, businesses, alumni, and other foundations, and (4) encourage student achievement and skill development, and support and recognize teachers for exemplary teaching. The Foundation is supported primarily through contributions from local businesses, alumni, and community members and investment earnings. Support is raised through individual donor giving and fundraising events produced by the Foundation.

Description of Funds:

The Foundation administers teaching grants, scholarships, fellowships for teachers, an Angel Fund for families with special economic needs, and works closely with the White Bear Lake Area Alumni Association. The following is a listing of significant funds managed by the Foundation.

- **Brosious Fund** - Endowment fund used to give grants to an individual or group of teachers to enhance the rigor of the curriculum or instruction within the school district.
- **Legacy Fund** - Fund dedicated to further the Foundation's mission to enhance the school district's ability to provide excellence in education by funding programs to support school initiatives which promote and foster the commitment to excellence.
- **Angel Fund** - Fund that provides funding to students and their families for education-based needs. When these basic needs are met, students are able to concentrate on learning, rather than being distracted by unfortunate circumstances that are beyond their control. Local community organizations have partnered with the Foundation in support of the Angel Fund.
- **Glasrud Fund** - Fellowships awarded to teachers for professional growth with the hope that these awards will allow teachers to pursue professional development which would otherwise not be possible.
- **Other Funds** - The Foundation is willing to establish new funds for a specific purpose if donor gifts are greater than \$15,000. The Foundation has several funds established for various purposes, all of which support the mission of the Foundation.

(Continued)

WHITE BEAR LAKE AREA EDUCATIONAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Pronouncement Adopted - FASB issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* to address the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. White Bear Lake Area Educational Foundation has adopted the pronouncement and adjusted the presentation of these statements accordingly. As a result, net assets previously reported as temporarily and permanently restricted are now combined into one category called net assets with donor restrictions. The amount of such net assets did not change. Footnote disclosures have been expanded as required by the ASU.

Financial Statement Presentation - Support is classified based on the presence or absence of donor restrictions and reported in the following net asset categories:

- Net assets without donor restrictions represent the portion of net assets that are not subject to donor restrictions or the donor-imposed restrictions have expired.
- Net assets with donor restrictions arise from contributions that are restricted by donors for specific purposes or time periods.

Comparative Information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

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

Cash and Cash Equivalents - The Foundation considers all highly liquid investments purchased with original maturities of three months or less, excluding those held in broker investment accounts, to be cash equivalents. The Foundation had no cash equivalents at June 30, 2019 or 2018.

(Continued)

WHITE BEAR LAKE AREA EDUCATIONAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements - The Foundation determines fair value, when necessary, based on the assumptions that market participants would use when pricing the asset or liability. Valuation techniques require using inputs which are categorized using the following hierarchy:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs that are observable, directly or indirectly, other than the quoted prices included in Level 1; and
- Level 3 - unobservable inputs.

Investments - Investments in marketable securities are reported at fair value. Investment income, including unrealized gains and losses, is allocated to the Foundation's different funds on a quarterly basis based on the investment balance of each fund at the end of the quarter.

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

Foundation Management Fees - All donor created funds are charged an internal management fee of .4375% per quarter (1.75% annually) of the fund balance.

Office Equipment - Office equipment is carried at cost. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Maintenance and repairs are expensed as incurred.

Contributions - Contributions are recognized when the donor makes an unconditional commitment to give to the Foundation. Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a specific time restriction ends or a purpose is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Functional Expenses - Whenever possible, expenses are recorded in functional categories when incurred. For certain expenses, allocations between categories are made based on management's estimates of how staff spend their time.

(Continued)

WHITE BEAR LAKE AREA EDUCATIONAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs - Advertising costs are charged to expense during the year in which they are incurred. Advertising expense was \$2,770 in 2019 and \$4,081 in 2018.

Income Taxes - The Foundation is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and applicable Minnesota Statutes, except to the extent it has taxable income from activities that are not related to its exempt purpose. The Foundation did not have any unrelated business income in 2019 or 2018.

The Foundation is not currently under examination by any taxing jurisdiction. The Foundation believes that it has appropriate support for any tax positions taken, and accordingly, does not have any uncertain tax positions that are material to the financial statements.

3. INVESTMENTS

Investments at June 30, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Mutual and exchange traded funds:		
Large blend	\$ 492,233	\$ 298,990
Foreign large growth	138,629	119,149
Foreign large blend	129,750	116,791
Long/short equity	369,670	324,381
Diversified emerging market	192,019	145,725
High yield bond	-	128,421
Global real estate	-	235,432
Midcap value	168,317	143,825
Midcap growth	156,691	141,584
Smallcap growth	88,700	97,305
Smallcap value	105,925	95,020
Intermediate-term bond	81,776	60,424
Money market	26,672	60,041
Equity securities	497,277	456,057
Fixed income:		
Corporate obligations	530,771	437,625
Government obligations	476,720	398,037
	<u>\$ 3,455,150</u>	<u>\$ 3,258,807</u>

(Continued)

WHITE BEAR LAKE AREA EDUCATIONAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

3. INVESTMENTS (Continued)

The fair values of mutual and exchange traded funds and equity securities are based on quoted prices in active markets, which are Level 1 inputs.

Fair values of municipal bonds, government, and corporate obligations are based on quoted market prices for similar securities, pricing models, discounted cash flow analyses using significant inputs observable in the market, where available, or a combination of multiple valuation techniques. These are classified within Level 2 of the fair value hierarchy.

Investment income consists of the following:

	2019	2018
Interest and dividends	\$ 119,501	\$ 84,091
Realized gain (loss) - net	(17,946)	97,039
Unrealized gain (loss) - net	116,054	13,563
	<u>\$ 217,609</u>	<u>\$ 194,693</u>

4. ENDOWMENT FUNDS

Prior to 2016 net assets with donor restrictions that were stipulated to be maintained in perpetuity consisted of the Brosious Fund endowment. The \$1,200,000 principal is invested in perpetuity and the income from such investments is expendable to support the activities indicated in Note 1.

During 2016 the Foundation was contacted by representatives of the Eugene and Kathleen Johnson Legacy Fund who expressed interest in changing that fund to an endowment fund. An endowment agreement was signed for \$45,000 of principal. Unspent earnings on the date the endowment was established were \$13,897. The original principal and subsequent contributions are invested in perpetuity with 2% of annual earnings to be retained to reach \$100,000 endowment, all other income from such investments is expendable to support the activities of the Legacy Fund indicated in Note 1 with an emphasis on journalism. An additional contribution of \$5,000 was added to principal in 2016.

During 2017 the Foundation received \$40,000 to establish the Kammerlohr Music Legacy Endowment. The principal is invested in perpetuity and the income from such investments is considered available for use and may be distributed to given to recipients at the Foundations discretion. There were no investment earnings in 2017.

(Continued)

WHITE BEAR LAKE AREA EDUCATIONAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

4. ENDOWMENT FUNDS (Continued)

Interpretation of Relevant Law - The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as not requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of gifts donated to the donor restricted endowment, (b) the original value of subsequent gifts to the donor restricted endowment, and (c) accumulations to the donor restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, if any.

The remaining portion of the donor-restricted endowment funds are classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

Investments – Endowment funds are held in brokerage accounts and invested in a mix of money market accounts, equity mutual funds, bond mutual funds, and mixed allocation mutual funds. The asset mix is expected to provide current yield and capital appreciation.

Funds with Deficiencies – From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or MPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in net assets with restrictions. There were no such deficiencies at June 30, 2019 and 2018.

WHITE BEAR LAKE AREA EDUCATIONAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

4. ENDOWMENT FUNDS (Continued)

Strategies Employed for Achieving Objectives -To satisfy its long-term rate-of-return objectives, the foundation has established an investment policy statement (IPS) is to effectively supervise, monitor, and evaluate the investment of the Foundation's assets. The investment performance of the fund will largely be driven by the asset allocation of the assets. The foundation will work with its investment advisor and employs a long-term perspective in setting the asset allocation of the fund. The Foundation relies on a total return strategy in which targeted investment returns are of an average annual rate of return measured as Consumer Price index plus the payout rate (5%). The IPS will be reviewed annually by the Foundation Board of Trustees, and monitored on a quarterly basis by the Executive Committee.

Spending Policy and How the Investment Objectives Relate to Spending Policy - The Foundation has a policy of appropriating each payout to be made from the endowment funds annually. All payouts of endowments and discretionary funds are reviewed and approved by the board. Consideration is given to the endowment fund balance, original gift amount, donor input and number grant requests received when deciding on the payout levels of endowment funds and individual grants.

Changes in endowment net assets with donor restrictions for the year ended June 30, 2019 and 2018, follow:

	<u>2019</u>	<u>2018</u>
Balances – beginning of year	<u>\$1,478,168</u>	<u>\$1,425,979</u>
Investment return – interest and dividends	53,377	38,143
Net appreciation (realized and unrealized)	<u>45,836</u>	<u>53,442</u>
Total investment return	99,213	91,585
Contributions	14,174	17,164
Management fees	(25,741)	(25,539)
Appropriations for expenditure	<u>(22,519)</u>	<u>(31,021)</u>
Balances – end of year	<u><u>\$ 1,543,295</u></u>	<u><u>\$ 1,478,168</u></u>

(Continued)

WHITE BEAR LAKE AREA EDUCATIONAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

5. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at June 30, 2019 and 2018 are available for the following purposes:

	<u>2019</u>	<u>2018</u>
Legacy Fund	\$ 761,239	\$ 745,302
Angel Fund	210,942	197,219
Endowment principal and earnings:		
Brosious Fund	1,401,666	1,346,247
Johnson Legacy Fund	90,145	80,944
Kammerlohr Band Fund	51,484	50,977
Scholarships	412,100	411,177
Program support	308,204	282,952
	<u>\$ 3,235,780</u>	<u>\$ 3,114,818</u>

6. LIQUIDITY AND AVAILABILITY

The Foundation's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, consists of cash of \$13,684 and \$55,642 and accounts receivable of \$1,822 and \$800 at June 30, 2019 and 2018, respectively.

General expenditures are those operational expenses funded by donations and other general revenue, and not by restricted or designated funding.

The endowment funds consist of donor-restricted endowments. Income from endowments is restricted for specific purposes. The endowment funds are not available for general expenditure.

The Foundation adopts an annual budget and anticipates collecting sufficient revenue to fund general expenditures. Budget to actual results are monitored each month.

7. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 20, 2019, the date which the financial statements were available for issue, and identified no further significant events or transactions to disclose.