

WHITE BEAR LAKE AREA EDUCATIONAL FOUNDATION

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2020**

WHITE BEAR LAKE AREA EDUCATIONAL FOUNDATION

FINANCIAL STATEMENTS

For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

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Mahoney Ulbrich Christiansen Russ P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2020, 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, 2020, 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.

Adoption of New Accounting Standards

As discussed in Note 2 to the financial statements, White Bear Lake Area Educational Foundation have adopted the Accounting Standards Updates (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, and ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to those matters.

Report on Summarized Comparative Information

We have previously audited White Bear Lake Area Educational Foundation's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 20, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Mahoney Ulbrich
Christiansen Russ P.A.*

December 15, 2020

WHITE BEAR LAKE AREA EDUCATIONAL FOUNDATION

STATEMENT OF FINANCIAL POSITION

June 30, 2020
(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash	\$ 28,590	\$ 13,684
Accounts receivable	-	1,822
Prepaid expenses	-	4,093
Investments	<u>3,521,432</u>	<u>3,455,150</u>
Total assets	<u>\$ 3,550,022</u>	<u>\$ 3,474,749</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and other accruals	<u>\$ 3,413</u>	<u>\$ 24,085</u>
Total liabilities	<u>3,413</u>	<u>24,085</u>
Net assets:		
Without donor restrictions	216,012	214,884
With donor restrictions	<u>3,330,597</u>	<u>3,235,780</u>
Total net assets	<u>3,546,609</u>	<u>3,450,664</u>
Total liabilities and net assets	<u>\$ 3,550,022</u>	<u>\$ 3,474,749</u>

See Accompanying Notes to the Financial Statements.

WHITE BEAR LAKE AREA EDUCATIONAL FOUNDATION

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenues and support:				
Contributions	\$ 35,449	\$ 115,749	\$ 151,198	\$ 103,691
Special events:				
Fall fundraising event, net of direct donor benefits of \$28,991 for 2020 and \$26,615 for 2019	60,694	-	60,694	76,845
Golf tournament, net of direct donor benefits of \$0 for 2020 and \$22,187 for 2019	16,050	-	16,050	33,527
Investment income, net	-	91,329	91,329	196,420
Foundation management fees	40,806	(40,806)	-	-
Net assets released from restrictions	71,455	(71,455)	-	-
Total revenues and support	224,454	94,817	319,271	410,483
Expenses:				
Program services	153,629	-	153,629	177,524
Management and general	44,789	-	44,789	51,217
Fundraising	24,908	-	24,908	29,425
Total expenses	223,326	-	223,326	258,166
Change in net assets	1,128	94,817	95,945	152,317
Net assets:				
Beginning of year	214,884	3,235,780	3,450,664	3,298,347
End of year	<u>\$ 216,012</u>	<u>\$ 3,330,597</u>	<u>\$ 3,546,609</u>	<u>\$ 3,450,664</u>

See Accompanying Notes to the Financial Statements.

WHITE BEAR LAKE AREA EDUCATIONAL FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

	2020				2019
	Program services	Management and general	Fundraising	Total	
Salaries and related benefits:					
Salaries	\$ 26,535	\$ 17,431	\$ 18,204	\$ 62,170	\$ 75,564
Payroll taxes and other benefits	2,086	1,370	1,431	4,887	5,894
Total salaries and related benefits	28,621	18,801	19,635	67,057	81,458
Office and other expenses:					
Scholarships and awards	123,982	-	-	123,982	141,618
Newsletter and advertising	-	-	4,686	4,686	4,391
Rent	1,026	601	517	2,144	2,144
Insurance	-	1,981	-	1,981	1,873
Accounting services	-	8,457	-	8,457	8,412
Office expense	-	8,486	70	8,556	10,742
Technology	-	6,463	-	6,463	7,385
Depreciation	-	-	-	-	143
Functional expenses	153,629	44,789	24,908	223,326	258,166
Direct donor benefits deducted from related revenues	-	-	-	28,991	48,802
Total expenses	<u>\$ 153,629</u>	<u>\$ 44,789</u>	<u>\$ 24,908</u>	<u>\$ 252,317</u>	<u>\$ 306,968</u>

See Accompanying Notes to the Financial Statements.

WHITE BEAR LAKE AREA EDUCATIONAL FOUNDATION

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 95,945	\$ 152,317
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation	-	143
Investment income, net	(91,329)	(196,420)
Changes in operating assets and liabilities:		
Accounts receivable	1,822	(1,022)
Prepaid expenses	4,093	(93)
Accounts payable and other accruals	(20,672)	3,040
Net cash from operating activities	<u>(10,141)</u>	<u>(42,035)</u>
Cash flows from investing activities:		
Proceeds from sales of investments	2,634,434	674,392
Purchase of investments	(2,609,387)	(674,315)
Net cash from investing activities	<u>25,047</u>	<u>77</u>
Net increase (decrease) in cash	14,906	(41,958)
Cash, beginning of year	<u>13,684</u>	<u>55,642</u>
Cash, end of year	<u>\$ 28,590</u>	<u>\$ 13,684</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, 2020
(With Comparative Totals for 2019)

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 income. 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, 2020
(With Comparative Totals for 2019)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards Adopted - In 2020, the Foundation adopted Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* using the full retrospective approach. This ASU was issued to address diversity in reporting restricted cash on the statement of cash flows, largely due to the lack of guidance. After the adoption of ASU 2016-18, restricted cash and cash equivalents must be included with the beginning and ending cash and cash equivalents shown on the statement of cash flows. Before the change, restricted cash and cash equivalents were excluded. The change had no effect on cash and cash equivalents.

In 2020, the Foundation adopted ASU 2018-08 *Not-for-Profit-Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)* using the full retrospective approach. The ASU provides guidance on distinguishing between contributions and exchange transactions and clarifies whether contributions are conditional. The adoption of this ASU had no effect on the financial statements.

In 2020, the Foundation adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* using the full retrospective approach. The ASU clarifies the accounting for revenue arising from contracts with customers and specifies disclosures that an entity should include in the financial statements. The adoption of this ASU had no effect on the financial statements.

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 or functionalized expense. 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, 2019, from which the summarized information was derived.

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WHITE BEAR LAKE AREA EDUCATIONAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2020 or 2019.

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.

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.

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WHITE BEAR LAKE AREA EDUCATIONAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Advertising Costs - Advertising costs are charged to expense during the year in which they are incurred. Advertising expense was \$3,511 and \$2,770 in 2020 and 2019.

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 2020 or 2019.

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.

Reclassifications – Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year, there was no effect on net assets.

3. INVESTMENTS

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:

	2020	2019
Interest and dividends	\$ 92,697	\$ 119,501
Realized gain (loss) - net	138,303	(17,946)
Unrealized gain (loss) - net	(117,683)	116,054
Fees	(21,988)	(21,189)
	<u>\$ 91,329</u>	<u>\$ 196,420</u>

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WHITE BEAR LAKE AREA EDUCATIONAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

3. INVESTMENTS (Continued)

Investments at June 30, 2020 and 2019 consist of the following:

	2020	2019
Mutual and exchange traded funds:		
Large blend	\$ 1,164,276	\$ 492,233
Foreign large growth	98,844	138,629
Foreign large blend	95,352	129,750
Long/short equity	-	369,670
Small growth	90,919	-
Diversified emerging market	150,323	192,019
High yield bond	71,076	-
Global real estate	193,703	-
Midcap value	202,771	168,317
Midcap growth	245,564	156,691
Smallcap growth	-	88,700
Smallcap value	37,060	105,925
Intermediate-term bond	1,064,321	81,776
Money market	36,757	26,672
Equity securities	-	497,277
Fixed income:		
Corporate obligations	70,466	530,771
Government obligations	-	476,720
	<u>\$ 3,521,432</u>	<u>\$ 3,455,150</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

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WHITE BEAR LAKE AREA EDUCATIONAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

4. ENDOWMENT FUNDS (Continued)

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.

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.

WHITE BEAR LAKE AREA EDUCATIONAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

4. ENDOWMENT FUNDS (Continued)

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, 2020 and 2019.

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, 2020 and 2019, follow:

	2020	2019
Balances - beginning of year	\$ 1,543,295	\$ 1,478,168
Investment return - interest and dividends	40,912	53,377
Net appreciation (realized and unrealized)	12,278	45,836
Total investment return	53,190	99,213
Contributions	9,000	14,174
Management fees	(26,597)	(25,741)
Appropriations for expenditure	(24,683)	(22,519)
Balances - end of year	\$ 1,554,205	\$ 1,543,295

(Continued)

WHITE BEAR LAKE AREA EDUCATIONAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

5. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at June 30, 2020 and 2019 are available for the following purposes:

	<u>2020</u>	<u>2019</u>
Legacy Fund	\$ 757,143	\$ 761,239
Angel Fund	211,647	210,942
Endowment principal and earnings:		
Brosious Fund	1,406,540	1,401,666
Johnson Legacy Fund	97,504	90,145
Kammerlohr Band Fund	50,161	51,484
Scholarships	463,992	412,100
Program support	343,610	308,204
	<u>\$ 3,330,597</u>	<u>\$ 3,235,780</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 \$28,590 and \$13,684 and accounts receivable of \$- and \$1,822 at June 30, 2020 and 2019, 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.

(Continued)

WHITE BEAR LAKE AREA EDUCATIONAL FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

7. **COVID-19**

A nationwide public health emergency has developed in 2020. The state of Minnesota has enacted measures to combat the global pandemic resulting from a novel strain of coronavirus known as COVID-19. Measures have included regulatory restrictions on citizen and business activities as well as recommendations for further voluntary curtailment of activities. The immediate impact on the Foundation's operations was cancelling the annual golf tournament and holding a fundraising sponsor drive in its place. The future potential impact of these issues is uncertain, however possible effects may include, but are not limited to, a decline in the market value of assets held by the Foundation including endowment investments.

8. **SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 15, 2020, the date which the financial statements were available for issue.