

***MINNESOTA COMPUTERS FOR SCHOOLS  
(A MINNESOTA NOT-FOR-PROFIT ORGANIZATION)***

***FINANCIAL STATEMENTS***

***DECEMBER 31, 2013***

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**INDEPENDENT AUDITOR'S REPORT**

To The Board of Directors  
Minnesota Computers for Schools  
Bayport, Minnesota

We have audited the accompanying financial statements of Minnesota Computers for Schools (a not-for-profit organization), which comprise the statements of financial position as of December 31, 2013 and 2012 and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Minnesota Computers for Schools as of December 31, 2013 and 2012, 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.

*Boyum & Barescheer, PLLP*

Minneapolis, Minnesota  
June 17, 2014

**MINNESOTA COMPUTERS FOR SCHOOLS**  
**(A MINNESOTA NOT-FOR-PROFIT ORGANIZATION)**

**STATEMENTS OF FINANCIAL POSITION**

<b>DECEMBER 31,</b>	<b>2013</b>	<b>2012</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 463,026	\$ 590,505
Grants and accounts receivable	106,556	73,914
Inventory - materials	9,392	10,969
Prepaid expenses	16,746	21,690
<b><i>Total current assets</i></b>	<b>595,720</b>	<b>697,078</b>
<b>PROPERTY AND EQUIPMENT, at cost</b>		
Software	55,447	27,610
Furniture and equipment	42,377	42,377
	97,824	69,987
Less accumulated depreciation	60,712	51,408
<b><i>Net property and equipment</i></b>	<b>37,112</b>	<b>18,579</b>
<b><i>Total assets</i></b>	<b>\$ 632,832</b>	<b>\$ 715,657</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 20,862	\$ 9,526
Accrued payroll and payroll taxes	26,325	46,857
Deferred income	2,315	-
Accrued vacation pay	15,332	7,857
Warranty liability	15,000	10,000
<b><i>Total current liabilities</i></b>	<b>79,834</b>	<b>74,240</b>
<b>NET ASSETS</b>		
Unrestricted net assets	460,951	519,140
Temporarily restricted net assets	92,047	122,277
<b><i>Total net assets</i></b>	<b>552,998</b>	<b>641,417</b>
<b><i>Total liabilities and net assets</i></b>	<b>\$ 632,832</b>	<b>\$ 715,657</b>

The Notes to Financial Statements are an integral part of these statements.

**MINNESOTA COMPUTERS FOR SCHOOLS**  
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**STATEMENTS OF ACTIVITIES**

<b>YEARS ENDED DECEMBER 31,</b>	<b>2013</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>REVENUES, SUPPORT AND OTHER INCOME</b>			
Contributions and grants	\$ 141,348	\$ 82,180	\$ 223,528
Contributed services and use of facilities	373,875	-	373,875
Computer sales	855,022	-	855,022
Interest income	680	-	680
Class action lawsuit income	-	-	-
Net assets released from restriction	112,410	(112,410)	-
<b><i>Total revenues, support and other income</i></b>	<b>1,483,335</b>	<b>(30,230)</b>	<b>1,453,105</b>
<b>EXPENSES</b>			
Program services	1,180,669	-	1,180,669
Supporting activities			
General and administrative	281,421	-	281,421
Fundraising and grant solicitation	79,434	-	79,434
<b><i>Total expenses</i></b>	<b>1,541,524</b>	<b>-</b>	<b>1,541,524</b>
<b><i>Increase (decrease) in net assets</i></b>	<b>(58,189)</b>	<b>(30,230)</b>	<b>(88,419)</b>
<b>Net assets, beginning of year</b>	<b>519,140</b>	<b>122,277</b>	<b>641,417</b>
<b><i>Net assets, end of year</i></b>	<b>\$ 460,951</b>	<b>\$ 92,047</b>	<b>\$ 552,998</b>

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<b>2012</b>		
<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
\$ 103,944	\$ 100,529	\$ 204,473
451,636	-	451,636
888,772	-	888,772
967	-	967
127,129	-	127,129
89,351	(89,351)	-
<b>1,661,799</b>	<b>11,178</b>	<b>1,672,977</b>
1,209,693	-	1,209,693
210,865	-	210,865
75,007	-	75,007
<b>1,495,565</b>	<b>-</b>	<b>1,495,565</b>
<b>166,234</b>	<b>11,178</b>	<b>177,412</b>
<b>352,906</b>	<b>111,099</b>	<b>464,005</b>
<b>\$ 519,140</b>	<b>\$ 122,277</b>	<b>\$ 641,417</b>

**MINNESOTA COMPUTERS FOR SCHOOLS**  
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**STATEMENTS OF FUNCTIONAL EXPENSES**

**YEARS ENDED DECEMBER 31,**

**2013**

	<b>Program</b>	<b>General and Administrative</b>	<b>Fundraising and Grant Solicitation</b>	<b>Total</b>
Salaries, payroll taxes and benefits	\$ 662,337	\$ 162,747	\$ 19,493	\$ 844,577
Computer components and equipment	264,276	3,776	-	268,052
Rent, utilities and security	124,370	12,678	-	137,048
Insurance	1,302	5,208	-	6,510
Board of directors	264	1,055	-	1,319
Marketing-general	16,312	4,661	2,330	23,303
Marketing-annual event	10,185	-	10,185	20,370
Marketing-grant writing	-	-	46,249	46,249
Office supplies	260	1,039	-	1,299
Printing and reproduction	74	220	1,177	1,471
Postage	182	728	-	910
Professional fees / contract services	44,431	72,983	-	117,414
Repairs and maintenance	251	-	-	251
Transportation	21,399	-	-	21,399
Travel, meals and entertainment	3,561	14,253	-	17,814
Salvage disposal	2,167	-	-	2,167
Depreciation	9,304	-	-	9,304
Warranty expense	19,476	-	-	19,476
Miscellaneous	518	2,073	-	2,591
<b>Total expenses</b>	<b>\$ 1,180,669</b>	<b>\$ 281,421</b>	<b>\$ 79,434</b>	<b>\$ 1,541,524</b>

The Notes to Financial Statements are an integral part of these statements.

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**2012**

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<b>Program</b>	<b>General and Administrative</b>	<b>Fundraising and Grant Solicitation</b>	<b>Total</b>
\$ 709,355	\$ 129,769	\$ 14,830	\$ 853,954
203,858	-	-	203,858
124,370	12,678	-	137,048
832	3,328	-	4,160
554	2,215	-	2,769
21,903	6,257	3,129	31,289
20,204	-	20,204	40,408
-	-	36,455	36,455
248	993	-	1,241
24	74	389	487
205	820	-	1,025
80,951	41,191	-	122,142
469	-	-	469
21,448	-	-	21,448
2,813	11,259	-	14,072
8,340	-	-	8,340
3,575	-	-	3,575
9,975	-	-	9,975
569	2,281	-	2,850
<b>\$ 1,209,693</b>	<b>\$ 210,865</b>	<b>\$ 75,007</b>	<b>\$ 1,495,565</b>

**MINNESOTA COMPUTERS FOR SCHOOLS**  
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**STATEMENTS OF CASH FLOWS**

<b>YEARS ENDED DECEMBER 31,</b>	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in net assets	\$ (88,419)	\$ 177,412
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	9,304	3,575
Changes in assets and liabilities:		
Grants and accounts receivable	(32,642)	(37,861)
Inventory	1,577	(1,993)
Prepaid expenses	4,944	(6,758)
Accounts payable	11,336	(5,514)
Warranty liability	5,000	-
Deferred income	2,315	-
Accrued expenses and other liabilities	(13,057)	(9,347)
	<u>(99,642)</u>	<u>119,514</u>
<b><i>Net cash provided (used) by operating activities</i></b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(27,837)	(16,195)
	<u>(27,837)</u>	<u>(16,195)</u>
<b><i>Net cash used in investing activities</i></b>		
<b><i>Increase (decrease) in cash and cash equivalents</i></b>		
	<b>(127,479)</b>	<b>103,319</b>
Cash and cash equivalents, beginning of year	590,505	487,186
	<u>\$ 463,026</u>	<u>\$ 590,505</u>
<b><i>Cash and cash equivalents, end of year</i></b>		

The Notes to Financial Statements are an integral part of these statements.

**MINNESOTA COMPUTERS FOR SCHOOLS**  
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**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Organization:***

Minnesota Computers for Schools (the Organization) is a not-for-profit organization with a mission to work collaboratively with schools and educationally focused community organizations to provide technology solutions and skills training to individuals in need. The program involves inmates of a local prison refurbishing computers that are donated by local corporations and government agencies. These computers are then sold at discounted prices or gifted to schools, teachers, not-for-profit organizations and disadvantaged youth throughout Minnesota. The Organization recently started a pilot Workforce Development Program, which brings technology access and job skills to disadvantaged youth at Guadalupe Alternative Programs (GAP School) in St. Paul, Minnesota, and Washington Tech Magnet School in St. Paul, Minnesota. The program teaches students basic computer skills and computer recycling and refurbishing skills.

The majority of the computers are donated by corporations and government agencies in the Minnesota Twin Cities area. During 2013 and 2012, one government agency donated approximately 34% and 31% of the computers, respectively. Contributions and grants to the Organization come primarily from foundations in the Minnesota Twin Cities area.

***Basis of presentation:***

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its *FASB ASC 958*. Under *FASB ASC 958, Financial Statements of Not-for-Profit Organizations*, Minnesota Computers for Schools is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, based upon the existence or absence of donor restrictions. As of December 31, 2013 and 2012, there were no permanently restricted net assets.

***Basis of accounting:***

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

***Use of estimates:***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

**MINNESOTA COMPUTERS FOR SCHOOLS**  
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**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1. (CONTINUED)**

***Cash and cash equivalents:***

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. The Organization maintains its accounts in two financial institutions. At various times during the year, the balance at one bank may have exceeded federally insured deposit limits.

***Receivables:***

Grants and accounts receivable are recorded net of an allowance for expected losses. The allowance is estimated from historical performance and projection of trends. At December 31, 2013 and 2012, no allowance for bad debt was considered necessary. It is the Organization's policy to charge off uncollectible receivables when management determines that a receivable will not be collected.

***Promises to give:***

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. There were \$27,825 and \$51,110 promises to give outstanding as of December 31, 2013 and 2012, respectively. All promises to give outstanding as of December 31, 2013 and 2012 are due within one year.

***Property, equipment and depreciation methods:***

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment purchases are recorded at acquisition cost. Improvements and betterments exceeding \$1,000 are capitalized, while repairs and maintenance expenditures are expensed in the Statement of Activities.

Depreciation is computed using the straight-line method over the estimated useful lives as follows: furniture and equipment over 5-10 years, computer equipment and software over 3 years.

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**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1. (CONTINUED)**

***Inventory:***

Inventory consists of donated computer equipment that has been refurbished and purchased computer components. Inventory is valued at the lower of cost or market, with the cost determined on the specific identification method. Un-refurbished computers, work in process, and scrap, have insignificant value and, therefore, have not been recorded in the financial statements. Inventory also consists of materials which are recorded at cost. There was no completed refurbished computer equipment on hand as of December 31, 2013 and 2012. Shipping and handling costs are expensed as incurred.

***Warranty arrangements:***

The Organization's products generally carry explicit warranties that extend from one to three years, based on terms that are generally accepted in the marketplace. Selected components included in the Organization's end products (such as LCD's and other components) may include manufacturers' warranties. These manufacturers' warranties are generally passed on to the end customer of the Organization's products and the Organization would deal directly with the component manufacturer.

The amount of warranty liability accrued reflects management's best estimate of the cost of honoring the organization's obligations under the warranty plans. The cost of fulfilling the Organization's warranty obligations has principally involved replacement parts and labor. The Organization's estimates are based on staff labor attributed to time spent on repair and/or replacement of product.

***Sales:***

Sales of refurbished computers are recorded when shipped.

***Non-cash donations of facilities, merchandise and services:***

Non-cash donations of facilities, merchandise and services are recorded as contributions at their estimated fair market value at the date of donation.

Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the year received.

In addition, individuals volunteer their time, performing a variety of tasks that assist the Organization with its program, administration, grant solicitation and fundraising. This volunteer time does not meet the above definition of donated services that need to be recorded. The Organization does not keep track of the hours donated.

**MINNESOTA COMPUTERS FOR SCHOOLS**  
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**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1. (CONTINUED)**

***Functional allocation of expenses:***

The costs of providing the Organization's program and supporting activities have been presented on a functional basis. Accordingly, certain costs have been allocated among the program and supporting services benefited.

***Income taxes:***

Minnesota Computers for Schools is exempt from federal and Minnesota taxation pursuant to the provisions of Section 501(c) (3) of the Internal Revenue Code and Section 290.05 of the Minnesota Statutes and is only subject to federal and state income taxes on net unrelated business income. Since the Organization had no unrelated business taxable income in 2013 and 2012, the accompanying financial statements do not include any provision for federal or state income taxes.

The Organization's filings with the Internal Revenue Service are subject to audit. The information returns for the past three and one-half years are open to examination. Management has evaluated its tax positions and has concluded that they do not result in anything that would require either recording or disclosure in the financial statements based on the criteria set forth in *ASC 740*.

**NOTE 2. NON-CASH CONTRIBUTIONS**

Included in the Statements of Activities are non-cash contributions as follows:

<b>YEARS ENDED DECEMBER 31,</b>	<b>2013</b>	<b>2012</b>
Rent, utilities and security - Dept. of Corrections	\$ 126,031	\$ 126,963
Salaries, payroll taxes, and benefits of inmates - Dept. of Corrections	223,843	298,634
Transportation - Dept. of Corrections	7,800	7,800
Salesforce license donation	-	15,000
Event in kind donated items - various donors	16,201	3,239
<b><i>Total</i></b>	<b>\$ 373,875</b>	<b>\$ 451,636</b>

**MINNESOTA COMPUTERS FOR SCHOOLS**  
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**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 3. RESTRICTIONS ON NET ASSETS**

Temporarily restricted net assets are available for the following purposes:

<b>DECEMBER 31,</b>	<b>2013</b>	<b>2012</b>
Boston Scientific for workforce development	\$ 7,500	-
Bigelow Foundation for workforce development	9,829	28,343
Medtronic Foundation for STEM and Special Kids	-	5,020
Otto Bremer Foundation for workforce development	27,062	-
Mardag Foundation for workforce development	10,000	6,594
Donaldson Foundation for workforce development	-	15,000
Best Buy Childrens Foundation for workforce development	5,000	1,825
St Paul Foundation for workforce development, for subsequent periods	15,000	28,385
Pentair Foundation for STEM	797	5,000
Elmer L & Eleanor Andersen for workforce development	1,000	1,000
Minnesota Pollution Control Agency, for subsequent periods	9,070	25,000
General operating support, for subsequent periods	5,000	6,110
BNSF Foundation, for workforce development	1,789	-
<b><i>Total</i></b>	<b>\$ 92,047</b>	<b>\$ 122,277</b>

**MINNESOTA COMPUTERS FOR SCHOOLS**  
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**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 4. LEASE COMMITMENT**

The Organization had an operating lease for production and warehouse space which expired on November 30, 2012. On January 13, 2012, an extended five year lease was signed by the Organization. The new lease commenced on December 1, 2012 and continues through November 30, 2017. The future minimum lease payments under this lease are as follows:

**YEARS ENDING DECEMBER 31,**

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2014	\$	11,017
2015		11,017
2016		11,017
2017		10,099
<b><i>Total minimum lease payments</i></b>		<b>\$ 43,150</b>

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Rental expense for this lease amounted to \$11,017 and \$10,085 for the years ended December 31, 2013 and 2012, respectively.

**NOTE 5. GRANT CONTINGENCIES**

Grants require the fulfillment of certain conditions as set forth in the instrument of grant. Failure to fulfill the conditions could result in the return of the funds to the grantor. Although that is a possibility, management deems the contingency remote, since by accepting the grants and their terms, it has accommodated the objectives of the Organization to the provisions of the grant.

**NOTE 6. INCOME FROM CLASS ACTION SETTLEMENT**

The Organization was a party to a class action lawsuit that was settled in 2012. The Organization received \$127,129.

**NOTE 7. SALARY REDUCTION RETIREMENT PLAN**

Minnesota Computers for Schools has a Salary Reduction Retirement Plan that is qualified under Section 403(b)(7) of the Internal Revenue Code. All employees of the Organization are eligible to participate in the plan. There are not any employer contributions to the plan.

**NOTE 8. SUBSEQUENT EVENTS**

The Organization has evaluated subsequent events through June 17, 2014 the date which the financial statements were available to be issued.