



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

FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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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, 2017 and 2016 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, 2017 and 2016, 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

Boyum & Barescheer PLLP
Minneapolis, Minnesota
May 22, 2018

MINNESOTA COMPUTERS FOR SCHOOLS

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31,	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 118,063	\$ 277,477
Grants and accounts receivable	368,778	231,291
Inventory - materials	3,218	1,667
Prepaid expenses	7,894	23,866
	497,953	534,301
PROPERTY AND EQUIPMENT, at cost		
Software	69,917	69,917
Leasehold improvement	7,404	7,404
Furniture and equipment	58,713	66,776
	136,034	144,097
Less accumulated depreciation	113,412	104,410
	22,622	39,687
	520,575	573,988
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 25,148	\$ 21,154
Accrued payroll and payroll taxes	10,968	11,726
Accrued vacation pay	28,031	18,449
Deferred income (see Note 1)	241,961	183,700
Warranty liability	10,690	9,000
Note payable	37,873	-
	354,671	244,029
NET ASSETS		
Unrestricted net assets	114,093	198,942
Temporarily restricted net assets	51,811	131,017
	165,904	329,959
	520,575	573,988

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

MINNESOTA COMPUTERS FOR SCHOOLS

STATEMENTS OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

	Unrestricted	Temporarily Restricted	Total
REVENUES, SUPPORT AND OTHER INCOME			
Contributions and grants	\$ 146,645	\$ 51,269	\$ 197,914
Contributed services and use of facilities	509,132	-	509,132
Computer sales	866,746	-	866,746
Program service fees	213,383	-	213,383
Interest income	127	-	127
Event revenues, net of costs that directly benefited donors of \$12,698	24,796	-	24,796
Net assets released from restriction	130,475	(130,475)	-
<i>Total revenues, support and other income</i>	1,891,304	(79,206)	1,812,098
EXPENSES			
Program services	1,660,510	-	1,660,510
Supporting activities:			
General and administrative	123,601	-	123,601
Fundraising and grant solicitation	178,708	-	178,708
<i>Total expenses</i>	1,962,819	-	1,962,819
OTHER INCOME (EXPENSE)			
Loss on disposal	(13,334)	-	(13,334)
<i>Total other income (expense)</i>	(13,334)	-	(13,334)
<i>Decrease in net assets</i>	(84,849)	(79,206)	(164,055)
Net assets, beginning of year	198,942	131,017	329,959
<i>Net assets, end of year</i>	\$ 114,093	\$ 51,811	\$ 165,904

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

MINNESOTA COMPUTERS FOR SCHOOLS

STATEMENTS OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Total
REVENUES, SUPPORT AND OTHER INCOME			
Contributions and grants	\$ 109,381	\$ 50,000	159,381
Contributed services and use of facilities	513,076	-	513,076
Computer sales	813,066	-	813,066
Program service fees	3,482	-	3,482
Interest income	338	-	338
Event revenues, net of costs that directly benefited donors of \$11,949	32,991	-	32,991
Net assets released from restriction	75,988	(75,988)	-
<i>Total revenues, support and other income</i>	1,548,322	(25,988)	1,522,334
EXPENSES			
Program services	1,505,972	-	1,505,972
Supporting activities:			
General and administrative	130,187	-	130,187
Fundraising and grant solicitation	193,104	-	193,104
<i>Total expenses</i>	1,829,263	-	1,829,263
<i>Decrease in net assets</i>	(280,941)	(25,988)	(306,929)
Net assets, beginning of year	479,883	157,005	636,888
<i>Net assets, end of year</i>	\$ 198,942	\$ 131,017	\$ 329,959

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

MINNESOTA COMPUTERS FOR SCHOOLS

STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	Program	General and Administrative	Fundraising and Grant Solicitation	Total
Salaries, payroll taxes and benefits	\$ 969,964	\$ 80,447	\$ 56,579	\$ 1,106,990
Computer components and equipment	238,788	1,341	6,460	246,589
Rent, utilities and security	158,914	5,659	5,628	170,201
Insurance	7,224	1,114	-	8,338
Board of director expense	-	292	-	292
Marketing - general	4,353	193	4,393	8,939
Marketing - annual event	5,828	-	5,827	11,655
Marketing - grant writing	-	-	76,841	76,841
Office supplies	4,504	1,150	72	5,726
Printing and reproduction	304	291	145	740
Postage	57	324	53	434
Professional fees / contract services	184,066	16,839	21,490	222,395
Repairs and maintenance	974	-	-	974
Transportation	31,840	-	-	31,840
Travel, meals and entertainment	15,830	10,252	275	26,356
Small tools, equipment and supplies	8,278	1,112	70	9,460
Salvage disposal	315	-	-	315
Depreciation	10,667	-	-	10,668
Warranty expense	12,380	-	-	12,380
Miscellaneous	6,224	4,587	875	11,686
<i>Total functional expenses</i>	\$ 1,660,510	\$ 123,601	\$ 178,708	\$ 1,962,819

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

MINNESOTA COMPUTERS FOR SCHOOLS

STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016

	Program	General and Administrative	Fundraising and Grant Solicitation	Total
Salaries, payroll taxes and benefits	\$ 996,193	\$ 68,528	\$ 91,371	\$ 1,156,092
Computer components and equipment	170,750	-	-	170,750
Rent, utilities and security	141,599	15,118	3,198	159,915
Insurance	1,794	7,178	-	8,972
Board of director expense	-	1,213	-	1,213
Marketing - general	14,123	4,035	2,018	20,176
Marketing - annual event	5,825	-	5,826	11,651
Marketing - grant writing	-	-	90,691	90,691
Office supplies	11,035	2,759	-	13,794
Printing and reproduction	271	-	-	271
Postage	142	572	-	714
Professional fees / contract services	98,657	24,664	-	123,321
Repairs and maintenance	328	-	-	328
Transportation	26,139	-	-	26,139
Travel, meals and entertainment	14,843	3,711	-	18,554
Small tool & equipment expense	7,176	-	-	7,176
Salvage disposal	460	-	-	460
Depreciation	14,149	-	-	14,149
Warranty expense	(7,149)	-	-	(7,149)
Miscellaneous	9,637	2,409	-	12,046
<i>Total functional expenses</i>	\$ 1,505,972	\$ 130,187	\$ 193,104	\$ 1,829,263

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

MINNESOTA COMPUTERS FOR SCHOOLS

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31,	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ (164,055)	\$ (306,929)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	10,668	14,149
Loss on disposal	13,334	-
Changes in assets and liabilities:		
Grants and accounts receivable	(137,487)	(108,830)
Inventory - materials	(1,551)	2,901
Prepaid expenses	15,972	(1,149)
Accounts payable	3,994	4,329
Accrued payroll and taxes	(758)	(8,186)
Accrued vacation pay	9,582	4,035
Deferred income	58,261	166,850
Warranty liability	1,690	(16,000)
	(190,350)	(248,830)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(6,937)	(6,605)
	(6,937)	(6,605)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable	50,000	-
Payments on notes payable	(12,127)	-
	37,873	-
	(159,414)	(255,435)
Cash and cash equivalents, beginning of year	277,477	532,912
	\$ 118,063	\$ 277,477
SUPPLEMENTAL DISCLOSURES		
Interest paid	\$ 596	\$ -

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

MINNESOTA COMPUTERS FOR SCHOOLS

NOTES TO FINANCIAL STATEMENTS

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 continues to expand its Workforce Development Program, which brings technology access and job skills to disadvantaged youth at Programs (Humboldt School) in St. Paul, Neighborhood House in West St. Paul, and Minneapolis Urban League in Minneapolis. 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 2017, one government agency donated approximately 52% of the computers. During 2016, there was no concentration of computer donors. 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, 2017 and 2016, there were no permanently restricted net assets.

Recently Issued Accounting Pronouncements:

In May 2014, FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which provides guidance for accounting for revenue from contracts with customers. The new guidance outlines a single comprehensive model for companies to use in accounting for revenue from contracts with customers. For private companies, the ASU is effective for annual and interim periods beginning after December 15, 2018 with early adoption permitted. It can be adopted using either a retrospective approach or a modified retrospective approach. The Organization is currently evaluating the impact that the adoption of this guidance will have on the Organization's financial statements and anticipates the new guidance will not have a material impact on its financial statements.

MINNESOTA COMPUTERS FOR SCHOOLS

NOTES TO FINANCIAL STATEMENTS

NOTE 1. (CONTINUED)

In February 2016, FASB issued ASU No. 2016-02, Leases (Topic 842), which provides guidance for accounting for leases. The new guidance requires companies to recognize the assets and liabilities for the rights and obligations created by leased assets, initially measured at the present value of the lease payments. The accounting guidance for lessors is largely unchanged. For private companies, the ASU is effective for annual and interim periods beginning after December 15, 2019 with early adoption permitted. It is to be adopted using a modified retrospective approach. The Organization is currently evaluating the impact that the adoption of this guidance will have on the Organization's financial statements and anticipates the new guidance will not have a material impact on its financial statements.

In August 2016, FASB issued ASU No. 2016-14, Not-for-Profit Entities (Topic 958), which provides guidance for presentation of financial statements of not-for-profit entities. The new guidance requires not-for-profits to include a number of changes in their financial presentation including presenting two classes of net assets, enhanced disclosures on board designations, management of liquid resources for cash flows, and present expenses by their natural and functional classification. The ASU will be effective for financial statements for fiscal years beginning after December 15, 2017, and for interim financial statements for periods after that date with early adoption permitted. The amendments in this update should be applied on a retrospective basis. However, if presenting comparative financial statements, the NFP has the option to omit the following information for any periods presented before the period of adoption: analysis of expenses by both natural classification and functional classification and disclosures about liquidity and availability of resources. The Organization is currently evaluating the impact that the adoption of this guidance will have on the Organization's financial statements and anticipates the new guidance will significantly impact its financial statements.

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.

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.

MINNESOTA COMPUTERS FOR SCHOOLS

NOTES TO FINANCIAL STATEMENTS

NOTE 1. (CONTINUED)

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, 2017 and 2016, 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.

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, 2017 and 2016. Shipping and handling costs are expensed as incurred.

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 3-15 years, software over 3 years, and leasehold improvements over 8 years.

Deferred income:

The Organization records deferred income related to future events and unearned contract revenue. Sponsorship revenues received for events are recognized when the event occurs. Contract revenues from government grants that are considered exchange transactions are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined in each grant or contract, are incurred. Specifically for 2017 and 2016, the Organization was approved for grants from the State of Minnesota for \$200,000 and \$180,000, respectively. The grants have been included in receivables and deferred revenue as of December 31, 2017 and December 31, 2016.

MINNESOTA COMPUTERS FOR SCHOOLS

NOTES TO FINANCIAL STATEMENTS

NOTE 1. (CONTINUED)

Warranty arrangements:

The Organization's products generally carry explicit warranties that extend 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 customers 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.

Support and revenue recognition:

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 no promises to give outstanding as of December 31, 2017 and 2016.

Government grants and contracts that are considered exchange transactions are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined in each grant or contract, are incurred.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1. (CONTINUED)

Sales:

Sales of refurbished computers are recorded when shipped.

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 2017 and 2016, 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. NOTE PAYABLE

The Organization has a \$50,000 note payable beginning October 31, 2017, due in monthly installments of \$4,315 including interest at 6.5% to September 2018. Borrowings under the note payable are secured by all business assets. The balance of the note payable was \$37,873 at December 31, 2017.

NOTE 3. NON-CASH CONTRIBUTIONS

Non-cash contributions are as follows:

YEARS ENDED DECEMBER 31,	2017	2016
Rent, utilities and security - Dept. of Corrections	\$ 138,431	\$ 138,432
Salaries, payroll taxes, and benefits of inmates - Dept. of Corrections	320,866	361,876
Transportation - Dept. of Corrections	9,750	9,756
Event in-kind donated items	2,250	-
Supplies and equipment	37,835	3,012
<i>Total</i>	\$ 509,132	\$ 513,076

MINNESOTA COMPUTERS FOR SCHOOLS

NOTES TO FINANCIAL STATEMENTS

NOTE 4. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes:

DECEMBER 31,	2017	2016
Saint Paul Foundation for core IT workforce development	\$ 14,368	\$ -
Bigelow Foundation for core IT workforce development	14,686	-
Best Buy Foundation for core IT workforce development	2,215	-
Pronto Labs Foundation for core IT workforce development	15,000	-
Pentair Foundation for STEM program	5,000	-
Richard M Schultze Family Foundation for workforce development	-	9,680
Community Action Partnership of Subaru for workforce development	-	15,000
Pentair Foundation for student sponsorship	-	5,000
Hardenbergh Foundation for workforce development	-	4,273
Boston Scientific for workforce development	542	10,000
Wells Fargo Foundation for workforce development	-	767
St. Croix Lions Club for St. Cloud Initiatives	-	200
Otto Bremer Foundation for workforce development	-	57,396
Morgan Foundation for St. Cloud Initiatives	-	26,715
Accenture for workforce development	-	1,986
<i>Total</i>	\$ 51,811	\$ 131,017

NOTE 5. LEASE COMMITMENT

The Organization has an operating lease for production and warehouse space with the Minnesota Department of Corrections through November 30, 2022. They also have an operating lease for space at another location through September 2018. The future minimum lease payments under this lease are as follows:

YEARS ENDING DECEMBER 31,	
2018	\$ 17,843
2019	15,228
2020	15,228
2021	15,228
2022	13,959
<i>Total minimum lease payments</i>	\$ 77,486

Rental expense for this lease amounted to \$14,855 and \$11,017 for the years ended December 31, 2017 and 2016, respectively.

MINNESOTA COMPUTERS FOR SCHOOLS

NOTES TO FINANCIAL STATEMENTS

NOTE 5. (CONTINUED)

The Organization also holds two month-to-month leases for space rental for meetings and programs. Rent expense charged to operations under these leases amounted to \$14,640 and \$9,668 for the years ended December 31, 2017 and 2016, respectively.

NOTE 6. 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 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 no employer contributions.

NOTE 8. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through May 22, 2018, the date which the financial statements were available to be issued.