

DYSLEXIA INSTITUTE OF MINNESOTA, INC.

Financial Statements

For the Years Ended December 31, 2015 and 2014

DYSLEXIA INSTITUTE OF MINNESOTA, INC.

C O N T E N T S

	<u>Page</u>
Independent Auditor's Report	
Financial Statements	
Statements of Financial Position	1
Statements of Activities	2 - 3
Statements of Functional Expenses	4 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 12

ALAN C. ANDERSON, CHARTERED

CERTIFIED PUBLIC ACCOUNTANT
BUENA VISTA OFFICE PLAZA, SUITE B
121 - 14TH STREET NORTHEAST
ROCHESTER, MINNESOTA 55906-7083

507-288-3947
FAX 507-288-8886

Alan C. Anderson, CPA
Julie K. Wright, CPA
Craig A. Fuchs, CPA
Mary Mark Patten, CPA

Independent Auditor's Report

To the Board of Directors
Dyslexia Institute of Minnesota, Inc.
Rochester, Minnesota

We have audited the accompanying financial statements of Dyslexia Institute of Minnesota, Inc. (a nonprofit corporation), which comprise the statements of financial position as of December 31, 2015 and 2014, 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

To the Board of Directors
Dyslexia Institute of Minnesota, Inc.
Page 2

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 Dyslexia Institute of Minnesota, Inc. as of December 31, 2015 and 2014, 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.

Alan C. Anderson C.Fid

Rochester, Minnesota

October 15, 2016

DYSLEXIA INSTITUTE OF MINNESOTA, INC.
 Statements of Financial Position
 December 31, 2015 and 2014

ASSETS

	<u>2015</u>	<u>2014</u>
Current Assets		
Cash and cash equivalents	\$109,978	\$130,029
Investments	82,231	80,933
Accounts receivable, net	27,692	32,526
Pledges receivable	1,902	2,083
Inventory	1,080	1,003
Prepaid expenses	2,132	2,783
Total current assets	<u>225,015</u>	<u>249,357</u>
Property and Equipment		
Land, buildings, and equipment, net	190,061	198,159
Other Assets		
Beneficial interest in assets held by Foundation	<u>37,700</u>	<u>38,976</u>
 TOTAL ASSETS	 <u>\$452,776</u>	 <u>\$486,492</u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable	\$ 5,124	\$ 8,941
Accrued payroll liabilities	9,734	9,081
Tutoring contracts payable	16,743	12,407
Unearned revenue	36,510	42,311
Accrued interest		46
Current portion of long-term debt		20,817
Total current liabilities	<u>68,111</u>	<u>93,603</u>
Net Assets		
Unrestricted	341,699	357,253
Temporarily restricted	42,966	35,636
Total net assets	<u>384,665</u>	<u>392,889</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$452,776</u>	 <u>\$486,492</u>

(See notes to financial statements)

DYSLEXIA INSTITUTE OF MINNESOTA, INC.
Statement of Activities
For the Year Ended December 31, 2015

	2015		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Support			
Fees for services	\$487,054	\$	\$487,054
Contributions and grants	255,609	76,500	332,109
Interest and dividends	4,024		4,024
Miscellaneous	7,451		7,451
Net assets released from restrictions			
Satisfaction by payment	<u>69,170</u>	<u>(69,170)</u>	
Total revenue and support	<u>823,308</u>	<u>7,330</u>	<u>830,638</u>
Expenses and Losses			
Program services	647,483		647,483
Management and general	95,902		95,902
Fundraising	90,735		90,735
Realized and unrealized losses on investments	<u>4,742</u>		<u>4,742</u>
Total expenses and losses	<u>838,862</u>	<u>-</u>	<u>838,862</u>
Change in net assets	(15,554)	7,330	(8,224)
Net Assets – Beginning of Year	<u>357,253</u>	<u>35,636</u>	<u>392,889</u>
Net Assets – End of Year	<u>\$341,699</u>	<u>\$ 42,966</u>	<u>\$384,665</u>

(See notes to financial statements)

DYSLEXIA INSTITUTE OF MINNESOTA, INC.
Statement of Activities
For the Year Ended December 31, 2014

	2014		
	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Fees for services	\$457,187	\$	\$457,187
Contributions and grants	164,552	75,025	239,577
Interest and dividends	4,635		4,635
Realized and unrealized gains on investments	310		310
Miscellaneous	11,251		11,251
Net assets released from restrictions			
Satisfaction by payment	<u>88,804</u>	<u>(88,804)</u>	
Total revenue and support	<u>726,739</u>	<u>(13,779)</u>	<u>712,960</u>
Expenses and Losses			
Program services	578,870		578,870
Management and general	95,685		95,685
Fundraising	<u>49,396</u>		<u>49,396</u>
Total expenses and losses	<u>723,951</u>	<u>-</u>	<u>723,951</u>
Change in net assets	2,788	(13,779)	(10,991)
Net Assets – Beginning of Year	<u>354,465</u>	<u>49,415</u>	<u>403,880</u>
Net Assets – End of Year	<u>\$357,253</u>	<u>\$ 35,636</u>	<u>\$392,889</u>

(See notes to financial statements)

DYSLEXIA INSTITUTE OF MINNESOTA, INC.
Statement of Functional Expenses
For the Year Ended December 31, 2015

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$155,354	\$ 64,731	\$ 38,839	\$258,924
Tutors/evaluators	216,671			216,671
Class expenses	122,419			122,419
Scholarships	59,463			59,463
Payroll taxes	19,045	7,935	4,761	31,741
Capital campaign	15,364		15,364	30,728
Fundraising/special events			30,424	30,424
Advertising/public relations	19,786			19,786
Employee benefits	5,390	2,246	1,347	8,983
Repairs and maintenance	4,798	1,599		6,397
Professional fees	1,435	4,306		5,741
Utilities	4,064	1,354		5,418
Insurance	1,297	3,891		5,188
Office expense	3,671	1,224		4,895
Bank/credit card fees		4,090		4,090
Copier expense	2,924	975		3,899
Telephone	2,863	954		3,817
Training/meeting expenses	3,752			3,752
Inventory	1,495			1,495
Postage	608	202		810
Interest	267	89		356
Miscellaneous	<u>51</u>	<u>51</u>	<u> </u>	<u>102</u>
Total expenses before depreciation	640,717	93,647	90,735	825,099
Depreciation	<u>6,766</u>	<u>2,255</u>	<u>-</u>	<u>9,021</u>
Total expenses	<u>\$647,483</u>	<u>\$ 95,902</u>	<u>\$ 90,735</u>	<u>\$834,120</u>

(See notes to financial statements)

DYSLEXIA INSTITUTE OF MINNESOTA, INC.
Statement of Functional Expenses
For the Year Ended December 31, 2014

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$140,781	\$ 58,659	\$ 35,195	\$234,635
Tutors/evaluators	203,330			203,330
Class expenses	99,807			99,807
Scholarships	55,092			55,092
Payroll taxes	16,955	7,065	4,239	28,259
Advertising/public relations	22,169			22,169
Fundraising/special events			9,261	9,261
Repairs and maintenance	4,890	1,630		6,520
Utilities	4,775	1,592		6,367
Professional fees	1,511	4,535		6,046
Insurance	1,467	4,399		5,866
Employee benefits	2,803	1,168	701	4,672
Inventory	4,669			4,669
Office expense	3,430	1,143		4,573
Training/meeting expenses		4,568		4,568
Bank/credit card fees		4,344		4,344
Telephone	2,962	987		3,949
Copier expense	2,617	872		3,489
Miscellaneous	1,504	1,503		3,007
Interest	1,638	546		2,184
Postage	1,023	341		1,364
Bad debts	450			450
Total expenses before depreciation	<u>571,873</u>	<u>93,352</u>	<u>49,396</u>	<u>714,621</u>
Depreciation	<u>6,997</u>	<u>2,333</u>	<u>-</u>	<u>9,330</u>
Total expenses	<u>\$578,870</u>	<u>\$ 95,685</u>	<u>\$ 49,396</u>	<u>\$723,951</u>

(See notes to financial statements)

DYSLEXIA INSTITUTE OF MINNESOTA, INC.
 Statements of Cash Flow
 For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (8,224)	\$ (10,991)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	9,021	9,330
Noncash contributions of assets	(7,910)	(3,668)
Realized and unrealized (gain) loss on investments	4,742	(310)
(Increase) decrease in operating assets:		
Accounts receivable	4,834	(2,656)
Pledges receivable	181	837
Inventory	(77)	4,232
Prepaid expenses	651	(1,116)
Increase (decrease) in operating liabilities:		
Accounts payable	(3,817)	3,643
Accrued payroll liabilities	653	862
Tutoring contracts payable	4,336	(837)
Unearned revenue	(5,801)	15,422
Accrued interest	(46)	(116)
Net cash provided (used) by operating activities	<u>(1,457)</u>	<u>14,632</u>
Cash Flows from Investing Activities		
Purchase of investments	(3,302)	(3,404)
Proceeds from sale of investments	6,351	3,889
Purchase of other assets	(285)	(857)
Proceeds from sale of other assets	382	1,992
Purchase of certificate of deposit		(21)
Proceeds from redemption of certificate of deposit		10,390
Purchase of property and equipment	<u>(923)</u>	<u>(1,177)</u>
Net cash provided by investing activities	<u>2,223</u>	<u>10,812</u>
Cash Flows from Financing Activities		
Payments on long-term debt	<u>(20,817)</u>	<u>(58,348)</u>
Net (decrease) in cash and cash equivalents	(20,051)	(32,904)
Cash and Cash Equivalents – Beginning of Year	<u>130,029</u>	<u>162,933</u>
Cash and Cash Equivalents – End of Year	<u>\$109,978</u>	<u>\$130,029</u>
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest	<u>\$ 402</u>	<u>\$ 2,300</u>

(See notes to financial statements)

DYSLEXIA INSTITUTE OF MINNESOTA, INC.
Notes to Financial Statements

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Activities

The Dyslexia Institute of Minnesota, Inc. (the Organization) is a nonprofit corporation organized under the laws of the State of Minnesota for the purpose of providing diagnostic and educational services to those with language learning difficulties, training teachers in scientifically validated educational procedures, and increasing public awareness and understanding. Its main sources of revenues are fees for educational therapy and other services, grants and contributions from the general public.

B. 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.

C. Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. All 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.

D. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

E. Cash and Cash Equivalents

For purposes of the statements 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.

F. Investments

The Organization carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the

DYSLEXIA INSTITUTE OF MINNESOTA, INC.
Notes to Financial Statements (continued)

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Statements of Financial Position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

G. Receivables

Receivables are stated at the amount management expects to collect from outstanding balances. Pledges receivable consists of donations made through an online contribution facilitator that have not been distributed to the Organization. For accounts receivable, management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for doubtful accounts at December 31, 2015 and 2014, was \$2,272 and \$1,228, respectively. Changes in the valuation allowance have not been material to the financial statements. Interest is not charged on past due accounts, and the Organization occasionally uses the services of a collection agency.

H. Inventory

Inventory consists of educational materials, is valued at cost and is determined on the first-in, first-out (FIFO) basis.

I. Property and Equipment

It is the Organization's policy to capitalize property and equipment over \$200. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support 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 support. 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. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated over the estimated useful lives of the assets using the straight-line method. Routine repairs and maintenance are expensed as incurred.

DYSLEXIA INSTITUTE OF MINNESOTA, INC.
Notes to Financial Statements (continued)

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

K. Financial Statement Presentation

The Organization 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. For the years ended December 31, 2015 and 2014, there were no permanently restricted net assets.

L. Income Taxes

Dyslexia Institute of Minnesota, Inc. is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and similar Minnesota statutes. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

The Organization has not been audited by the Internal Revenue Service or Minnesota Revenue, and accordingly any tax returns for the past three and one-half years are open to examination.

M. Donated Services and Materials

Donated materials are recorded as contributions at their estimated fair market value at date of receipt. The estimated fair market value of donated services are determined and recognized in the financial statements if the services created or enhanced non-financial assets or required specialized skills specific to the service performed and would have been purchased if not provided through donations. Donated services and materials of \$19,594 and \$3,184 were recognized for the years ended December 31, 2015 and 2014, respectively, for work done on special projects and for program supplies received. These amounts are included in contributions revenue.

2. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets at the end of 2015 and 2014 relate to grants and donations designated for the following programs:

DYSLEXIA INSTITUTE OF MINNESOTA, INC.
Notes to Financial Statements (continued)

2. RESTRICTIONS ON NET ASSETS (continued)

	2015	2014
Infusion	\$ 30,565	\$ 31,281
Capacity building	10,000	-
Teacher training	2,401	-
Outreach	-	2,355
Best of Basics	-	2,000
Total	<u>\$ 42,966</u>	<u>\$ 35,636</u>

3. INVESTMENTS

Investment securities are carried at fair value based on quoted prices in active markets (all Level 1 measurements). Market risk could occur and is dependent on the future changes in market prices of the various investments held. Investments as of December 31, 2015 and 2014, are summarized as follows:

	2015		
	Cost	Fair Value	Carrying Value
Mutual funds	\$ 78,639	\$ 80,591	\$ 80,591
Stocks	1,637	1,640	1,640
Total investments	<u>\$ 80,276</u>	<u>\$ 82,231</u>	<u>\$ 82,231</u>
	2014		
	Cost	Fair Value	Carrying Value
Mutual funds	\$ 76,127	\$ 80,933	\$ 80,933

The following schedule summarizes the investment return and its classification in the statements of activities for the years ended December 31, 2015 and 2014.

	2015	2014
Interest and dividends	\$ 4,024	\$ 4,635
Realized and unrealized gains (losses)	(4,742)	310
Total investment return	<u>\$ (718)</u>	<u>\$ 4,945</u>

4. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2015 and 2014, consists of the following:

	2015	2014
Buildings and improvements	\$282,377	\$282,377
Office equipment	60,818	59,895
Furniture and fixtures	9,037	9,037
Total property and equipment	<u>352,232</u>	<u>351,309</u>
Less accumulated depreciation	(162,171)	(153,150)
Net property and equipment	<u>\$190,061</u>	<u>\$198,159</u>

DYSLEXIA INSTITUTE OF MINNESOTA, INC.
Notes to Financial Statements (continued)

4. PROPERTY AND EQUIPMENT (continued)

Depreciation expense was \$9,021 and \$9,330 for the years ended December 31, 2015 and 2014, respectively.

5. UNEARNED REVENUE

Unearned revenue is provided for that portion of class fees received for specific programs which were not completed as of the Organization's year end. Unearned revenue amounted to \$36,510 and \$42,311 at December 31, 2015 and 2014, respectively.

6. LONG-TERM DEBT

The Organization's long-term debt as of December 31, 2015 and 2014, consists of the following:

	<u>2015</u>	<u>2014</u>
4.99% note payable, due in monthly installments of \$2,105, secured by building and improvements, due November 2015	\$ -	\$20,817
Less current portion	<u>-</u>	<u>(20,817)</u>
Net long-term debt	<u>\$ -</u>	<u>\$ -</u>

7. EMPLOYEE BENEFIT PLANS

The Organization has a defined contribution profit sharing plan covering full-time employees. Under this plan, the Organization contributes five percent of each eligible employee's salary. Plan expenses incurred by the Organization during 2015 and 2014 were \$1,583 and \$1,616, respectively. The Organization also offered a stand-alone health reimbursement arrangement for full-time employees in 2015 and 2014, which amounted to \$2,400 and \$2,400, respectively.

8. FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing various programs and activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among programs and supporting services benefited.

DYSLEXIA INSTITUTE OF MINNESOTA, INC.
Notes to Financial Statements (continued)

9. ADVERTISING

The Organization follows the policy of charging the costs of advertising to expense as incurred. Advertising expense was \$6,850 and \$2,618 for the years ended December 31, 2015 and 2014, respectively.

10. LEASE COMMITMENTS

The Organization is obligated under lease agreements for office equipment for 60 months commencing May 2012. Additional charges may apply for maintenance and the cost of images not covered by the leases. The leases renew on a month-to-month basis upon expiration of the lease terms. Rent expense for the years ended December 31, 2015 and 2014, was \$3,157 and \$3,489, respectively, including additional charges paid.

The following is a schedule of future minimum rental payments:

2016	\$ 3,157
2017	<u>1,315</u>
Total	<u>\$ 4,472</u>

11. BENEFICIAL INTEREST IN ASSETS HELD BY FOUNDATION

Dyslexia Institute of Minnesota, Inc. has established two funds that are managed by the Rochester Area Foundation, which are known as The Reading Center Agency Fund and the Paula Rome Endowment Fund. These Funds and all future income are the property of the Rochester Area Foundation and are under the complete control of the Foundation. Net income from the funds may be distributed in annual or more frequent intervals as the Board of the Rochester Area Foundation shall determine within the Organization's stated purpose. Distributions in excess of net income may also be made in any year as determined by the Rochester Area Foundation's Board. As of December 31, 2015 and 2014, the market value of the Funds was \$37,700 and \$38,976 respectively.

12. SUBSEQUENT EVENTS

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 15, 2016, the date these financial statements were available to be issued.