

# Financial Statements

## Germanic-American Institute

St. Paul, Minnesota

For the Years Ended  
June 30, 2020 and 2019

Germanic-American Institute  
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June 30, 2020 and 2019

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Germanic-American Institute  
St. Paul, MN

We have audited the accompanying financial statements of Germanic-American Institute (a nonprofit corporation) which comprise the statements of financial position as of June 30, 2020 and 2019, 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

Management is responsible for the preparation and fair presentation of the 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 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 of material misstatement.

An audit includes 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 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 Germanic-American Institute as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

ABDO, EICK & MEYERS, LLP  
Minneapolis, Minnesota  
September 21, 2020

## FINANCIAL STATEMENTS

Germanic-American Institute  
 Statements of Financial Position  
 June 30, 2020 and 2019

|                                     | 2020       | 2019       |
|-------------------------------------|------------|------------|
| Assets                              |            |            |
| Current Assets                      |            |            |
| Cash and cash equivalents           | \$ 358,895 | \$ 273,662 |
| Accounts receivable                 | 4,055      | 17,217     |
| Pledges receivable, current portion | -          | 1,424      |
| Prepaid expenses                    | 3,634      | 750        |
| Total Current Assets                | 366,584    | 293,053    |
| Property and Equipment              |            |            |
| Land                                | 15,000     | 15,000     |
| Buildings and improvements          | 911,406    | 836,548    |
| Furniture and equipment             | 240,132    | 240,132    |
| Total Property and Equipment, Cost  | 1,166,538  | 1,091,680  |
| Accumulated Depreciation            | (773,717)  | (745,673)  |
| Total Property and Equipment, Net   | 392,821    | 346,007    |
| Noncurrent Assets                   |            |            |
| Endowment cash and investments      | 93,067     | 89,901     |
| Museum exhibit                      | 1,325      | 1,325      |
| Total Noncurrent Assets             | 94,392     | 91,226     |
| Total Assets                        | \$ 853,797 | \$ 730,286 |

See Independent Auditor's Report and Notes to the Financial Statements.

Germanic-American Institute  
 Statements of Financial Position (Continued)  
 June 30, 2020 and 2019

|                                      | 2020       | 2019       |
|--------------------------------------|------------|------------|
| Liabilities                          |            |            |
| Current Liabilities                  |            |            |
| Accounts payable                     | \$ 18,345  | \$ 24,521  |
| Accrued payroll                      | 50,803     | 41,144     |
| Other accrued expenses               | 20         | 308        |
| Deferred revenue                     | 81,028     | 109,871    |
| Line of credit                       | -          | 38,600     |
| Assessment payable - current portion | 1,100      | 1,100      |
| Total Current Liabilities            | 151,296    | 215,544    |
| Long-term Liabilities                |            |            |
| Assessment payable                   | 15,400     | 16,500     |
| Total Liabilities                    | 166,696    | 232,044    |
| Net Assets                           |            |            |
| Net assets without donor restriction | 508,444    | 341,372    |
| Net assets with donor restriction    | 178,657    | 156,870    |
| Total Net Assets                     | 687,101    | 498,242    |
| Total Liabilities and Net Assets     | \$ 853,797 | \$ 730,286 |

See Independent Auditor's Report and Notes to the Financial Statements.

# Germanic-American Institute

## Statements Of Activities

For the Year Ended June 30, 2020

(With Comparative Information for the Year Ended June 30, 2019)

|                                      | Without Donor<br>Restriction | With Donor<br>Restriction | 2020<br>Total | 2019<br>Total |
|--------------------------------------|------------------------------|---------------------------|---------------|---------------|
| Support and Revenue                  |                              |                           |               |               |
| Support                              |                              |                           |               |               |
| Contributions and grants             | \$ 378,607                   | \$ 146,351                | \$ 524,958    | \$ 241,365    |
| In-kind contributions                | 204                          | -                         | 204           | 5,763         |
| Membership dues                      | 29,535                       | -                         | 29,535        | 33,755        |
| Total Support                        | 408,346                      | 146,351                   | 554,697       | 280,883       |
| Revenue                              |                              |                           |               |               |
| Education tuition and fees           | 707,602                      | -                         | 707,602       | 801,508       |
| Event income                         | 193,415                      | -                         | 193,415       | 252,879       |
| Catering service income              | 34,894                       | -                         | 34,894        | 111,989       |
| Rental income                        | 4,800                        | -                         | 4,800         | 4,800         |
| Gain on investments                  | 2,750                        | -                         | 2,750         | 8,202         |
| Other income                         | 4,297                        | -                         | 4,297         | 3,321         |
| Total Revenue                        | 947,758                      | -                         | 947,758       | 1,182,699     |
| Net Assets Released From Restriction |                              |                           |               |               |
| Satisfaction of program restrictions | 124,564                      | (124,564)                 | -             | -             |
| Total Support And Revenue            | 1,480,668                    | 21,787                    | 1,502,455     | 1,463,582     |
| Expenses                             |                              |                           |               |               |
| Program Services                     |                              |                           |               |               |
| Educational programs and materials   | 880,246                      | -                         | 880,246       | 884,551       |
| Events                               | 249,496                      | -                         | 249,496       | 283,156       |
| Total Program Services               | 1,129,742                    | -                         | 1,129,742     | 1,167,707     |
| Support Services                     |                              |                           |               |               |
| Management and general               | 73,859                       | -                         | 73,859        | 49,839        |
| Fundraising                          | 58,208                       | -                         | 58,208        | 51,946        |
| Catering services                    | 51,787                       | -                         | 51,787        | 144,544       |
| Total Support Services               | 183,854                      | -                         | 183,854       | 246,329       |
| Total Expenses                       | 1,313,596                    | -                         | 1,313,596     | 1,414,036     |
| Change in Net Assets                 | 167,072                      | 21,787                    | 188,859       | 49,546        |
| Net Assets, Beginning of Year        | 341,372                      | 156,870                   | 498,242       | 448,696       |
| Net Assets, End of Year              | \$ 508,444                   | \$ 178,657                | \$ 687,101    | \$ 498,242    |

See Independent Auditor's Report and Notes to the Financial Statements.

Germanic-American Institute  
Statements of Activities (Continued)  
For the Year Ended June 30, 2019

|                                      | Without Donor<br>Restriction | With Donor<br>Restriction | Total      |
|--------------------------------------|------------------------------|---------------------------|------------|
| Support and Revenue                  |                              |                           |            |
| Support                              |                              |                           |            |
| Contributions and grants             | \$ 232,961                   | \$ 8,404                  | \$ 241,365 |
| In-kind contributions                | 5,763                        | -                         | 5,763      |
| Membership dues                      | 33,755                       | -                         | 33,755     |
| Total Support                        | 272,479                      | 8,404                     | 280,883    |
| Revenue                              |                              |                           |            |
| Education tuition and fees           | 801,508                      | -                         | 801,508    |
| Event income                         | 252,879                      | -                         | 252,879    |
| Catering service income              | 111,989                      | -                         | 111,989    |
| Rental income                        | 4,800                        | -                         | 4,800      |
| Gain on investments                  | 8,202                        | -                         | 8,202      |
| Other income                         | 3,321                        | -                         | 3,321      |
| Total Revenue                        | 1,182,699                    | -                         | 1,182,699  |
| Net Assets Released From Restriction |                              |                           |            |
| Satisfaction of program restrictions | 7,184                        | (7,184)                   | -          |
| Total Support and Revenue            | 1,462,362                    | 1,220                     | 1,463,582  |
| Expenses                             |                              |                           |            |
| Program Services                     |                              |                           |            |
| Educational programs and materials   | 884,551                      | -                         | 884,551    |
| Events                               | 283,156                      | -                         | 283,156    |
| Total Program Services               | 1,167,707                    | -                         | 1,167,707  |
| Support Services                     |                              |                           |            |
| Management and general               | 49,839                       | -                         | 49,839     |
| Fundraising                          | 51,946                       | -                         | 51,946     |
| Catering services                    | 144,544                      | -                         | 144,544    |
| Total Support Services               | 246,329                      | -                         | 246,329    |
| Total Expenses                       | 1,414,036                    | -                         | 1,414,036  |
| Change in Net Assets                 | 48,326                       | 1,220                     | 49,546     |
| Net Assets, Beginning of Year        | 293,046                      | 155,650                   | 448,696    |
| Net Assets, End of Year              | \$ 341,372                   | \$ 156,870                | \$ 498,242 |

See Independent Auditor's Report and Notes to the Financial Statements.



Germanic-American Institute  
Statements of Functional Expenses  
For the Year Ended June 30, 2020  
(With Comparative Information for the Year Ended June 30, 2019)

|                                    | Program Services                        |            |                              | Supporting Services       |             |                   | 2020<br>Total | 2019<br>Total |                                 |
|------------------------------------|---|------------|------------------------------|---------------------------|-------------|-------------------|---------------|---------------|---------------------------------|
|                                    | Educational<br>Program and<br>Materials | Events     | Total<br>Program<br>Services | Management<br>and General | Fundraising | Rental<br>Service |               |               | Total<br>Supporting<br>Services |
| Personnel Costs                    |   |            |                              |                           |             |                   |               |               |                                 |
| Salaries and wages                 | \$ 632,368                              | \$ 106,794 | \$ 739,162                   | \$ 33,984                 | \$ 42,086   | \$ 21,481         | \$ 97,551     | \$ 836,713    | \$ 869,592                      |
| Payroll taxes and benefits         | 66,353                                  | 13,624     | 79,977                       | 8,262                     | 3,467       | 3,866             | 15,595        | 95,572        | 79,638                          |
| Total Personnel Costs              | 698,721                                 | 120,418    | 819,139                      | 42,246                    | 45,553      | 25,347            | 113,146       | 932,285       | 949,230                         |
| Expenses                           |   |            |                              |                           |             |                   |               |               |                                 |
| Program supplies                   | 27,286                                  | 30,153     | 57,439                       | 1,788                     | 2,756       | 3,865             | 8,409         | 65,848        | 73,604                          |
| Food and beverage costs            | 15,943                                  | 25,740     | 41,683                       | -                         | -           | -                 | -             | 41,683        | 80,833                          |
| Professional fees                  | 6,250                                   | 28,564     | 34,814                       | 2,573                     | -           | 6,218             | 8,791         | 43,605        | 54,504                          |
| Building/grounds maintenance       | 25,200                                  | 4,346      | 29,546                       | 5,933                     | 2,561       | 6,537             | 15,031        | 44,577        | 54,705                          |
| Utilities                          | 15,659                                  | 16,218     | 31,877                       | 5,604                     | -           | 2,217             | 7,821         | 39,698        | 40,697                          |
| Insurance                          | 14,210                                  | 3,753      | 17,963                       | 5,921                     | -           | 2,342             | 8,263         | 26,226        | 24,956                          |
| Printing, design, and postage      | 6,804                                   | 1,575      | 8,379                        | 2,285                     | 5,674       | 904               | 8,863         | 17,242        | 15,059                          |
| Advertising                        | 9,068                                   | 7,993      | 17,061                       | 38                        | 219         | 210               | 467           | 17,528        | 18,928                          |
| Rentals                            | 24,800                                  | -          | 24,800                       | -                         | -           | -                 | -             | 24,800        | 28,600                          |
| Property taxes                     | 410                                     | 102        | 512                          | 171                       | -           | 68                | 239           | 751           | 708                             |
| Bank and credit card fees          | 11,206                                  | 559        | 11,765                       | 173                       | 1,008       | 460               | 1,641         | 13,406        | 22,873                          |
| Miscellaneous                      | 8,895                                   | 6,392      | 15,287                       | 988                       | 437         | 1,191             | 2,616         | 17,903        | 19,889                          |
| Total Expenses Before Depreciation | 864,452                                 | 245,813    | 1,110,265                    | 67,720                    | 58,208      | 49,359            | 175,287       | 1,285,552     | 1,384,586                       |
| Depreciation                       | 15,794                                  | 3,683      | 19,477                       | 6,139                     | -           | 2,428             | 8,567         | 28,044        | 29,450                          |
| Total Expenses                     | \$ 880,246                              | \$ 249,496 | \$ 1,129,742                 | \$ 73,859                 | \$ 58,208   | \$ 51,787         | \$ 183,854    | \$ 1,313,596  | \$ 1,414,036                    |

See Independent Auditor's Report and Notes to the Financial Statements.

Germanic-American Institute  
Statements of Functional Expenses (Continued)  
For the Year Ended June 30, 2019

|   | Program Services                         |                   |                              | Supporting Services       |                  |                     | 2019<br>Total     |                                 |
|---|--|-------------------|------------------------------|---------------------------|------------------|---------------------|-------------------|---------------------------------|
|   | Educational<br>Programs and<br>Materials | Events            | Total<br>Program<br>Services | Management<br>and General | Fundraising      | Catering<br>Service |                   | Total<br>Supporting<br>Services |
| <b>Personnel Costs</b>                    |  |                   |                              |                           |                  |                     |                   |                                 |
| Salaries and wages                        | \$ 627,048                               | \$ 112,888        | \$ 739,936                   | \$ 20,544                 | \$ 38,643        | \$ 70,469           | \$ 129,656        | \$ 869,592                      |
| Payroll taxes and benefits                | 54,633                                   | 10,161            | 64,794                       | 3,753                     | 2,923            | 8,168               | 14,844            | 79,638                          |
| <b>Total Personnel Costs</b>              | <b>681,681</b>                           | <b>123,049</b>    | <b>804,730</b>               | <b>24,297</b>             | <b>41,566</b>    | <b>78,637</b>       | <b>144,500</b>    | <b>949,230</b>                  |
| <b>Expenses</b>                           |  |                   |                              |                           |                  |                     |                   |                                 |
| Program supplies                          | 29,447                                   | 34,113            | 63,560                       | 1,624                     | 1,009            | 7,411               | 10,044            | 73,604                          |
| Food and beverage costs                   | 15,483                                   | 46,207            | 61,690                       | -                         | 26               | 19,117              | 19,143            | 80,833                          |
| Professional fees                         | 11,176                                   | 34,735            | 45,911                       | 3,508                     | -                | 5,085               | 8,593             | 54,504                          |
| Building/grounds maintenance              | 28,510                                   | 5,789             | 34,299                       | 5,047                     | 2,911            | 12,448              | 20,406            | 54,705                          |
| Utilities                                 | 15,675                                   | 15,011            | 30,686                       | 4,396                     | -                | 5,615               | 10,011            | 40,697                          |
| Insurance                                 | 12,279                                   | 3,765             | 16,044                       | 3,961                     | -                | 4,951               | 8,912             | 24,956                          |
| Printing, design, and postage             | 5,346                                    | 1,670             | 7,016                        | 1,571                     | 4,508            | 1,964               | 8,043             | 15,059                          |
| Advertising                               | 10,426                                   | 7,402             | 17,828                       | 75                        | 609              | 416                 | 1,100             | 18,928                          |
| Rentals                                   | 28,600                                   | -                 | 28,600                       | -                         | -                | -                   | -                 | 28,600                          |
| Property taxes                            | 351                                      | 102               | 453                          | 113                       | -                | 142                 | 255               | 708                             |
| Bank and credit card fees                 | 18,601                                   | 1,294             | 19,895                       | 343                       | 950              | 1,685               | 2,978             | 22,873                          |
| Miscellaneous                             | 11,024                                   | 6,163             | 17,187                       | 618                       | 367              | 1,717               | 2,702             | 19,889                          |
| <b>Total Expenses Before Depreciation</b> | <b>868,599</b>                           | <b>279,300</b>    | <b>1,147,899</b>             | <b>45,553</b>             | <b>51,946</b>    | <b>139,188</b>      | <b>236,687</b>    | <b>1,384,586</b>                |
| Depreciation                              | 15,952                                   | 3,856             | 19,808                       | 4,286                     | -                | 5,356               | 9,642             | 29,450                          |
| <b>Total Expenses</b>                     | <b>\$ 884,551</b>                        | <b>\$ 283,156</b> | <b>\$ 1,167,707</b>          | <b>\$ 49,839</b>          | <b>\$ 51,946</b> | <b>\$ 144,544</b>   | <b>\$ 246,329</b> | <b>\$ 1,414,036</b>             |

See Independent Auditor's Report and Notes to the Financial Statements.

Germanic-American Institute  
Statements of Cash Flows  
For the Years Ended June 30, 2020 and 2019

|   | 2020       | 2019       |
|---|------------|------------|
| Cash Flows From Operating Activities  |            |            |
| Change in net assets  | \$ 188,859 | \$ 49,546  |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |            |            |
| Depreciation expense  | 28,044     | 29,450     |
| Net realized and unrealized investment gains  | (2,750)    | (8,202)    |
| (Increase) decrease in assets:  |            |            |
| Pledges receivable  | 1,424      | 1,500      |
| Accounts receivable   | 13,162     | (8,636)    |
| Grants and contracts receivable   | -          | -          |
| Prepaid expenses  | (2,884)    | 2,334      |
| Increase (decrease) in liabilities:   |            |            |
| Accounts payable  | (6,176)    | (14,774)   |
| Accrued expenses  | 9,371      | 758        |
| Deferred revenue  | (28,843)   | (3,199)    |
| Net Cash Provided by Operating Activities   | 200,207    | 48,777     |
| Cash Flows From Investing Activities  |            |            |
| Purchase of mutual funds  | (416)      | (1,340)    |
| Cash paid for purchase of property and equipment  | (74,858)   | (16,994)   |
| Net Cash Used by Investing Activities   | (75,274)   | (18,334)   |
| Cash Flows From Financing Activities  |            |            |
| Principal payments on assessment payable  | (1,100)    | (1,100)    |
| Advances from line of credit  | -          | 38,600     |
| Payments on line of credit  | (38,600)   | -          |
| Net Cash Provided (Used) by Financing Activities  | (39,700)   | 37,500     |
| Change in Cash and Cash Equivalents   | 85,233     | 67,943     |
| Cash and Cash Equivalents, Beginning of Year  | 273,662    | 205,719    |
| Cash and Cash Equivalents, End of Year  | \$ 358,895 | \$ 273,662 |
| Supplemental Information:   |            |            |
| Interest paid   | \$ 24      | \$ 350     |

See Independent Auditor's Report and Notes to the Financial Statements.

Germanic-American Institute  
Notes to the Financial Statements  
June 30, 2020 and 2019

## **Note 1: Summary of Significant Accounting Policies**

### **A. Nature of Activities**

The Germanic-American Institute ("GAI" or the "Organization") was incorporated on April 27, 1959 as a Minnesota nonprofit corporation. GAI is an organization that fosters an appreciation for and understanding of the culture, language, arts, and on-going history of the German-speaking peoples through public education and cultural programs.

The Organization relies on contributions, program service fees for language and children's classes, and fundraising events for support.

The Organization runs three types of programs: children's education, adult education, and public events and cultural programming. Children's education consists of Kinderstube Immersion Preschool and Samstagsschule and summer camps. The Immersion Preschool is a fully-licensed language and cultural education program for children ages 3-5 that also teaches Kindergarten readiness skills. Samstagsschule and summer camps are a language and cultural education program for children ages 5-12 to introduce them to and build a foundation in the German language. Adult education consists of German language classes for beginner through advanced language speakers. The Organization is also a test center for the internationally recognized Goethe Institute proficiency exams. The third program offers cultural programming to celebrate Germanic heritage and traditions as well as educate the public about German, Austrian, and Swiss culture. Events include Deutsche Tage festival, Winterfest Karneval, concerts, art exhibits, and genealogy and children's craft workshops. The fall and spring culture series includes a variety of lectures and presentations related to German history, politics, and current events.

### **B. Financial Statement Presentation**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with United States generally accepted accounting principles. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets of the Organization and related changes are classified and reported as follows:

#### Net Assets without Donor Restriction

Those resources over which the Organization has discretionary control. Designated amounts represent those revenues that the Board of Directors has set aside for a particular purpose.

#### Net Assets with Donor Restriction

Those resources subject to donor imposed restrictions which will be satisfied by actions of the Organization or passage of time, or are to be maintained permanently. As of June 30, 2020 and 2019, net assets with donor restriction consist of \$178,657 and \$156,870, respectively.

### **C. Cash Equivalents**

For the purposes of the statement of cash flows, the Organization considers investments with an original maturity of three months or less to be cash equivalents. The Organization maintains its cash balances at two financial institutions and, from time to time, such balances may be in excess of insurance guidelines. Cash held as endowment cash is not included as cash and cash equivalents.

Germanic-American Institute  
Notes to the Financial Statements  
June 30, 2020 and 2019

**Note 1: Summary of Significant Accounting Policies (Continued)**

**D. Investments**

Investments are generally recorded at fair value based upon quoted market prices, when available, or estimates of fair value. Investment income or loss and unrealized gains or losses are included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by the donor or law.

**E. Accounts Receivable**

Accounts receivable represent amounts due for language and education services. Amounts that are outstanding longer than the contractual payment terms are considered past due. Management considers all receivables fully collectible; accordingly, no allowance for doubtful accounts is recorded. If amounts become uncollectible, they are charged to activities when that determination is made. The Organization generally does not require collateral for amounts due.

**F. Property and Equipment**

Property and equipment are recorded at cost or, in the case of contributed property, at fair value at the date of contribution. Expenditures for replacements, maintenance, and repairs that do not improve or extend the life of the respective assets are expensed as incurred. At the time assets are retired or otherwise disposed of, the cost and related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is included in the statement of activities. The Organization generally capitalizes asset purchases over \$1,000. Costs associated with the website development and launch will be expensed as incurred.

Assets are depreciated using the straight-line and accelerated methods over the following useful lives:

|                            |              |
|----------------------------|--------------|
| Buildings and Improvements | 5 - 39 years |
| Equipment and Furnishings  | 5 - 10 years |

The Organization has construction in progress for a building restoration process. Once completed, the assets will be depreciated with the lives listed above.

**G. Revenue Recognition**

Language and Education Services

The Organization conducts German language and culture classes as well as preschool classes. Revenue from such classes is recognized at the time the services are provided.

Contributions

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restriction and reported in the statement of activities as net assets released from restriction.

Membership Dues

Membership dues are non-refundable and are recognized as revenue at the time of receipt.

## **Note 1: Summary of Significant Accounting Policies (Continued)**

### **H. In-kind Contributions**

The Organization reports gifts of non-cash assets as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair market values at the date of donation.

### **I. Functional Expense Allocation**

Salaries and related expenses are allocated based on job descriptions and management estimates. Expenses, other than salaries and related payroll expenses, that are not directly identifiable by program or support service, are allocated based on management estimates.

### **J. Deferred Revenue**

Deferred revenue represents payments for language services and preschool services received in advance of the services being provided. Also, it includes deposits for catering events scheduled to be held at GAI.

### **K. Advertising**

Advertising costs are expensed as incurred and total \$17,528 and \$18,928 in 2020 and 2019, respectively.

### **L. Impairment of Long-lived Assets**

Long-lived assets are reviewed for impairment when indications of impairment are present. Impairment is recognized when the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying value. No such losses were recorded in year ending June 30, 2020 or 2019.

### **M. Fair Value of Financial Instruments**

Due to their short term nature, the carrying values of the Organization's current financial assets and liabilities approximate their fair value. The fair value of the Organization's borrowings, if recalculated based on current interest rates, would not significantly differ from the recorded amount.

### **N. 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 the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

### **O. Subsequent Events**

Subsequent events have been evaluated through September 21, 2020, the date of the financial statements were available for issuance.

### **P. New Accounting Pronouncements**

The Organization has adopted Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606) and ASU No. 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958), as amended as management believes the standard improves the usefulness and understandability of the Organization's financial reporting. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue, and therefore, no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

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**Note 2: Pledges Receivable**

The balances of all promises to give at June 30 were:

|   | 2020 | 2019     |
|---|------|----------|
| Promises to give expected to be collected in: |      |          |
| Less than one year                            | \$ - | \$ 1,424 |

There is no discount recorded on the longer term pledges as management believes they are all collectible and the discount was immaterial to the financial statements.

**Note 3: Line of Credit**

The Organization has a \$200,000 line of credit bearing interest at 5.0%. The line is collateralized by substantially all assets of the Organization and matures on August 27, 2020. Interest expense incurred on the line of credit was \$24 and \$350 in 2020 and 2019, respectively. The outstanding balance in the line of credit as of June 30, 2020 and 2019 was \$0 and \$38,600, respectively.

**Note 4: Assessment Payable**

The Organization received an assessment from the City of St. Paul for repaving the alley. The assessment is a 20 year assessment for \$22,000. The payable has an interest rate of 4.98% and future maturities consist of \$1,100 payments per year for the next sixteen years.

**Note 5: Income Taxes**

The Organization is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and similar state statutes. Germanic-American Institute files informational returns in the United States federal jurisdiction and in the Minnesota state jurisdiction. In addition, the Organization files tax returns in relation to their unrelated business income.

Income taxes are provided for the tax effects of unrelated business transactions for the Organization and consist of taxes currently due. The Organization has income from catering services which may be subject to unrelated business income tax. There was no income tax expense related to unrelated business income in years ending June 30, 2020 and 2019.

As of June 30, 2020, there were no material amounts of income tax related accrued interest or penalties recognized in either the statement of financial position or statement of activities. All returns for Germanic-American Institute prior to fiscal year ending June 30, 2017 are closed. No returns are currently under examination in any tax jurisdiction.

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**Note 6: Fair Value Measurements**

Fair value measurement accounting literature establishes a fair value hierarchy based on the priority of the inputs to the valuation methodologies used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

**Level 1** - Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Organization has the ability to access.

**Level 2** - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in inactive markets
- Inputs other than quoted prices that are observable for the asset or liability
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

**Level 3** - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2020.

*Mutual Funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held are deemed to be actively traded.

The Organization's investments reported at fair value in the accompanying statements of financial position consist of the following at June 30:

|                                      | <u>Fair Value</u> | <u>Level 1</u>   |
|--------------------------------------|-------------------|------------------|
| June 30, 2020                        |                   |                  |
| Equity mutual funds                  |                   |                  |
| Balance funds                        | \$ 38,214         | \$ 38,214        |
| Growth funds                         | 51,434            | 51,434           |
| Invested cash                        | <u>3,419</u>      | <u>3,419</u>     |
| Total Endowment Cash and Investments | <u>\$ 93,067</u>  | <u>\$ 93,067</u> |
| June 30, 2019                        |                   |                  |
| Equity mutual funds                  |                   |                  |
| Balance funds                        | \$ 30,026         | \$ 30,026        |
| Growth funds                         | 41,442            | 41,442           |
| Invested cash                        | <u>18,433</u>     | <u>18,433</u>    |
| Total Endowment Cash and Investments | <u>\$ 89,901</u>  | <u>\$ 89,901</u> |



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**Note 7: Net Assets with Donor Restriction**

**A. Net Assets with a Temporary Restriction**

Net assets with donor restriction consisted of the following at June 30:

|   | 2020           | 2019          |
|---|----------------|---------------|
| Legacy Giving Fund - Haus and Grounds       | \$ 86,691      | \$ 69,580     |
| Legacy Giving Fund - Education              | 10,139         | 7,774         |
| Elevator fund                               | 3,133          | 3,132         |
| Podcast fund                                | 2,310          | -             |
| <br>Total Net Assets with Donor Restriction | <br>\$ 102,273 | <br>\$ 80,486 |

Legacy Giving Fund

The Legacy Giving Fund was established in fiscal year 2010 and consists of contributions with donor restriction for Haus repairs/updates and educational programs. Contributions to the Legacy Giving Fund for general operations/cultural programs are considered unrestricted. The earnings on the Legacy Giving Fund account are also unrestricted and may be used by the Organization at the discretion of the Board of Directors. Expenditures of \$59,634 and \$87,660 were incurred for the restricted Legacy Giving Fund activities in 2020 and 2019, respectively.

**A. Net Assets with a Permanent Restriction**

The Organization holds certain funds in net assets with donor restriction. These funds were received from donors with a permanent restriction designation, and are to provide for the long-term financial stability of the Organization.

Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as 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 Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. In accordance with UPMIFA, the Organization 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 Organization and 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 Organization
- (7) The investment policies of the Organization

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**Note 7: Net Assets with Donor Restriction (Continued)**

**B. Net Assets with a Permanent Restriction Designation (Continued)**

Endowment Composition and Changes in Endowment Net Assets

Endowment net asset composition by type of fund:

*Permanently Restricted*

|                             | <u>Amount</u>           |
|-----------------------------|-------------------------|
| Balance as of June 30, 2018 | \$ 75,092               |
| Contributions               | <u>1,292</u>            |
| Balance as of June 30, 2019 | 76,384                  |
| Contributions               | <u>-</u>                |
| Balance as of June 30, 2020 | <u><u>\$ 76,384</u></u> |

According to the donor restrictions, the portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA is \$76,384 and \$76,384 at June 30, 2020 and 2019, respectively.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Board of Directors has sole discretion as to the investment and reinvestment of the assets of endowment funds. The primary investment objective of these accounts is capital preservation. Accordingly, such funds are invested in two mutual funds in addition to maintaining a small portion in a savings account. The interest and gains on the endowment funds are permanently restricted until the fund's balance exceeds \$50,000, at which time the earnings are considered unrestricted income.

**Note 8: Operating Leases**

The Organization has an operating lease, expiring August 31, 2018, for space in which it conducts certain aspects of its Kinderstube operations. Rent expense was \$24,800 and \$28,600 in 2020 and 2019, respectively. In June 2018, the Organization renewed this lease for an additional 36 months commencing September 2018. Future minimum annual lease payments under these operating leases are \$63,400 at June 30, 2020.

**Note 9: Concentration of Credit Risk**

The Organization maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. The Organization has not experienced any losses in such accounts.

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**Note 10: Liquidity and Availability of Resources**

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, comprise the following:

|   | 2020       | 2019       |
|---|------------|------------|
| Cash and cash equivalents   | \$ 358,895 | \$ 273,662 |
| Investments   | 93,067     | 89,901     |
| Accounts receivable   | 4,055      | 17,217     |
| Pledges receivables   | -          | 1,424      |
| Total Financial Assets Available Within One Year  | 456,017    | 382,204    |
| Less: amounts unavailable for general expenditures within one year, due to:               |            |            |
| Donor restrictions  | (178,657)  | (156,778)  |
| Financial Assets Available to Meet Cash Needs<br>for General Expenditures Within One Year | \$ 277,360 | \$ 225,426 |

As part of our liquidity management, the Organization structures its financial assets to be available as its general expenditures, liabilities and other obligations become due. The Organization has a line of credit it can draw upon if the need arises.

**Note 11: COVID-19**

In December 2019, a novel strain of coronavirus (COVID-19) surfaced. The spread of COVID-19 around the world during 2020 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, the Organization is unable to determine if it will have a material impact to its operations.