

MAINSRING SCHOOLS

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**

YEARS ENDED AUGUST 31, 2020 AND 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Mainspring Schools
Austin, Texas

We have audited the accompanying financial statements of Mainspring Schools, which comprise the statements of financial position as of August 31, 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 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 of 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 Mainspring Schools as of August 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Gindler, Chappell, Morrison & Co., P.C.

Austin, Texas

February 2, 2021

FINANCIAL STATEMENTS

MAINSPRINGS SCHOOLS

STATEMENTS OF FINANCIAL POSITION

August 31, 2020 and 2019

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 543,263	\$ 359,993
Investments	351,664	319,141
Current receivables, net	254,287	270,470
Prepaid expenses	22,226	3,027
Total current assets	1,171,440	952,631
Fixed assets		
Building	163,358	163,358
Leashold improvements	44,329	16,329
Equipment	100,138	54,828
Less accumulated depreciation	(118,542)	(88,542)
Net fixed assets	189,283	145,973
Long-term receivables, net	40,000	-
Other assets		
Cash - restricted for endowment fund	1,060	1,060
Total other assets	1,060	1,060
Total assets	\$ 1,401,783	\$ 1,099,664
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 19,872	\$ 28,209
Payroll accrual	57,376	60,259
Vacation accrual	30,844	30,869
Deferred revenue	7,041	11,783
Total current liabilities	115,133	131,120
Loaned child care equipment	339	1,697
Total liabilities	115,472	132,817
Net assets		
Without donor restrictions	951,062	702,896
With donor restrictions	335,249	263,951
Total net assets	1,286,311	966,847
Total liabilities and net assets	\$ 1,401,783	\$ 1,099,664

See accompanying Notes to Financial Statements.

MAINSPRINGS SCHOOLS

STATEMENTS OF ACTIVITIES

Year Ended August 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT			
Grants and contracts	\$ 131,975	\$ 639,790	\$ 771,765
Program service fees	888,577	-	888,577
Contributions	207,973	107,366	315,339
Contributed goods and services	90,353	-	90,353
Investment income (loss)	35,646	-	35,646
Net assets released from donor imposed restrictions	<u>675,858</u>	<u>(675,858)</u>	<u>-</u>
Total revenues and other support	<u>2,030,382</u>	<u>71,298</u>	<u>2,101,680</u>
EXPENSES			
Program services	1,363,501	-	1,363,501
Supporting services:			
Management and general	345,801	-	345,801
Fund raising	<u>72,914</u>	<u>-</u>	<u>72,914</u>
Total expenses	<u>1,782,216</u>	<u>-</u>	<u>1,782,216</u>
CHANGE IN NET ASSETS	248,166	71,298	319,464
NET ASSETS			
Beginning of year	<u>702,896</u>	<u>263,951</u>	<u>966,847</u>
End of year	<u>\$ 951,062</u>	<u>\$ 335,249</u>	<u>\$ 1,286,311</u>

See accompanying Notes to Financial Statements.

MAINSPRINGS SCHOOLS

STATEMENTS OF ACTIVITIES – continued

Year Ended August 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT			
Grants and contracts	\$ 164,348	\$ 353,250	\$ 517,598
Program service fees	1,101,009	-	1,101,009
Contributions	78,963	21,309	100,272
Contributed goods and services	64,256	-	64,256
Fund raising events	181,503	-	181,503
Less direct benefit to donors	(28,096)	-	(28,096)
Net fund raising activities	153,407	-	153,407
Investment income (loss)	4,978	-	4,978
Other income	745	-	745
Net assets released from donor imposed restrictions	358,752	(358,752)	-
Total revenues and other support	1,926,458	15,807	1,942,265
EXPENSES			
Program services	1,328,839	-	1,328,839
Supporting services:			
Management and general	338,367	-	338,367
Fund raising	50,084	-	50,084
Total expenses	1,717,290	-	1,717,290
CHANGE IN NET ASSETS	209,168	15,807	224,975
NET ASSETS			
Beginning of year	493,728	248,144	741,872
End of year	\$ 702,896	\$ 263,951	\$ 966,847

See accompanying Notes to Financial Statements.

MAINSPRINGS SCHOOLS

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended August 31, 2020

EXPENSES	Program Services	Supporting Services		Total
		Management & General	Fund Raising	
Staff leasing expense:				
Salaries and wages	\$ 994,898	\$ 198,139	\$ 52,281	\$ 1,245,318
Payroll taxes	72,309	17,298	3,531	93,138
Benefits	86,825	22,463	5,218	114,506
Total staff leasing expenses	1,154,032	237,900	61,030	1,452,962
Direct program services:				
Kitchen supplies	27,032	-	-	27,032
Assistance to individuals	18,447	-	-	18,447
Classroom supplies	18,413	-	-	18,413
Staff and volunteer appreciation	12,163	-	-	12,163
Staff training	3,540	-	-	3,540
Total direct program services	79,595	-	-	79,595
Other expenses:				
Occupancy costs	49,038	57,201	-	106,239
Professional fees	24,888	11,550	2,927	39,365
Depreciation	13,712	14,930	-	28,642
Office	12,030	3,464	4,219	19,713
Bad debt	17,011	-	-	17,011
Maintenance and repairs	6,106	8,679	-	14,785
Marketing and development	2,069	257	4,410	6,736
Dues and fees	4,537	1,628	324	6,489
Insurance	483	5,960	-	6,443
Telephone and internet	-	4,232	-	4,232
Fundraising	-	-	4	4
Total other expenses	129,874	107,901	11,884	249,659
Total expenses	\$ 1,363,501	\$ 345,801	\$ 72,914	\$ 1,782,216

See accompanying Notes to Financial Statements.

MAINSPRINGS SCHOOLS

STATEMENTS OF FUNCTIONAL EXPENSES – continued

Year Ended August 31, 2019

EXPENSES	Program Services	Supporting Services		Total
		Management & General	Fund Raising	
Staff leasing expense:				
Salaries and wages	\$ 977,662	\$ 181,612	\$ 14,948	\$ 1,174,222
Payroll taxes	80,911	14,049	790	95,750
Benefits	59,987	21,146	4,698	85,831
Total staff leasing expenses	1,118,560	216,807	20,436	1,355,803
Direct program services:				
Kitchen supplies	40,883	-	-	40,883
Assistance to individuals	4,008	-	-	4,008
Classroom supplies	33,373	-	-	33,373
Staff and volunteer appreciation	14,759	-	-	14,759
Staff training	10,279	-	-	10,279
Grant specific activities	3,557	-	-	3,557
Total direct program services	106,859	-	-	106,859
Other expenses:				
Occupancy costs	29,551	84,727	-	114,278
Professional fees	30,055	10,950	21,688	62,693
Depreciation	11,554	5,273	-	16,827
Office	12,855	1,415	2,790	17,060
Bad debt	4,506	-	-	4,506
Maintenance and repairs	6,656	6,723	-	13,379
Marketing and development	2,241	532	165	2,938
Dues and fees	5,662	2,014	324	8,000
Insurance	330	5,712	-	6,042
Telephone and internet	10	4,214	-	4,224
Fundraising	-	-	4,681	4,681
Total other expenses	103,420	121,560	29,648	254,628
Total expenses	\$ 1,328,839	\$ 338,367	\$ 50,084	\$ 1,717,290

See accompanying Notes to Financial Statements.

MAINSPRINGS SCHOOLS

STATEMENTS OF CASH FLOWS

Years Ended August 31, 2020 and 2019

	2020	2019
CASH FLOWS PROVIDED BY (USED BY) OPERATING ACTIVITIES		
Change in net assets	\$ 319,464	\$ 224,975
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	28,642	16,827
Donated fixed assets	(28,000)	(2,403)
(Gain) loss on sale of assets	-	(745)
Unrealized and realized (gain) loss on investments	(28,856)	495
Bad debt	17,011	4,506
(Increase) decrease in operating assets:		
Receivables	(40,828)	(52,824)
Prepaid expenses	(19,199)	1,899
Increase (decrease) in operating liabilities:		
Accounts payable	(8,487)	(11,047)
Payroll accrual	(2,883)	16,129
Vacation accrual	(25)	14,773
Deferred revenue	(4,742)	6,468
Net cash provided by (used by) operating activities	232,097	219,053
CASH FLOWS PROVIDED BY (USED BY) INVESTING ACTIVITIES		
Purchase of fixed assets	(45,310)	(16,195)
Proceeds from sale of assets	-	745
Purchase of investments	(140,199)	(142,646)
Proceeds from investments	136,532	132,368
Net cash provided by (used by) investing activities	(48,977)	(25,728)
CASH FLOWS PROVIDED BY (USED BY) FINANCING ACTIVITIES		
Proceeds from line of credit	150	200
Payments to line of credit	-	(200)
Long-term debt borrowed	10,000	-
Net cash provided by (used by) financing activities	10,150	-
NET INCREASE (DECREASE) IN CASH	193,270	193,325
CASH, CASH EQUIVALENTS AND RESTRICTED CASH		
Beginning of year	361,053	167,728
End of year	\$ 554,323	\$ 361,053
Supplemental Information		
Interest Paid	\$ -	\$ 2
Disposal of fully depreciated assets	\$ -	\$ 2,950

See accompanying Notes to Financial Statements.

MAINSRING SCHOOLS
NOTES TO FINANCIAL STATEMENTS
Years Ended August 31, 2020 and 2019

NOTE 1: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

Mainspring Schools (the “Organization” or the “School”) was organized under the State of Texas Non-Profit Corporation Act. Mainspring Schools provide highly-accredited early education and care to the community's most disadvantaged children. The School also provides parenting skills education in order to build even greater success for children and families.

The Organization is exempt from Federal income tax under Internal Revenue Code Section 501(c)(3) for income related to its exempt purpose. The Organization is classified by the Internal Revenue Service as an organization other than a private foundation.

Summary of Significant Accounting Policies

Accounting 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.

Basis of Accounting: The financial statements have been prepared on the accrual basis of accounting, which includes recognition of revenues and support and accounts receivables as funds are earned and expenses and accounts payable as obligations are incurred. Contributions are recognized as support when the donor makes a promise to give that is, in substance, unconditional. Promises to give that cover several years are reported at their present value. Contributions that are restricted by the donor are considered conditional promises to give and are reported as temporarily restricted until such time as the donor imposed restriction is satisfied. Generally, restrictions stipulated by donor determine how the Organization may use the funds.

Adopted Accounting Pronouncements: In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The Organization adopted the provisions of this new standard during the year ended August 31, 2019.

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The Organization adopted the provisions of this new standard during the year ended August 31, 2020. The ASU has been applied retrospectively to 2019.

Net Assets Classes: The Organization reports the following net assets classes.

Net Assets without Donor Restrictions: These net assets generally result from revenues generated by receiving contributions that have no donor restrictions, providing services, and receiving interest from operating investments, less expenses incurred in providing program-related services, raising contributions, and performing administrative functions. While these resources are reported as unrestricted, an organization manages them in compliance with its exempt purposes, governing board designations, legal requirements, and contractual obligations.

Net Assets with Donor Restrictions: These net assets result from gifts of cash and other assets that are received with donor stipulations that limit the use of the donated assets, either temporarily or permanently, until the donor restriction expires, that is until the stipulated time restriction ends or the purpose of the restriction is accomplished, the net assets are restricted.

MAINSRING SCHOOLS
NOTES TO FINANCIAL STATEMENTS - Continued
Years Ended August 31, 2020 and 2019

NOTE 1: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Fair Value Measurements: Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Organization measures and discloses fair value measurements in accordance with the following general valuation techniques.

Market approach (Level 1) - uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources;

Cost approach (Level 2) - based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and

Income approach (Level 3) - uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

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 August 31, 2020 and 2019.

Cash Equivalents – Money market funds valued at the closing price reported on the active markets in which the securities are traded at fiscal year-end.

Investments – Stocks, options and ETFs valued at quoted market prices in active markets.

Changes in fair value of financial instruments and unrealized gains or losses on financial instruments are reported in the statement of activities. Investment income is reported as an increase in unrestricted net assets unless a donor or law temporarily or permanently restricts their use.

Cash, Cash Equivalents, and Restricted Cash: For purposes of the statement of cash flows, cash and cash equivalents includes cash on hand, amounts held in checking and savings accounts, and cash equivalents associated with an investment account.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows.

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 543,263	\$ 359,993
Cash - restricted for endowment fund	<u>1,060</u>	<u>1,060</u>
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	<u>\$ 544,323</u>	<u>\$ 361,053</u>

MAINSRING SCHOOLS
NOTES TO FINANCIAL STATEMENTS - Continued
Years Ended August 31, 2020 and 2019

NOTE 1: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

The Organization has cash in financial institutions that is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each institution for the interest-bearing accounts. Cash equivalents, other securities, and limited amounts of cash held in brokerage accounts are protected by the Securities Investor Protection Corporation (SIPC) in the event of broker-dealer failure, up to \$500,000 of protection for each brokerage accounts with a limit of \$250,000 for claims of uninvested cash balances. The SIPC insurance does not protect against market losses on investments. At times throughout the year, the balances may exceed the insured amount. The Organization considers its funds to be in high quality financial institutions and constantly monitors its financial positions with the institutions and does not anticipate any nonperformance by the institutions. At year end 2020 and 2019, cash balances exceeded the insurance coverage by approximately \$131,157 and \$-0-, respectively.

Receivables: Receivables consist of amounts due the Organization from grants, contracts, and tuition. Grants and contracts consist of amounts awarded to the Organization for specific programs, and the amounts are recognized based on the terms of the grants and contracts, including amounts earned and billed under cost reimbursement agreements. Interest is not charged on receivables, nor is collateral required. The Organization provides for an allowance for uncollectible amounts, and delinquency is based on collection experience with the grantor, the age of the receivable and management's analysis of the specific receivable. It is the Organization's policy to charge off uncollectible accounts receivable against the allowance when management determines the receivable will not be collected. The allowance for uncollectible accounts reported in the financial statements is considered an accounting estimate. The estimate may be adjusted as more current information becomes available and any adjustments could be significant.

Fixed Assets: Fixed assets are capitalized at cost if the value of the item is more than \$1,000 and the estimated useful service life is more than one year. Donations of fixed assets are recorded as support at their estimated fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as temporarily restricted support. In the absence of such stipulations, contributions of fixed assets are recorded as unrestricted support. Depreciation expense is computed over the estimated useful service life of the asset (3-5 years for furniture and equipment and 7 years for vehicles) using the straight line method of computation. Depreciation expense and accumulated depreciation are considered accounting estimates. The estimate may be adjusted as more current information becomes available and any adjustment could be significant.

Maintenance and repairs are reported as the expense is incurred. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. During the year, the Organization did not adjust the carrying amount of any fixed assets.

Revenue and Other Support: The Organization receives revenue and other support from various sources. The significant sources are as follows:

Grants, Contracts, and Contributions: Grants and contracts are recognized as revenue based on the terms of each agreement. Contributions and promises to give are recorded when the amount is promised to the Organization. Funding that is without any conditions are considered unconditional promises to give. Such funding is reported as support when the funding is awarded. Grants and contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Mainspring Schools has grants and contracts with funding sources that are considered conditional promises to give or cost reimbursement contracts. Revenue on these types of grants and contracts are reported when the conditions specified are met. Generally, the conditions to be met are compliance with delivery of specific program services within certain budgetary requirements.

MAINSRING SCHOOLS
NOTES TO FINANCIAL STATEMENTS - Continued
Years Ended August 31, 2020 and 2019

NOTE 1: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Program Service Fees and Fundraising Events: Program service fees and fundraising events are recorded when funds are considered earned, regardless of when cash is received. Program service fees, which consists mainly of tuition, are earned when the services are performed. Fundraising event income, which includes sponsorships, tickets, and funds raised during the events, is recorded when the event takes place. Amounts received in advance from program service fees or fundraising events are recorded as deferred revenue.

Contributed Goods and Services: Contributed goods are reported as support if the goods can be used in conducting the program services of the Organization. Contributed services are reported as support if the services either (a) create or enhance a nonfinancial asset or (b) require specialized skills, (c) are provided by those possessing those skills, and (d) would otherwise need to be purchased if they were not donated. The value of the contributed goods and services reported are based on information provided by the funding sources, as well as management's estimate in the absence of donor information. The estimates may be adjusted as more current information becomes available and any adjustment could be significant.

Expenses: The Organization records expenses when an obligation is incurred, regardless of when cash is disbursed. All expenses are reported as reductions in unrestricted net assets.

Income taxes: The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization believes it is no longer subject to examination by the IRS for years prior to 2016.

Allocation of Costs: Mainsprings Schools allocates common costs between program services, management and general and fund raising by estimating employee costs related to the Organization's program activities. The estimates are reviewed periodically and the allocations revised, if necessary, to reflect changes in the activities of the Organization. The allocation of costs is considered an accounting estimate. The estimate may be adjusted as more current information becomes available and any adjustment could be significant.

Reclassifications: Certain reclassifications have been made to the 2019 financial statement presentation to conform to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

Subsequent Events: Management has evaluated subsequent events through the date of the *Independent Auditor's Report*, which is the date the financial statements were available to be issued.

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact the Organization. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of multiple businesses. While, the disruption is currently expected to be temporary, the extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and the impact on the Organization's clients, funders, employees and vendors, which are uncertain and cannot be predicted.

MAINSRING SCHOOLS
NOTES TO FINANCIAL STATEMENTS - Continued
Years Ended August 31, 2020 and 2019

NOTE 2: RECEIVABLES

Receivables reported in the financial statements consist of the following at August 31:

	<u>2020</u>	<u>2019</u>
Amounts due within one year:		
Grants and contracts receivable	\$ 230,500	\$ 202,587
Tuition receivable	25,649	75,426
Other receivables	703	-
Allowance for uncollectable	<u>(2,565)</u>	<u>(7,543)</u>
	254,287	270,470
Amounts due in two to five years:		
Grants and contracts receivable	<u>40,000</u>	<u>-</u>
Total receivables	<u>\$ 294,287</u>	<u>\$ 270,470</u>

Management believes the present value of amounts due beyond one year approximates their recorded value, therefore no discounts are recorded. At August 31, 2020 and 2019, no receivables were considered past due. As of August 31, 2020 and 2019, allowance for uncollectible amounts was \$2,565 and \$7,543, respectively. The allowance for uncollectible is considered accounting estimate. The estimates may be adjusted as more current information become available and any adjustment could be significant.

NOTE 3: FINANCIAL INSTRUMENTS AND INVESTMENT INCOME

Detail of financial instruments recorded at fair value using the designated level inputs are the following at year-end:

<u>August 31, 2020</u>	<u>Total</u>	<u>Fair Value Measurement</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Stocks, options and ETFs	\$ 351,664	\$ 351,664	\$ -	\$ -
Cash equivalents				
Mutual funds	<u>152,266</u>	<u>152,266</u>		
Total	<u>\$ 503,930</u>	<u>\$ 503,930</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Fair Value Measurement</u>				
<u>August 31, 2019</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Stocks, options and ETFs	\$ 319,141	\$ 319,141	\$ -	\$ -
Cash equivalents				
Mutual funds	<u>150,278</u>	<u>150,278</u>		
Total	<u>\$ 469,419</u>	<u>\$ 469,419</u>	<u>\$ -</u>	<u>\$ -</u>

MAINSRING SCHOOLS
NOTES TO FINANCIAL STATEMENTS - Continued
Years Ended August 31, 2020 and 2019

NOTE 3: FINANCIAL INSTRUMENTS AND INVESTMENT INCOME - continued

Components of investment income consist of the following for the years ended August 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Interest	\$ 94	\$ 300
Dividends	9,628	7,388
Realized gain (loss) on investments	-	-
Unrealized gain on investments	28,856	(495)
Investment expenses	<u>(2,932)</u>	<u>(2,215)</u>
Investment income	<u>\$ 35,646</u>	<u>\$ 4,978</u>

NOTE 4: LINE OF CREDIT

The Organization maintains a credit card with a financial institution with a line of credit of \$60,000. The funds are available to be drawn as needed with the intent that the funds be drawn for operating cash flow needs. The line of credit accrues interest at a variable rate with a year-end 2020 and 2019 interest rate of 12.5% and 12.5%, respectively. At August 31, 2020 and 2019, there was a balance of \$150 and \$-0-, respectively, which is included in accounts payable.

NOTE 5: LONG-TERM DEBT

The Organization entered into a promissory note in April 2020 for \$231,790 under the terms and conditions of the Paycheck Protection Program of the United States Small Business Administration (SBA) and the CARES Act, which enacted in April 2020. The note bears interest of 1%, and is payable in monthly installments of principal and interest beginning in November 2020 through April 2022. The provisions of the loan allow for the loan to be forgiven if certain conditions are met before repayment begins.

The Paycheck Protection Flexibility Act of 2020, P.L. 116-142, extended the deferral period for loan payments to either (1) the date that SBA remits the borrower's loan forgiveness amount to the lender or (2) if the borrower does not apply for loan forgiveness, 10 months after the end of the borrower's loan forgiveness covered period.

In April 2020, The Organization also received a \$10,000 Economic Injury Disaster Loan (EIDL) Advance. SBA is required to reduce the borrower's loan forgiveness amount by the amount of the EIDL Advance. This amount is recorded as long-term debt on the statement of financial position. In January 2021, the Supplemental Appropriations Act of 2021 repealed the provision to reduce the forgivable amount by the amount of the EIDL Advance.

The Organization believes it met the conditions for the loan to be forgiven, and recorded the amount as grant income for the year ended August 31, 2020. In October 2020, the Organization applied for loan forgiveness of the balance of the loan.

NOTE 6: RELATED PARTY TRANSACTIONS

In addition to services relating to their function as board members, the board of directors contributed \$63,776 and \$62,493 to the Organization for the years ended August 31, 2020 and 2019, respectively.

MAINSRING SCHOOLS
NOTES TO FINANCIAL STATEMENTS - Continued
Years Ended August 31, 2020 and 2019

NOTE 7: CONCENTRATIONS

For the years ended August 31, 2020 and 2019, approximately 13% and 19%, respectively, of the Organization's revenue was earned under an agreement with Early Head Start. For the years ended August 31, 2020 and 2019, approximately 15% and 21%, respectively, of the Organization's revenue was earned under an agreement with WorkForce Solutions (WorkForce). For the year ended August 31, 2020, approximately 11% of the Organization's revenue was earned under an agreement with the U.S. Small Business Administration (SBA). Additionally, at August 31, 2020 and 2019, three grantors compromised 92% and 79%, respectively, of the total receivable balance. In the event funding from a source is terminated, management believes the business model could readily be adjusted to meet the needs of the Organization.

NOTE 8: COMMITMENTS AND CONTINGENCIES

Operating leases: Mainspring Schools is obligated under leases for office space, day care facilities, and a copier. For accounting purposes, the leases are treated as operating leases. Future obligations represented by operating leases are not reported in financial statements. Rental payments under operating leases for 2020 and 2019 were \$13,821 and \$12,135, respectively.

In July 2015, the Organization entered into an agreement, including the rental of facilities, whereby Mainspring will provide services to children in specified areas, and will receive the use of the facilities for a nominal amount. The Organization began using the facilities in June 2016. The Organization recognized in-kind contributions and occupancy costs of \$60,000 and \$60,000 for the years ended August 31, 2020 and 2019, respectively. The nominal amount of rent is included in the future minimum rental payments. The fair value of the donated facility is recognized during the year in which the Organization receives the benefit.

Future minimum rental payments under operating leases are the following: 2021 - \$10,851, 2022 - \$7,620, 2023 - \$7,620, 2024 - \$7,620, 2025 - \$7,620 and thereafter - \$14,605.

NOTE 9: NET ASSETS WITH DONOR RESTRICTIONS

During 2020 and 2019, net assets of \$675,858 and \$358,752, respectively were released from accompanying stipulations due to the Organization's action and are considered net assets released from donor imposed restrictions and are reported as transfers from net assets with donor restrictions to net assets without donor restrictions in the financial statements.

Net assets with donor restrictions are restricted for the following purposes or periods:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
General Programs	\$ 66,240	\$ 110,562
Other Programs	267,949	152,329
	<u>334,189</u>	<u>262,891</u>
Endowments:		
Not subject to spending policy or appropriation:		
Permanently restricted to general endowment	1,060	1,060
	<u>1,060</u>	<u>1,060</u>
	<u>\$ 335,249</u>	<u>\$ 263,951</u>

MAINSRING SCHOOLS
NOTES TO FINANCIAL STATEMENTS - Continued
Years Ended August 31, 2020 and 2019

NOTE 10: ENDOWMENT

The Endowment Fund of Mainspring Schools consists of gifts from individual donors. The endowment includes donor-restricted endowment funds only. The funds are not kept in a separate bank account. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law: The Board of Directors of the Organization have interpreted the TUPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the gift absent explicit donor stipulations to the contrary. The Organization classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. The earnings related to the endowment fund is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by TUPMIFA.

In accordance with TUPMIFA, 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

Funds with Deficiencies: From time to time the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) requires the Organization retain as a fund of perpetual duration. There were no such deficiencies at August 31, 2020 or 2019.

Investment Objectives: The Organization's investment strategy is to emphasize a balanced return of current income and growth of principal (from capital appreciation and dividend interest income) while managing administrative costs and preserving capital in real dollars. The Organization's policy calls for 1) preservation of capital 2) risk aversion and 3) adherence to investment discipline.

Spending Policy and How the Investment Objectives Related to the Spending Policy: The Organization's spending policy allows income generated from endowment funds be used for operations. This is consistent with the preservation of capital objective.

MAINSRING SCHOOLS
NOTES TO FINANCIAL STATEMENTS - Continued
Years Ended August 31, 2020 and 2019

NOTE 10: ENDOWMENT - continued

During 2020 and 2019, the Organization had the following donor-restricted endowment fund activities:

<u>August 31, 2020</u>	Without Donor Restrictions	With Donor Restrictions		Total
		Temporarily Restricted	Permanently Restricted	
Endowment, beginning of year	\$ -	\$ -	\$ 1,060	\$ 1,060
Endowment, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,060</u>	<u>\$ 1,060</u>

<u>August 31, 2019</u>	Without Donor Restrictions	With Donor Restrictions		Total
		Temporarily Restricted	Permanently Restricted	
Endowment, beginning of year	\$ -	\$ -	\$ 1,060	\$ 1,060
Endowment, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,060</u>	<u>\$ 1,060</u>

NOTE 11: LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 479,574	\$ 292,727
Investments	351,664	319,141
Receivables, program and other cost reimbursements	<u>23,787</u>	<u>74,845</u>
Available without restriction within one year	<u>\$ 855,025</u>	<u>\$ 686,713</u>

As part of the Organization's liquidity management plan, we have a policy to structure financial assets to ensure availability as general expenditures, liabilities, and other obligations come due.

In August 2016, the Board of Directors approved the designation of \$20,000 to assist in continuing childcare when an enrolled family has a temporary financial hardship. Assistance is determined on a case-by-case basis. The funds are not maintained separately from operating funds, and the Board can elect to modify the designation at any time. Designated funds at August 31, 2020 and 2019 was \$7,908 and \$12,937, respectively.

MAINSRING SCHOOLS
NOTES TO FINANCIAL STATEMENTS - Continued
Years Ended August 31, 2020 and 2019

NOTE 12: CONTRIBUTED GOODS AND SERVICES

The Organization receives contributions of goods and services that are reported as support in the financial statements. The activities benefiting from the contributions for the years ended August 31, 2020 and 2019 are as follows:

	2020			
	<u>Program Services</u>	<u>Management & General</u>	<u>Fund Raising</u>	<u>Total</u>
Contributed facilities:				
Day care center	\$ 60,000	\$ -	\$ -	\$ 60,000
Contributed goods:				
Flooring	28,000	-	-	28,000
Assistance to individuals	1,064	-	-	1,064
Supplies	1,289	-	-	1,289
Totals	<u>\$ 90,353</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 90,353</u>
	2019			
	<u>Program Services</u>	<u>Management & General</u>	<u>Fund Raising</u>	<u>Total</u>
Contributed facilities:				
Day care center	\$ 60,000	\$ -	\$ -	\$ 60,000
Contributed goods:				
Assistance to individuals	1,853	-	-	1,853
Supplies	2,403	-	-	2,403
Totals	<u>\$ 64,256</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,256</u>