

THINK SMALL
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

**THINK SMALL
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YEARS ENDED JUNE 30, 2019 AND 2018**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Think Small
St. Paul, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Think Small, which comprise the statements of financial position as of June 30, 2019 and 2018, 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.

Auditors' 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 auditors' 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 Think Small as of June 30, 2019 and 2018, 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The statement of changes in net assets by program – unaudited, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 4, 2019

THINK SMALL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 990,744	\$ 1,020,038
Accounts Receivable - Trade, Net	641,969	664,684
Program Receivables - Net	3,637,403	4,759,915
Pledges Receivable	191,025	338,300
Prepaid Expenses	125,800	176,217
Inventory, Net	488,884	583,800
Total Current Assets	6,075,825	7,542,954
NONCURRENT ASSETS		
Investments	1,700,024	1,605,014
Capitalized Development Costs, Net	1,168,509	1,291,908
Intangible Assets, Net	6,048	8,389
Security Deposits	13,500	13,500
Pledges Receivable	-	113,650
Property and Equipment, Net	1,035,934	1,097,577
Total Noncurrent Assets	3,924,015	4,130,038
Total Assets	\$ 9,999,840	\$ 11,672,992
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Portion of Note Payable	\$ 23,616	\$ 22,716
Accounts Payable	3,575,760	3,233,078
Accrued Salary and Related Taxes	457,808	507,973
Other Accrued Expenses	832,633	1,370,965
Contract Advances	941,681	920,000
Deferred Revenue	35,844	57,363
Total Current Liabilities	5,867,342	6,112,095
LONG-TERM NOTE PAYABLE	164,899	188,515
Total Liabilities	6,032,241	6,300,610
NET ASSETS		
Net Assets Without Donor Restrictions	3,691,206	4,034,628
Net Assets With Donor Restrictions	276,393	1,337,754
Total Net Assets	3,967,599	5,372,382
Total Liabilities and Net Assets	\$ 9,999,840	\$ 11,672,992

See accompanying Notes to Financial Statements.

**THINK SMALL
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019		Total
	Without Donor Restrictions	With Donor Restrictions	
REVENUES AND SUPPORT			
Contributions	\$ 348,432	\$ 114,435	\$ 462,867
In-Kind Contributions	1,120	-	1,120
Government Contracts	28,517,473	-	28,517,473
Other Contracts	1,220,652	-	1,220,652
Program Service Fees	364,311	-	364,311
Publication Sales	3,297,797	-	3,297,797
Interest and Dividends	242	-	242
Gains on Investments	107,077	-	107,077
Other Revenue	70,311	-	70,311
Net Assets Released from Restriction Upon Satisfaction of Time and Program Restrictions	1,175,796	(1,175,796)	-
Total Revenues and Support	35,103,211	(1,061,361)	34,041,850
EXPENSES			
Program Expenses:			
Prepare Providers	7,945,677	-	7,945,677
Strengthen Families	25,514,045	-	25,514,045
Catalyze Change	320,333	-	320,333
Total Program Expenses	33,780,055	-	33,780,055
Support Services:			
Management and General	1,316,426	-	1,316,426
Fundraising	350,152	-	350,152
Total Support Services	1,666,578	-	1,666,578
Total Expenses	35,446,633	-	35,446,633
CHANGE IN NET ASSETS	(343,422)	(1,061,361)	(1,404,783)
Net Assets - Beginning of Year	4,034,628	1,337,754	5,372,382
NET ASSETS - END OF YEAR	\$ 3,691,206	\$ 276,393	\$ 3,967,599

See accompanying Notes to Financial Statements.

**THINK SMALL
STATEMENTS OF ACTIVITIES (CONTINUED)
YEARS ENDED JUNE 30, 2019 AND 2018**

2018		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 442,447	\$ 1,456,330	\$ 1,898,777
2,160	-	2,160
28,155,490	-	28,155,490
828,191	-	828,191
433,632	-	433,632
3,450,718	-	3,450,718
1,368	-	1,368
78,709	-	78,709
90,239	-	90,239
<u>1,596,994</u>	<u>(1,596,994)</u>	<u>-</u>
35,079,948	(140,664)	34,939,284
8,303,672	-	8,303,672
25,251,588	-	25,251,588
<u>241,687</u>	<u>-</u>	<u>241,687</u>
33,796,947	-	33,796,947
1,236,383	-	1,236,383
<u>358,896</u>	<u>-</u>	<u>358,896</u>
1,595,279	-	1,595,279
<u>35,392,226</u>	<u>-</u>	<u>35,392,226</u>
(312,278)	(140,664)	(452,942)
<u>4,346,906</u>	<u>1,478,418</u>	<u>5,825,324</u>
<u>\$ 4,034,628</u>	<u>\$ 1,337,754</u>	<u>\$ 5,372,382</u>

See accompanying Notes to Financial Statements.

THINK SMALL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	2019						
	Program				Management and General	Fundraising	Total
	Prepare Providers	Strengthen Families	Catalyze Change	Total Program			
Salaries	\$ 2,436,859	\$ 1,641,928	\$ 147,337	\$ 4,226,124	\$ 715,458	\$ 240,672	\$ 5,182,254
Payroll Taxes	180,701	111,740	16,816	309,257	50,677	17,080	377,014
Employee Benefits	330,456	217,476	24,465	572,397	72,160	21,891	666,448
Total Salaries and Benefits	2,948,016	1,971,144	188,618	5,107,778	838,295	279,643	6,225,716
Contract Services	376,310	53,284	101,885	531,479	257,102	14,175	802,756
Travel	72,115	5,034	7,153	84,302	7,747	8,463	100,512
Conferences, Meetings, and Training	49,044	2,457	578	52,079	7,857	1,228	61,164
Supplies	8,376	4,312	163	12,851	2,488	1,399	16,738
Postage and Shipping	295,935	18,066	69	314,070	2,616	6,341	323,027
Printing and Copying	197,853	32,275	590	230,718	8,162	11,286	250,166
Sales and Marketing	478,358	7,783	1,258	487,399	4,053	568	492,020
Occupancy	134,026	10,607	4,705	149,338	22,814	6,014	178,166
Building Maintenance	73,865	27,310	3,168	104,343	20,876	4,732	129,951
Telephone	38,077	25,997	1,704	65,778	10,543	1,995	78,316
Computer Expense	52,089	5,761	3,388	61,238	25,698	5,410	92,346
Equipment and Repairs	15,288	7,386	6	22,680	1,898	10	24,588
Depreciation and Amortization	403,282	41,208	4,481	448,971	28,688	6,959	484,618
Insurance	19,750	8,784	692	29,226	31,203	1,081	61,510
Professional Fees	4,858	5,777	-	10,635	37,928	-	48,563
Grants	1,645,896	229	1,556	1,647,681	243	-	1,647,924
Scholarships	-	23,285,130	-	23,285,130	-	-	23,285,130
Bad Debts	1,410	-	-	1,410	-	(2,925)	(1,515)
Credit Card and Bank Fees	33,399	-	-	33,399	1,722	1,590	36,711
Interest	5,640	1,501	173	7,314	1,200	262	8,776
In-Kind Supplies	-	-	-	-	-	1,120	1,120
Subscriptions and Dues	3,714	-	146	3,860	4,491	801	9,152
Miscellaneous	-	-	-	-	802	-	802
Total	6,857,301	25,514,045	320,333	32,691,679	1,316,426	350,152	34,358,257
Cost of Sales	1,088,376	-	-	1,088,376	-	-	1,088,376
Total Expenses by Function	<u>\$ 7,945,677</u>	<u>\$ 25,514,045</u>	<u>\$ 320,333</u>	<u>\$ 33,780,055</u>	<u>\$ 1,316,426</u>	<u>\$ 350,152</u>	<u>\$ 35,446,633</u>

See accompanying Notes to Financial Statements.

THINK SMALL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	2018						
	Program				Management and General	Fundraising	Total
	Prepare Providers	Strengthen Families	Catalyze Change	Total Program			
Salaries	\$ 2,471,313	\$ 1,634,921	\$ 158,621	\$ 4,264,855	\$ 742,850	\$ 231,207	\$ 5,238,912
Payroll Taxes	190,393	118,753	11,558	320,704	53,838	16,793	391,335
Employee Benefits	347,003	255,797	14,680	617,480	67,157	21,756	706,393
Total Salaries and Benefits	<u>3,008,709</u>	<u>2,009,471</u>	<u>184,859</u>	<u>5,203,039</u>	<u>863,845</u>	<u>269,756</u>	<u>6,336,640</u>
Contract Services	550,198	66,660	38,238	655,096	123,936	7,246	786,278
Travel	63,266	9,980	2,436	75,682	13,959	12,595	102,236
Conferences, Meetings, and Training	45,331	2,686	175	48,192	1,206	1,454	50,852
Supplies	7,756	5,917	107	13,780	2,496	1,927	18,203
Postage and Shipping	308,936	22,206	-	331,142	2,496	4,078	337,716
Printing and Copying	185,389	37,147	619	223,155	8,285	10,399	241,839
Sales and Marketing	553,462	50,861	-	604,323	176	1,358	605,857
Occupancy	208,770	14,250	6,293	229,313	33,954	5,592	268,859
Building Maintenance	76,598	27,634	2,065	106,297	19,434	3,898	129,629
Telephone	43,112	27,966	1,422	72,500	12,410	2,071	86,981
Computer Expense	58,485	30,216	1,296	89,997	26,281	6,189	122,467
Equipment and Repairs	12,641	7,982	27	20,650	663	69	21,382
Depreciation and Amortization	388,694	42,323	3,319	434,336	43,209	5,851	483,396
Insurance	21,582	10,101	661	32,344	28,947	1,771	63,062
Professional Fees	5,983	5,281	-	11,264	47,577	-	58,841
Grants	1,575,285	-	-	1,575,285	-	-	1,575,285
Scholarships	-	22,879,176	-	22,879,176	-	-	22,879,176
Bad Debts	1,824	-	-	1,824	-	19,109	20,933
Credit Card and Bank Fees	34,405	-	-	34,405	2,505	1,379	38,289
Interest	6,359	1,711	120	8,190	1,200	241	9,631
In-Kind Supplies	-	-	-	-	-	2,160	2,160
Subscriptions and Dues	4,898	20	50	4,968	3,718	1,646	10,332
Miscellaneous	93	-	-	93	86	107	286
Total	<u>7,161,776</u>	<u>25,251,588</u>	<u>241,687</u>	<u>32,655,051</u>	<u>1,236,383</u>	<u>358,896</u>	<u>34,250,330</u>
Cost of Sales	<u>1,141,896</u>	<u>-</u>	<u>-</u>	<u>1,141,896</u>	<u>-</u>	<u>-</u>	<u>1,141,896</u>
Total Expenses by Function	<u>\$ 8,303,672</u>	<u>\$ 25,251,588</u>	<u>\$ 241,687</u>	<u>\$ 33,796,947</u>	<u>\$ 1,236,383</u>	<u>\$ 358,896</u>	<u>\$ 35,392,226</u>

See accompanying Notes to Financial Statements.

THINK SMALL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (1,404,783)	\$ (452,942)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	216,285	227,637
Amortization	268,333	255,759
Gains on Investments	(107,077)	(78,709)
Changes in Certain Assets and Liabilities:		
Accounts Receivable - Trade	22,715	(53,694)
Program Receivables	1,122,512	1,444,798
Pledges Receivable	260,925	(104,060)
Prepaid Expenses	50,417	(1,500)
Inventory	94,916	57,563
Capitalized Development Costs	(142,593)	(287,450)
Accounts Payable	342,682	135,026
Accrued Salary and Related Taxes	(50,165)	(6,120)
Other Accrued Expenses	(538,332)	(716,435)
Contract Advances	21,681	(52,531)
Deferred Revenue	(21,519)	23,047
Net Cash Provided by Operating Activities	135,997	390,389
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(154,642)	(41,416)
Purchase of Investments	(677,937)	(346,681)
Sales of Investments	690,004	298,129
Net Cash Used by Investing Activities	(142,575)	(89,968)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Note Payable	(22,716)	(21,825)
Net Cash Used by Financing Activities	(22,716)	(21,825)
CHANGE IN CASH AND CASH EQUIVALENTS	(29,294)	278,596
Cash and Cash Equivalents - Beginning of Year	1,020,038	741,442
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 990,744	\$ 1,020,038
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ 8,776	\$ 9,631

See accompanying Notes to Financial Statements.

**THINK SMALL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 DESCRIPTION OF ORGANIZATION

Think Small is a nonprofit organization working to advance quality care and education of children in their early years. We use leading-edge knowledge from the early childhood field to create services and tools that support and strengthen the abilities of families and early childhood professionals.

Prepare Providers

Professional Development, Consultation, and Coaching

Think Small provides metro-wide professional development opportunities focused on the essential elements of high quality care. Opportunities include classes and workshops provided in English, Spanish, Hmong, Somali, Oromo, Amharic, and Karen; individual and site-based consultation and coaching support; business support to help maintain a successful childcare business; and career guidance for certification and licensing. Enrollment in 908 trainings during FY19 was 10,961. We also connect providers with quality improvement grants and emergency funding for early childhood programs.

Community Outreach and Access

Think Small's multilingual Outreach staff connects with historically underserved communities, including those in low-income neighborhoods, English Language Learners (ELL), communities of color, immigrant and refugee families, so they can fully engage in Minnesota's early childhood care and education system. Outreach staff work to expand the reach of Think Small services and identify needs and gaps within these communities. Staff assisted 1,060 families and providers navigating complex government systems, connecting them to resources and services available at Think Small and other organizations in FY19. Staff provides language translation and interpretation for ELL providers and families.

Publishing

A leading publisher of curriculum, management, professional development, and business resources for adults who care for, teach, and nurture young children, Redleaf Press publishes on a broad range of topics. These products are designed to assist early childhood professionals in using stimulating, child-centered practices based on sound and proven theory about learning and child development. Redleaf published 14 new titles in FY19 and has 368 titles in print. In FY19 over 200,000 products were distributed to customers both in the U.S. and abroad. Redleaf books are translated into 12 different languages with over 56 books in translation. Over 50% of Redleaf's books are available as e-books and in other digital formats. Approximately 721,080 catalogs were mailed to customers in FY19.

Library

A branch of the St. Paul Public Library the Debra S. Fish Early Childhood Library is available statewide. Now numbering 6,436 items, the library's collection is a part of Minnesota's public interlibrary loan system and materials can be delivered to all local libraries.

**THINK SMALL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 DESCRIPTION OF ORGANIZATION (CONTINUED)

Strengthen Families

Family Engagement

Think Small is committed to strengthening family's access to high quality care as well as increasing their knowledge about early childhood development and preparing children for Kindergarten. Think Small Parent-Powered texting delivers evidence-based texting messages to parents and caregivers, across MN, for children birth to 5 years old. These short text messages encourage parents to do fun and engaging activities with their children to increase their literacy and numeracy development as well as tips on how to be healthy. As of July 2019, almost 9,000 families have enrolled.

Scholarships and Other Financial Supports

Think Small serves providers and families with targeted financial support. Think Small administered 4,669 eligibility-based scholarships for families to enroll children in programs with Parent Aware quality ratings in Hennepin and Ramsey Counties. We also administer Basic Sliding Fee Child Care Assistance for eligible low-income families in Ramsey County.

Catalyze Change

Policy, Advocacy, and Initiatives

Think Small works across the state activating field leaders and other stakeholders across systems on issues that concern our youngest children. This includes civic engagement of childcare providers and parents, with an intentional focus on raising the voice of diverse cultural, refugee, and immigrant communities. To support this work, Think Small provided 43 communications to 4,822 subscribers of our Action Center and published 28 blog posts.

Think Small participates in a variety of state and national early learning policy coalitions and workgroups and plays an important role in advancing policy efforts such as Parent Aware, Early Learning Scholarships, Child Care Assistance and most recently the economic development of the child care sector. By leading from the development of policy concepts through the piloting stages and by helping take promising initiatives to scale, Think Small has helped improve access to quality early learning opportunities and has helped build accountability in the system. Think Small continually focuses on our efforts ensuring that families have a variety of high quality early learning opportunities that will put their child on the path to school and life success.

Innovations

Think Small develops and supports interventions that target low-income families, especially those that address the achievement and opportunity gaps between white children and children of color. Currently, we are working on three large innovation projects: a new Child Care Business Program, which supported 117 current/new providers looking to open or expand a licensed family child care program or child care center; expanding Redleaf Press's expertise and content into realms beyond publishing of printed materials, and leveraging technology to expand the type and scope of coaching supports to early childhood providers.

THINK SMALL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

Think Small prepares its financial statements on the accrual basis of accounting. Consequently, revenue is recognized when earned, and expenses when obligations are incurred.

Financial Statement Presentation

Revenues and support are classified based on the presence or absence of donor restrictions and reported in the following net asset categories:

Net Assets Without Donor Restrictions – Resources over which the board of directors has discretionary control.

Net Assets With Donor Restrictions – Resources subject to a donor-imposed restriction which will be satisfied by actions of the Organization or the passage of time. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Think Small does not have any perpetually restricted net assets as of June 30, 2019 and 2018.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash or short-term investments with an original maturity of three months or less are considered to be cash equivalents, except cash restricted for long-term purposes is not considered a cash equivalent.

Concentrations of Credit Risk

Think Small maintains several bank accounts at one financial institution which are insured by the Federal Deposit Insurance Corporation up to \$250,000. Although at times the amount on deposit in these accounts may exceed the federally insured limit, Think Small has never experienced any losses.

Change in Accounting Principle

Think Small adopted Financial Accounting Standards Board (FASB) ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* for the year ended June 30, 2019. These changes were applied retrospectively to ensure comparability with the prior year presented herein. The adoption did not impact Think Small's financial position as of June 30, 2019 and 2018 or the changes in its net assets or cash flows for the years then ended.

THINK SMALL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables

Accounts receivable – trade and program receivables are stated at the amount management expects to collect. Management reviews receivable balances quarterly and establishes an allowance based on expected collections. The program receivables are all current and are due in one year or less. The accounts receivable – trade aging is as follows:

	2019	2018
Current	\$ 493,091	\$ 451,528
1 to 30 Days Due	117,152	169,874
31 to 60 Days Due	27,958	13,277
61 to 90 Days Due	1,977	6,333
90+ Days Due	3,582	25,485
Total Face Value of Accounts Receivable - Trade	<u>643,760</u>	<u>666,497</u>
Less: Allowance for Uncollectible Accounts	<u>(1,791)</u>	<u>(1,813)</u>
Total Accounts Receivable - Trade	<u>\$ 641,969</u>	<u>\$ 664,684</u>

Allowance for Doubtful Accounts

The allowance for doubtful accounts is established through a provision charged to expense. Accounts receivable are charged against the allowance for doubtful accounts when management believes that the collectability of the balance is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing accounts receivable that may become uncollectible, based on evaluations of the collectability of individual accounts receivable and prior accounts receivable loss experience. The evaluations take into consideration such factors as receivable quality, review of specific problem receivables, and current economic conditions that may affect the client's ability to pay. The allowance for uncollectible trade accounts was \$1,791 and \$1,813 for the years ended June 30, 2019 and 2018, respectively. The allowance for uncollectible program accounts was \$2,888 and \$1,803 for the years ended June 30, 2019 and 2018, respectively. When all collection efforts have been exhausted, the accounts are written off against the related allowance.

Pledges Receivable

Pledges receivable are stated at the amount management expects to collect. Management reviews receivable balances annually and establishes an allowance based on expected collections. The pledges receivable aging is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 191,025
2021	11,000
2022	1,550
Total Pledges Receivable	<u>203,575</u>
Less: Allowance for Uncollectible Accounts	<u>(12,550)</u>
Total Pledges Receivable, Net	<u>\$ 191,025</u>

The allowance for pledges receivable was \$12,550 and \$15,775 for the years ended June 30, 2019 and 2018, respectively.

THINK SMALL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

Inventory consists of Early Childhood Education books and publications held for resale by Think Small. Such inventory is valued at the lower of cost or net realizable value, with cost being determined by title on an average cost basis. An allowance for excess and obsolete inventory has been recorded for books, which may be unsaleable based on historical data. The allowances for obsolescence are \$215,664 and \$136,107 at June 30, 2019 and 2018, respectively.

Investments

Investments are stated at fair value based either on quoted market prices, or for certain investments with no readily available quoted market prices, on fair values as determined by management based on review of inputs provided by the investment manager on a monthly basis. Realized and unrealized gains and losses are recorded within the period in which they occur and are reported as changes in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Realized and unrealized gains and losses are included in the statement of activities. Marketable securities contributed by donors are recorded at fair market value at the time of the contribution.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. Think Small has elected to measure all investments at fair value. Think Small may elect to measure newly acquired financial instruments at fair value in the future.

Fair Value Measurements

Think Small measures fair value using a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The objective of a fair value measurement is to determine 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 (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Think Small may use valuation techniques consistent with the market, income and cost approaches to measure fair value.

THINK SMALL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

The fair value measurement categorizes the inputs used to measure the fair value into the following three categories:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that Think Small has the ability to access as of the measurement date.

Level 2 – Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

Level 3 – Inputs that are unobservable. Unobservable inputs reflect Think Small's own assumptions about the factors market participants would use in pricing investments, and is based on the best information available in the circumstances.

Capitalized Development Costs

Capitalized development costs represent pre-publishing development costs of books. Such costs are amortized over their estimated useful lives which are typically 10 years, though shorter time periods may be used in certain cases. Amortization is 15% per year for the first three years, 10% for the next four years, and 5% for the final three years. Costs associated with discontinued publications are written off and charged to expense in the period discontinued.

Property and Equipment

Property and equipment are carried at cost, with the exception of donated items, which are recorded at estimated fair market value at the date of gift. Think Small capitalizes all items over \$1,000 which provides a future benefit of more than one year. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Maintenance and repairs are expensed as incurred. Major renewals or betterments that extend the lives of property and equipment are capitalized. Management annually reviews these assets to determine whether carrying values have been impaired.

Absent explicit donor restrictions regarding how long-lived donated assets must be maintained, Think Small reports the expiration of donor restrictions when the donated or acquired assets are placed in service.

Contribution Revenue Recognition

Contributions are recognized when the donor makes an unconditional promise to give to Think Small. Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions and transferred to net assets without donor restrictions when the restriction expires or the condition is met.

THINK SMALL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government Contracts

Government contract funds are generally considered exchange transactions and are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined in each grant or contract, are incurred. Funds received but not yet earned are recorded as contract advances. At June 30, 2019 and 2018, approximately 76% and 74% of government contract revenue was from the state of Minnesota, respectively.

Other Contract Revenue

Contract revenue relates to amounts received from organizations to fund various projects undertaken by Think Small. Revenue related to such contracts is recognized as services are provided over the life of the contract. Expenses are recorded as incurred. Amounts received related to contract revenue and not yet earned are recorded as contract advances.

In-Kind Contributions

Donated materials are recorded as contributions, when received, at their estimated fair market value. During the years ended June 30, 2019 and 2018, Think Small received program supplies of \$1,120 and \$2,160, respectively.

Program Service Fees

Revenue from program service fees is recognized when billed, which approximates when services are provided. Amounts collected in advance of performing the services are recorded at year-end as deferred revenue.

Functional Expenses

Expenses have been recorded in program service and support service categories based on specific identification. In the absence of specific identification, expenses have been allocated based on staff time spent in each category and space. The time allocations are based on estimates made by management.

Shipping and Handling

Think Small records shipping and handling costs to postage and shipping expense. Shipping and handling was \$124,718 and \$116,574 in the years ended June 30, 2019 and 2018, respectively.

Income Taxes

Think Small is a Minnesota nonprofit corporation and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable Minnesota Statutes, except to the extent it has taxable income from businesses that are not related to its exempt purpose. Management believes Think Small did not have any unrelated business income in the years ended June 30, 2019 or 2018.

Think Small follows the income tax standard regarding the recognition and measurement of uncertain tax positions. Think Small is not aware of any uncertain tax positions it has taken. Think Small is not currently under examination by any taxing jurisdiction.

THINK SMALL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these financial statements, Think Small has evaluated events and transactions for potential recognition or disclosure through November 4, 2019, the date the financial statements were available to be issued.

NOTE 3 INVESTMENTS

Think Small's investments consist of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Whitebox Relative Value Fund, Ltd.	\$ 455,507	\$ 416,741
Whitebox Credit Fund, Ltd.	343,968	332,181
Money Market Funds	18,473	61,667
Exchange Traded Funds, Closed End Funds	882,076	644,511
Corporate Fixed Income	-	149,914
Total	<u>\$ 1,700,024</u>	<u>\$ 1,605,014</u>

NOTE 4 FAIR VALUE MEASUREMENTS

Think Small uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how Think Small values assets and liabilities, refer to Note 2 – Summary of Significant Accounting Policies.

Fair values of marketable securities measured on a recurring basis at June 30 are as follows:

	2019			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments Accounted for at Net Asset Value	\$ 799,475	\$ -	\$ -	\$ -
Money Market Funds	18,473	18,473	-	-
Exchange Traded Funds, Closed End Funds	882,076	882,076	-	-
Total	<u>\$ 1,700,024</u>	<u>\$ 900,549</u>	<u>\$ -</u>	<u>\$ -</u>
	2018			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments Accounted for at Net Asset Value	\$ 748,922	\$ -	\$ -	\$ -
Money Market Funds	61,667	61,667	-	-
Corporate Fixed Income	149,914	149,914	-	-
Exchange Traded Funds, Closed End Funds	644,511	644,511	-	-
Total	<u>\$ 1,605,014</u>	<u>\$ 856,092</u>	<u>\$ -</u>	<u>\$ -</u>

THINK SMALL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

Assets Measured Using Net Asset Value per Share (or its Equivalent)

Think Small values certain investment holdings at fair value using their net asset value and has the ability to redeem its investments with the investee at the net asset value per share (or its equivalent) at the measurement date.

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of June 30 are as follows:

	2019			
	Net Asset Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Whitebox Relative Value Fund, Ltd.	\$ 455,507	\$ -	Quarterly	60 Days
Whitebox Credit Fund, Ltd.	343,968	-	Quarterly	60 Days
Total	<u>\$ 799,475</u>	<u>\$ -</u>		

	2018			
	Net Asset Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Whitebox Relative Value Fund, Ltd.	\$ 416,741	\$ -	Quarterly	60 Days
Whitebox Credit Fund, Ltd.	332,181	-	Quarterly	60 Days
Total	<u>\$ 748,922</u>	<u>\$ -</u>		

Whitebox Relative Value Fund, Ltd. (the Relative Value Fund) is a “feeder” entity in a “master-feeder” structure, whereby the Relative Value Fund invests substantially all of its assets in Whitebox Relative Value Partners, L.P. (the Relative Value Master Fund). The Relative Value Master Fund’s investment objective is to provide superior short-term, risk-adjusted returns through a convertible arbitrage trading strategy. To accomplish this, the Relative Value Master Fund invests primarily in convertible debt, equity, and other securities of United States issuers. In addition to its investment in the Relative Value Master Fund, the Relative Value Fund holds an investment in an affiliated limited liability company. The fair value of the fund has been estimated using the net asset value per share of the investments.

Whitebox Credit Fund, Ltd. (the Credit Fund) is a “feeder” entity in a “master-feeder” structure, whereby the Credit Fund invests substantially all of its assets in Whitebox Credit Partner, L.P. (the Credit Master Fund). The Credit Master Fund’s investment objective is to provide superior short-term, risk-adjusted returns through an arbitrage trading strategy using convertible debt, equity, and other securities. In addition to its investment in the Credit Master Fund, the Credit Fund holds an investment in an affiliated limited liability company and a derivative contract. The fair value of the fund has been estimated using the net asset value per share of the investments.

THINK SMALL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 5 PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at June 30:

	<u>2019</u>	<u>2018</u>	<u>Estimated Useful Lives</u>
Land	\$ 205,000	\$ 205,000	-
Building	1,194,275	1,194,275	20 Years
Building Improvements	1,622,270	1,549,163	10 to 20 Years
Leasehold Improvements	19,325	19,325	5 Years
Computers	720,242	641,129	3 to 7 Years
Office Equipment	441,587	439,164	3 to 15 Years
Total	<u>4,202,699</u>	<u>4,048,056</u>	
Less: Accumulated Depreciation	<u>(3,166,765)</u>	<u>(2,950,479)</u>	
Net Property and Equipment	<u>\$ 1,035,934</u>	<u>\$ 1,097,577</u>	

NOTE 6 NOTE PAYABLE

The note payable consists of a mortgage payable to Bremer Bank in the original amount of \$518,245 with interest at 5.84%. The mortgage was refinanced on January 20, 2017 in the amount of \$382,115 with an interest rate of 4.43%. The mortgage is payable in monthly principal and interest installments of \$2,409 through December 29, 2021, at which time all outstanding principal and interest will be due. The note is secured by the land and the building. The outstanding balance on the mortgage payable was \$184,632 and \$204,759 at June 30, 2019 and 2018, respectively.

On December 1, 2015, Think Small entered into a promissory note of \$12,945 with 0% interest to finance exterior lighting. The note is payable in monthly installments of \$215.76 starting January 1, 2016 and continuing through December 1, 2020. The outstanding balance on this note was \$3,883 and \$6,472 at June 30, 2019 and 2018, respectively.

Maturities of the note payables are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 23,616
2021	23,306
2022	141,593
Total	<u>\$ 188,515</u>

NOTE 7 LINE OF CREDIT

Think Small has a \$1,000,000 revolving line of credit with Bremer Bank with an interest rate of 5.15% and maturity date of October 29, 2019. The line of credit is secured by all inventory, chattel paper, accounts receivable, equipment, and general intangibles. At June 30, 2019 and 2018, there were no outstanding advances on the line of credit.

THINK SMALL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 7 LINE OF CREDIT (CONTINUED)

In April 2014, Think Small established a portfolio loan with Morgan Stanley. As of June 30, 2019, available funds total \$650,763 with interest rate of 6.40%. The portfolio loan is secured by the holdings at Morgan Stanley. At June 30, 2019 and 2018, there were no outstanding advances on the portfolio loan.

NOTE 8 LEASES

Rental commitments under noncancelable leases for office space and equipment in effect at June 30, 2019 totaled \$86,491. Expenses under leases for the years ended June 30, 2019 and 2018 totaled \$120,415 and \$115,408, respectively. The cash payments for future rental commitments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 50,201
2021	21,215
2022	8,042
2023	3,836
2024	3,197
Total	<u>\$ 86,491</u>

NOTE 9 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes as of June 30:

	<u>2019</u>	<u>2018</u>
General Operations - Time Restricted	\$ 50,175	\$ 201,100
Professional Development, Consultation, and Coaching	185,500	1,100,997
Policy, Advocacy and Initiatives	25,906	22,446
Library	14,812	13,211
Total	<u>\$ 276,393</u>	<u>\$ 1,337,754</u>

Releases from net assets with donor restrictions consisted of the following for the years ended June 30:

	<u>2019</u>	<u>2018</u>
General Operations - Time Restricted	\$ 150,925	\$ 210,875
Professional Development, Consultation, and Coaching	1,000,281	1,382,335
Policy, Advocacy, and Initiatives	16,590	3,784
Scholarships	8,000	-
Total	<u>\$ 1,175,796</u>	<u>\$ 1,596,994</u>

**THINK SMALL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 10 PENSION PLAN

Think Small has a 401(k) plan for eligible employees. Eligibility for this plan requires one month of employment and attainment of age 18. During the years ended June 30, 2019 and 2018, Think Small contributed \$170,797 and \$176,286, respectively, to the plan on behalf of its employees.

NOTE 11 COMMITMENTS AND CONTINGENCIES

Amounts received from grantor agencies are subject to audit and adjustment by grantor agencies principally the federal government passed through the state of Minnesota and Ramsey County. Such audits could result in claims against Think Small for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

NOTE 12 SOLAR CAPITAL LEASE AGREEMENT

In February 2017, Think Small entered into Solar Array Capital Lease Agreements. The terms of the agreement stipulate that Think Small is the fee title owner of a Rooftop Ballasted Solar Array installed in June 2017. In exchange, Think Small has assigned its tax and energy rebates to the lessee and agrees to purchase power produced by the solar panels at a pre-negotiated rate. The duration of the contract is 20 years, with the last payment due in the year 2037, with an available early termination clause. In a related agreement, Think Small has agreed to lease the solar array and the premises occupied by the panels to the lessee for a term equal to the Power Purchase agreement for a combined total of \$50 per year.

NOTE 13 LIQUIDITY AND AVAILABILITY

Think Small routinely monitors liquidity required to meet its operating needs, while also striving to maximize the investment of its available funds. In the event of an unanticipated liquidity need, management could access the Line of Credit (see Note 7).

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position date, consist of the following:

	2019	2018
Cash and Cash Equivalents	\$ 990,744	\$ 1,020,038
Accounts Receivable - Trade, Net	641,969	664,684
Program Receivables - Net	3,637,403	4,759,915
Pledges Receivable	191,025	338,300
Less: Donor Restricted Net Assets	(276,393)	(1,337,754)
Financial Assets Available to Meet Cash Needs for General Expenditures within One Year	<u>\$ 5,184,748</u>	<u>\$ 5,445,183</u>

Per its operating reserve, Think Small strives to have \$1.2 million as an operating reserve to provide short-term financial stability during an unexpected financial challenge.

THINK SMALL
STATEMENT OF CHANGES IN NET ASSETS BY PROGRAM – UNAUDITED
YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2018)

	Program		
	Prepare Providers	Strengthen Families	Catalyze Change
REVENUES AND SUPPORT			
Contributions	\$ 1,600	\$ -	\$ -
Government Contracts	4,362,905	24,154,568	-
Other Contracts	30,700	1,170,802	19,150
In-Kind Contributions	-	-	-
Program Service Fees	364,311	-	-
Publication Sales	3,297,797	-	-
Interest and Dividends	-	-	-
Unrealized Gains (Losses) from Investments	-	-	-
Other Revenue	40,890	-	-
Total Revenues and Support	<u>8,098,203</u>	<u>25,325,370</u>	<u>19,150</u>
EXPENSES			
Salaries and Benefits	2,948,016	1,971,144	188,618
Contract Services	376,310	53,284	101,885
Travel, Meals, and Entertainment	72,115	5,034	7,153
Conferences, Meetings, and Training	49,044	2,457	578
Supplies	8,376	4,312	163
Postage and Shipping	295,935	18,066	69
Printing and Copying	197,853	32,275	590
Sales and Marketing	478,358	7,783	1,258
Occupancy	134,026	10,607	4,705
Building Maintenance	73,865	27,310	3,168
Telecommunications	38,077	25,997	1,704
Computer Expense	52,089	5,761	3,388
Furniture and Fixtures; Equipment and Repairs	15,288	7,386	6
Depreciation and Amortization	403,282	41,208	4,481
Insurance	19,750	8,784	692
Professional Fees	4,858	5,777	-
Grants	1,645,896	229	1,556
Scholarships	-	23,285,130	-
Bad Debts	1,410	-	-
Credit Card and Bank Fees	33,399	-	-
Interest	5,640	1,501	173
In-Kind Supplies	-	-	-
Subscriptions and Dues	3,714	-	146
Miscellaneous	-	-	-
Cost of Sales	1,088,376	-	-
Total Expenses	<u>7,945,677</u>	<u>25,514,045</u>	<u>320,333</u>
Change in Net Assets	<u>\$ 152,526</u>	<u>\$ (188,675)</u>	<u>\$ (301,183)</u>

THINK SMALL
STATEMENT OF CHANGES IN NET ASSETS BY PROGRAM – UNAUDITED (CONTINUED)
YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2018)

Total Program	Management and General	Fundraising	2019 Total	2018 Total
\$ 1,600	\$ -	\$ 461,267	\$ 462,867	\$ 1,898,777
28,517,473	-	-	28,517,473	28,155,490
1,220,652	-	-	1,220,652	828,191
-	-	1,120	1,120	2,160
364,311	-	-	364,311	433,632
3,297,797	-	-	3,297,797	3,450,718
-	242	-	242	1,368
-	107,112	(35)	107,077	78,709
40,890	27,916	1,505	70,311	90,239
<u>33,442,723</u>	<u>135,270</u>	<u>463,857</u>	<u>34,041,850</u>	<u>34,939,284</u>
5,107,778	838,295	279,643	6,225,716	6,336,640
531,479	257,102	14,175	802,756	786,278
84,302	7,747	8,463	100,512	102,236
52,079	7,857	1,228	61,164	50,852
12,851	2,488	1,399	16,738	18,203
314,070	2,616	6,341	323,027	337,716
230,718	8,162	11,286	250,166	241,839
487,399	4,053	568	492,020	605,857
149,338	22,814	6,014	178,166	268,859
104,343	20,876	4,732	129,951	129,629
65,778	10,543	1,995	78,316	86,981
61,238	25,698	5,410	92,346	122,467
22,680	1,898	10	24,588	21,382
448,971	28,688	6,959	484,618	483,396
29,226	31,203	1,081	61,510	63,062
10,635	37,928	-	48,563	58,929
1,647,681	243	-	1,647,924	1,575,285
23,285,130	-	-	23,285,130	22,879,176
1,410	-	(2,925)	(1,515)	20,933
33,399	1,722	1,590	36,711	38,201
7,314	1,200	262	8,776	9,631
-	-	1,120	1,120	2,160
3,860	4,491	801	9,152	10,332
-	802	-	802	286
1,088,376	-	-	1,088,376	1,141,896
<u>33,780,055</u>	<u>1,316,426</u>	<u>350,152</u>	<u>35,446,633</u>	<u>35,392,226</u>
<u>\$ (337,332)</u>	<u>\$ (1,181,156)</u>	<u>\$ 113,705</u>	<u>\$ (1,404,783)</u>	<u>\$ (452,942)</u>