

**MINNESOTA LITERACY COUNCIL, INC.**

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

For The Years Ended  
June 30, 2019 and 2018

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**MINNESOTA LITERACY COUNCIL, INC.**  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Minnesota Literacy Council, Inc.  
Saint Paul, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Minnesota Literacy Council, Inc. (a nonprofit organization), 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 the financial statements that are free from material misstatement, whether due to error or fraud.

### **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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Minnesota Literacy Council, Inc. 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.

### **Emphasis of Matter – Change in Accounting Principle**

As discussed in Note 15 to the financial statements, Minnesota Literacy Council implemented the provisions of the Accounting Standards Update (ASU) 2016-14 Not-For-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-For-Profit Entities*. Our opinion is not modified with respect to this matter.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2019, on our consideration of Minnesota Literacy Council's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Minnesota Literacy Council's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Minnesota Literacy Council's internal control over financial reporting and compliance.



REDPATH AND COMPANY, LTD.  
St. Paul, Minnesota

September 12, 2019

## **FINANCIAL STATEMENTS**

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**MINNESOTA LITERACY COUNCIL, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
June 30, 2019 and 2018

**Statement 1**

	<u>2019</u>	<u>2018</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$439,849	\$841,949
Accounts receivable	60	20
Grants receivable	60,000	-
Pledges receivable, current portion	12,415	23,112
Government grants receivable	478,441	390,221
Prepaid expenses	114,807	159,262
Total current assets	<u>1,105,572</u>	<u>1,414,564</u>
Fixed assets, net	13,515	17,391
Pledges receivable, net	15,034	5,216
Cash and cash equivalents - board designated for:		
Operating reserve	500,000	500,000
Special purpose reserve	200,000	-
Beneficial interest in assets held by Community Foundation	773,921	774,600
Total assets	<u><u>\$2,608,042</u></u>	<u><u>\$2,711,771</u></u>
Liabilities and net assets:		
Current liabilities:		
Accounts payable	\$62,907	\$114,629
Accrued expenses	191,196	168,347
Fiscal agency obligation	35,824	44,940
Deferred revenue	108,080	89,642
Total current liabilities	<u>398,007</u>	<u>417,558</u>
Net assets:		
Net assets without donor restrictions:		
Undesignated	354,425	525,269
Board designated for operating reserve	500,000	500,000
Board designated for special purpose reserve	200,000	-
Board designated for endowment permanently held by Community Foundation	<u>735,223</u>	<u>739,945</u>
Total net assets without donor restrictions	1,789,648	1,765,214
Net assets with donor restrictions	420,387	528,999
Total net assets	<u>2,210,035</u>	<u>2,294,213</u>
 Total liabilities and net assets	 <u><u>\$2,608,042</u></u>	 <u><u>\$2,711,771</u></u>

The accompanying notes are an integral part of these financial statements.

MINNESOTA LITERACY COUNCIL, INC.  
STATEMENTS OF ACTIVITIES  
For The Years Ended June 30, 2019 and 2018

Statement 2

	2019				2018			
	Without Donor Restrictions		With Donor Restrictions	Total	Without Donor Restrictions		With Donor Restrictions	Total
	Undesignated and Designated Reserves	Board Designated for Endowment			Undesignated and Designated Reserves	Board Designated for Endowment		
Contributions and other support:								
Corporation/foundation grants	\$39,321	\$ -	\$291,295	\$330,616	\$33,787	\$ -	\$366,580	\$400,367
Contributions	311,248	-	65,059	376,307	302,467	-	37,752	340,219
In-kind contributions	11,200	-	-	11,200	11,200	-	-	11,200
Memberships	-	-	30,850	30,850	-	-	5,500	5,500
Total contributions and other support	361,769	0	387,204	748,973	347,454	0	409,832	757,286
Government grants:								
Government grants	3,169,066	-	5,125	3,174,191	2,917,016	-	20,000	2,937,016
Pass-through government grants	16,253	-	-	16,253	8,991	-	-	8,991
Total government grants	3,185,319	0	5,125	3,190,444	2,926,007	0	20,000	2,946,007
Other revenue:								
Program service fees and other	929,704	-	-	929,704	850,126	-	-	850,126
Endowment distributions and interest	31,389	-	-	31,389	29,552	-	-	29,552
Total other revenue	961,093	0	0	961,093	879,678	0	0	879,678
Net assets released from restrictions	500,941	-	(500,941)	-	419,686	-	(419,686)	-
Total revenues	5,009,122	0	(108,612)	4,900,510	4,572,825	0	10,146	4,582,971
Expenses:								
Program services	3,955,371	-	-	3,955,371	3,688,053	-	-	3,688,053
Management and general	580,370	-	-	580,370	496,417	-	-	496,417
Fundraising	444,225	-	-	444,225	378,277	-	-	378,277
Total expenses	4,979,966	0	0	4,979,966	4,562,747	0	0	4,562,747
Change in net assets before unrealized gain (loss)	29,156	-	(108,612)	(79,456)	10,078	-	10,146	20,224
Unrealized gain (loss) in beneficial interest	-	(4,722)	-	(4,722)	-	19,401	560	19,961
Change in net assets	29,156	(4,722)	(108,612)	(84,178)	10,078	19,401	10,706	40,185
Net assets - beginning of year	1,025,269	739,945	528,999	2,294,213	1,015,191	720,544	518,293	2,254,028
Net assets - end of year	\$1,054,425	\$735,223	\$420,387	\$2,210,035	\$1,025,269	\$739,945	\$528,999	\$2,294,213

The accompanying notes are an integral part of these financial statements.

**MINNESOTA LITERACY COUNCIL, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
For The Years Ended June 30, 2019 and 2018

**Statement 3**

	2019			
	Program Services	Management and General	Fundraising	Total
Salaries	\$1,519,605	\$352,561	\$259,403	\$2,131,569
Employee benefits and payroll taxes	422,693	78,494	62,315	563,502
Total salaries and related expenses	<u>1,942,298</u>	<u>431,055</u>	<u>321,718</u>	<u>2,695,071</u>
AmeriCorps allowances, benefits and taxes	368,488	-	-	368,488
Occupancy	288,568	37,436	22,149	348,153
Professional services	946,040	74,775	18,537	1,039,352
Recruitment/staff development	63,238	10,050	5,324	78,612
Travel/meetings	37,682	9,310	899	47,891
Hosted training and events	48,139	1,328	60,383	109,850
Supplies and equipment	212,411	11,451	2,260	226,122
Printing/postage	19,332	3,671	12,095	35,098
Depreciation	1,722	1,294	860	3,876
In-kind/pass-through expenses	27,453	-	-	27,453
Total expenses	<u>\$3,955,371</u>	<u>\$580,370</u>	<u>\$444,225</u>	<u>\$4,979,966</u>
	2018			
	Program Services	Management and General	Fundraising	Total
Salaries	\$1,547,565	\$330,669	\$216,589	\$2,094,823
Employee benefits and payroll taxes	419,699	70,334	47,175	537,208
Total salaries and related expenses	<u>1,967,264</u>	<u>401,003</u>	<u>263,764</u>	<u>2,632,031</u>
AmeriCorps allowances, benefits and taxes	349,748	-	-	349,748
Occupancy	282,816	34,688	19,021	336,525
Professional services	705,969	31,400	11,339	748,708
Recruitment/staff development	54,257	6,139	4,846	65,242
Travel/meetings	26,814	8,279	840	35,933
Hosted training and events	30,223	1,529	58,291	90,043
Supplies and equipment	228,108	9,384	7,364	244,856
Printing/postage	21,683	3,380	12,398	37,461
Depreciation	980	615	414	2,009
In-kind/pass-through expenses	20,191	-	-	20,191
Total expenses	<u>\$3,688,053</u>	<u>\$496,417</u>	<u>\$378,277</u>	<u>\$4,562,747</u>

The accompanying notes are an integral part of these financial statements.

**MINNESOTA LITERACY COUNCIL, INC.**  
**STATEMENTS OF CASH FLOWS**  
For The Years Ended June 30, 2019 and 2018

**Statement 4**

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	(\$84,178)	\$40,185
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	3,876	2,009
Unrealized (gain) loss in beneficial interest	4,722	(19,961)
Change in assets and liabilities:		
Accounts receivable	(40)	43,833
Grants receivable	(60,000)	60,000
Pledges receivable	879	17,056
Government grants receivable	(88,220)	52,126
Prepaid expenses	44,455	18,790
Accounts payable	(51,722)	36,155
Accrued expenses	22,849	3,172
Fiscal agency obligation	(9,116)	(7,301)
Deferred revenue	18,438	(7,045)
Net cash provided by (used in) operating activities	<u>(198,057)</u>	<u>239,019</u>
Cash flows from investing activities:		
Purchase of fixed assets	-	(9,354)
Additions to beneficial interest	(4,043)	-
Net cash provided by (used in) investing activities	<u>(4,043)</u>	<u>(9,354)</u>
Net increase (decrease) in cash and cash equivalents	(202,100)	229,665
Cash and cash equivalents at beginning of year	<u>1,341,949</u>	<u>1,112,284</u>
Cash and cash equivalents at end of year	<u><u>\$1,139,849</u></u>	<u><u>\$1,341,949</u></u>
Cash and cash equivalents are reported on the statements of financial position as follows:		
Cash and cash equivalents	\$439,849	\$841,949
Cash and cash equivalents board designated for:		
Operating reserve	500,000	500,000
Special purpose reserve	200,000	-
Total cash and cash equivalents	<u><u>\$1,139,849</u></u>	<u><u>\$1,341,949</u></u>

The accompanying notes are an integral part of these financial statements.

**Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. NATURE OF OPERATIONS**

The Minnesota Literacy Council, Inc. (MLC) is a nonprofit corporation dedicated to improving literacy across Minnesota. MLC's mission is to share the power of learning through education, community building and advocacy. To achieve its mission, MLC:

- Helps adults become self-sufficient citizens through improved literacy.
- Helps at-risk children and families gain literacy skills to increase school success.
- Strengthens communities by raising awareness of literacy services, encouraging volunteerism and sharing best practices with programs statewide.

MLC operates programs for adults, children and families and provides training and technical assistance to community programs around Minnesota:

- Serving Minnesotans – The literacy council fosters strong students, community members and employees.
  - The Early Literacy and Families program inspires parents to be their children's first and most important teacher.
  - The Summer Reads program sends VISTA (Volunteers in Service to America) members to schools and community centers in June and July to improve the reading skills of children across the state.
  - Open Door Learning Center offers ESL, work-readiness, GED prep, computer and citizenship classes at six locations in Minneapolis and St. Paul.
  - The Adult Literacy Hotline refers Minnesotans to nearly 300 literacy programs across the state through our phone, text and online system.
- Serving Organizations – The literacy council helps community programs strengthen their services.
  - Tutor Training offers pre-service and in-service workshops to more than 3,000 volunteers as literacy tutors and teachers each year.
  - Volunteer Outreach supports hundreds of literacy programs statewide in volunteer recruitment, training, support and management.
  - MLC is a statewide and national leader in distance education, digital literacy and technology training. One example, the Northstar Digital Literacy Assessment, is available at more than 500 sites across the U.S. and measures an individual's digital literacy skills in ten categories like navigating the Internet and using Excel.
  - Literacy VISTA sends national service members to schools and community organizations to provide capacity-building support for literacy programming to improve educational outcomes for the children and adults they serve.
  - Literacy Strategies provides management consulting services to libraries and literacy organizations in Minnesota, the Midwest and beyond.

**B. BASIS OF PRESENTATION**

These financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP), which requires MLC to report information

regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

### **C. NET ASSETS AND DONOR RESTRICTIONS**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. This category includes funds that have been internally designated by MLC.

Net Assets With Donor Restrictions – net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed 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-imposed restrictions are perpetual in nature, where donor stipulates that resources be maintained in perpetuity.

At June 30, 2019 and 2018, MLC had no net assets with donor restrictions that were permanent in nature.

### **D. CASH AND CASH EQUIVALENTS**

MLC considers all investments with an original maturity of three months or less to be cash and cash equivalents. Cash equivalents includes money market mutual funds that are valued at cost which approximates fair value. At times, bank balances may be in excess of the Federal Deposit Insurance Corporation (FDIC) Limit. MLC has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

### **E. CONTRIBUTIONS AND PROMISES TO GIVE**

Contributions received, including unconditional promises to give, are recorded as an increase in net assets with or without donor restrictions, depending on the existence and nature of any donor restrictions. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resources was restricted has been fulfilled, or both.

Promises to give are measured at present value of estimated future cash flows. Long-term promises to give receivables are discounted using the federal mid-term Applicable Federal Rates (AFR). MLC uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. Pledges receivable are presented net of allowances for bad debts of \$4,371 and \$1,873 at June 30, 2019 and 2018, respectively.

**F. ACCOUNTS RECEIVABLE AND GRANTS RECEIVABLE**

Accounts receivable and grants receivable are primarily from corporations and government agencies and are stated at the amount management expects to collect from balances outstanding at year end. MLC uses the allowance method to determine uncollectible receivables. The allowance is based on prior years' experience and management's analysis of specific receivables. As of June 30, 2019 and 2018, MLC had no reserve for uncollectible receivables.

**G. FIXED ASSETS**

Expenditures for fixed assets are stated at cost less accumulated depreciation. MLC capitalizes all additions and improvements over \$5,000. Donated assets are valued at their estimated fair values on the date of contribution. Depreciation is calculated on the straight-line method over the estimated useful lives of between two to five years.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is expensed as incurred.

**H. AGENCY OBLIGATIONS**

MLC was the fiscal sponsor for Literacy Minnesota for several years. As of July 2010, that agency became a 501(c)(3) organization and changed the name to Literacy Action Network (LAN). MLC continues to maintain LAN's assets and provides bookkeeping services. MLC held \$35,824 and \$44,940 of assets for LAN at June 30, 2019 and 2018, respectively.

**I. DEFERRED REVENUE**

Deferred revenue consists of VISTA cost share payments and Northstar Digital Literacy Assessment fees paid in advance.

**J. BENEFICIAL INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION**

MLC has established funds held by the St. Paul Foundation (the Community Foundation).

As is standard practice, MLC granted variance power to the Community Foundation and thus relinquished all control over the assets. MLC is only entitled to annual income based on the Community Foundation's spending policy and the Community Foundation can change this policy at any time. Based on current generally accepted accounting principles, these funds are recorded at the fair value of the Community Foundation's underlying assets.

Distributions received from the Community Foundation are accounted for as revenue. The remaining net change in the endowment is reported as unrealized changes in net assets.

**K. FUNCTIONAL ALLOCATION OF EXPENSES**

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. Salaries and related expenses are allocated based on time records. Rent and utilities are allocated based on square footage. Other expenses that are not directly identifiable by program or support service are allocated based on actual hours charged to programs and support services.

**L. DONATED SERVICES AND USE OF SPACE**

Donations of goods and other noncash assets are recorded at the estimated fair value on the date received. Contributed services, which require special skill that MLC would have paid for if not donated, are recorded at their estimated fair value when the services are rendered.

**M. USE OF ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**N. INCOME TAX STATUS**

MLC has a tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to income taxes except federal and state income taxes on any unrelated business income (UBI). MLC has not had any material UBI activities.

A tax expense or benefit from an uncertain income tax position (including tax-exempt status) may be recognized only when it is more likely than not that the position will be sustained upon examination by taxing authorities. Management believes MLC has no uncertain income tax positions that would result in an accrual, expense or benefit under the more likely than not standard.

**O. RECLASSIFICATION**

Certain prior year amounts have been reclassified to conform to the current year presentation. There was no impact from the reclassification on the fiscal year 2018 net assets or change in net assets.

**P. SUBSEQUENT EVENTS**

In preparing these financial statements, MLC has evaluated events and transactions for potential recognition or disclosure through September 12, 2019, the date the financial statements were available to be issued.



**MINNESOTA LITERACY COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2019 and 2018

**Note 2 LIQUIDITY AND AVAILABILITY**

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>2019</u>
Financial assets, as of June 30, 2019*	\$2,479,720
Less those unavailable for general expenditures within one year, due to:	
Fiscal agency obligation	(35,824)
Restricted by donor with time or purpose restriction	(420,387)
Board designations:	
Quasi endowment fund, beneficial interest in assets held by Community Foundation	(735,223)
Designated for programming, infrastructure and reserve	(500,000)
Designated for special purpose reserve	<u>(200,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$588,286</u></u>

\* Total assets, less nonfinancial assets (fixed assets and prepaid expenses)

Due to the nature of the restrictions from contributions received from donors, MLC has omitted all restricted contributions. Amounts that have been board designated have also been omitted from assets available for general expenditure. However, in the event of an unanticipated liquidity need, these amounts could be drawn upon in a manner consistent with board approved policy. MLC structures its financial assets to be available as its general expenditures, liabilities and other obligations come due.

**Note 3 FIXED ASSETS**

The following is a summary of fixed assets as of June 30:

	<u>2019</u>	<u>2018</u>
Equipment	\$142,452	\$142,452
Leasehold improvements	13,956	13,956
Gross fixed assets	156,408	156,408
Less accumulated depreciation	<u>(142,893)</u>	<u>(139,017)</u>
Net fixed assets	<u><u>\$13,515</u></u>	<u><u>\$17,391</u></u>

Depreciation expense was \$3,876 and \$2,009 for the years ended June 30, 2019 and 2018, respectively.

**MINNESOTA LITERACY COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2019 and 2018

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**Note 4 PLEDGES RECEIVABLE**

Collection of pledges receivable is expected as follows:

	<u>2019</u>	<u>2018</u>
Due in one year	\$12,415	\$23,112
Due in two to five years	<u>20,000</u>	<u>7,175</u>
Total	32,415	30,287
Less - allowance	(4,371)	(1,873)
Less - discount	<u>(595)</u>	<u>(86)</u>
Total	<u><u>\$27,449</u></u>	<u><u>\$28,328</u></u>

**Note 5 OPERATING LEASES**

MLC leases office space located at 700 Raymond Ave, St. Paul, Minnesota. The operating lease is effective through October 31, 2023. Minimum monthly lease payments started November 1, 2015 at \$10,825 and increased 3% annually until October 31, 2018. On November 1, 2018, minimum monthly lease payments started at \$11,780 and will increase 2% annually for the remainder of the lease period.

MLC also has operating leases for ancillary locations for its programs. In addition, there are various month-to-month leases that have not been included in the future minimum lease payments.

Future minimum lease payments are as follows:

2020	\$201,737
2021	162,100
2022	149,508
2023	152,560
2024	51,192
Thereafter	<u>-</u>
Total future minimum lease payments	<u><u>\$717,097</u></u>

Rent expenses for 2019 and 2018 were \$279,601 and \$272,626, respectively.

**MINNESOTA LITERACY COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2019 and 2018

**Note 6 NET ASSETS WITH DONOR RESTRICTIONS**

A summary at June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Restricted as to purpose:		
Adult Basic Education	\$156,953	\$176,100
AmeriCorps - Summer Reads	16,200	1,773
Family Literacy	95,091	225
Health Literacy Partnership	29,553	23,058
Kraemer Memorial Education Grant Fund	40,655	34,997
Fischer Award	21,695	21,945
St. Paul Library Strategies	21,166	19,327
Adult Indirect Service	10,040	44,775
Restricted as to time:		
General operating	29,034	186,799
Software license	-	20,000
	<u>\$420,387</u>	<u>\$528,999</u>

**Note 7 NET ASSETS RELEASED FROM RESTRICTIONS**

During 2019, restrictions were satisfied through passage of time or by expenditure for purpose. A recap is as follows:

	<u>2019</u>	<u>2018</u>
Purpose restricted expenditures:		
Adult Basic Education	\$62,304	\$64,649
AmeriCorps - Summer Reads	11,333	13,698
Family Literacy	103,100	170,481
Health Literacy Partnership	24,354	3,126
Fischer Award	250	568
St. Paul Library Strategies	48,661	56,173
Kraemer Memorial Education Grant Fund	-	1,404
Adult Indirect Service	40,396	12,000
Passage of time:		
General operating	190,543	71,187
Software license	20,000	26,400
	<u>\$500,941</u>	<u>\$419,686</u>

**MINNESOTA LITERACY COUNCIL, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019 and 2018

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**Note 8 NET ASSETS WITHOUT DONOR RESTRICTIONS - BOARD DESIGNATED**

As of June 30, 2019 and 2018, the Board of Directors had designated \$500,000 to provide an internal source of funds for situations such as a sudden increase in expenses, one-time unbudgeted expenses, unanticipated loss in funding, or uninsured losses.

As of June 30, 2019 the Board of Directors designated \$200,000 to provide funding to meet special targets of opportunity or need that further the mission of the organization which may or may not have specific expectation of incremental or long-term increased income.

**Note 9 ENDOWMENT**

MLC has established two funds held by the St. Paul Foundation (the Community Foundation). In 1999, a board designated endowment fund without donor restrictions was established. In 2016, the Kraemer Memorial Education Grant Fund with donor restrictions was established.

**Endowment Investment and Spending Policies**

MLC is subject to the investment and spending policies established by the Community Foundation. The Community Foundation has adopted investment and spending policies for endowment assets that seek to provide a predictable stream of funding to programs supported by its endowment while maintaining the purchasing power of the endowment assets.

The Community Foundation has adopted an investment strategy that invests in domestic equities, international equities, private capital, fixed income, real assets and absolute return strategies. Diversification by asset class, investment style, investment manager, etc. is employed to avoid undue risk concentration and enhance total return. The primary performance objective is to achieve an annualized total rate of return, net of investment fees, that is equal to or greater than the Community Foundation's spending policy payout rate plus inflation over long periods of time.

The Community Foundation's current spending policy is to distribute an amount equal to 5.00% of a moving twenty-one quarter average but not less than 4.25% or greater than 5.50% of current market value. The composition of endowment net assets by fund type as of June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Endowment Fund - board designated	\$735,223	\$739,945
Kraemer Memorial Education Grant Fund - with donor restrictions	<u>38,698</u>	<u>34,655</u>
Total	<u>\$773,921</u>	<u>\$774,600</u>

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Change in endowment net assets for the years ending June 30, 2019 and 2018 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - June 30, 2017	\$720,544	\$34,095	\$754,639
Investment return:			
Interest and dividends	12,389	585	12,974
Net unrealized appreciation	44,765	1,761	46,526
Admin fees and investment expense	(9,372)	(443)	(9,815)
Total investment return	47,782	1,903	49,685
Other additions:			
Transfers to Community Foundation	-	-	-
Total other additions	0	0	0
Appropriation of endowment assets for expenditure	(28,381)	(1,343)	(29,724)
Endowment net assets - June 30, 2018	739,945	34,655	774,600
Investment return:			
Interest and dividends	12,568	611	13,179
Net unrealized appreciation	21,516	1,228	22,744
Admin fees and investment expense	(9,791)	(466)	(10,257)
Total investment return	24,293	1,373	25,666
Other additions:			
Transfers to Community Foundation	-	4,043	4,043
Total other additions	0	4,043	4,043
Appropriation of endowment assets for expenditure	(29,015)	(1,373)	(30,388)
Endowment net assets - June 30, 2019	\$735,223	\$38,698	\$773,921

**Note 10 FAIR VALUE OF ASSETS AND LIABILITIES**

MLC has determined the fair value of certain assets and liabilities in accordance with provisions of generally accepted accounting principles (GAAP), which provides a framework for measuring fair value under GAAP.

GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. GAAP also establishes a fair value hierarchy which prioritizes the valuation inputs into three broad levels.

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Level 1 inputs consist of quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

MLC uses Level 1 inputs to determine the fair value of all assets and liabilities with the exception of the endowment held at a community foundation and promises to give.

Level 3 inputs are used to determine the fair value of the endowment held at a community foundation. Although the fair value of the endowment is reported on a quarterly basis by the Community Foundation, shares in the investment pool are not traded on the open market. Thus the Level 3 input classification.

Assets and liabilities measured at fair value on a recurring basis at June 30, 2019 and 2018, respectively, are as follows:

	Level 3	
	<u>2019</u>	<u>2018</u>
Beneficial interest in assets held by Community Foundation	<u>\$773,921</u>	<u>\$774,600</u>

The fair value of the beneficial interest in assets held by the Community Foundation is provided through quarterly statements by the Community Foundation and shares in the Community Foundation investment pool are not traded on the open market. Fair value of promises to give is determined based upon future cash flows.

Following is a reconciliation of activity for assets measured at fair value on a recurring basis based upon significant unobservable (level 3) information:

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$774,600	\$754,639
Net change in fair value	25,666	49,685
Transfers to Community Foundation	4,043	-
Distributions	<u>(30,388)</u>	<u>(29,724)</u>
Balance, end of year	<u>\$773,921</u>	<u>\$774,600</u>

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**Note 11 RETIREMENT PLAN**

MLC offers a 401(k) plan for employees meeting certain eligibility requirements. Contributions to the plan are currently equal to the employee's deferrals up to 3% of the employee's compensation. Contributions during the year ending June 30, 2019 and 2018 were \$51,651 and \$49,393, respectively.

**Note 12 DONATED SERVICES AND USE OF SPACE**

MLC records in-kind contributions at fair value at the date of the donation, if measurable. In-kind contributions include the following:

	<u>2019</u>	<u>2018</u>
Rent for Rondo Learning Center	<u>\$11,200</u>	<u>\$11,200</u>

MLC also received approximately 25,700 and 26,500 hours of volunteer time that did not meet the criteria for recognition in the fiscal years ended June 30, 2019 and 2018, respectively.

**Note 13 SOFTWARE RIGHTS**

During 2004, MLC acquired the rights to software used to fulfill the Minnesota Department of Education's Adult Basic Education (ABE) reporting requirements. Rights to the software were transferred from another ABE organization in accordance with an agreement between the two organizations and the Minnesota Department of Education. An asset value has not been recorded for financial statement purposes because no fair value existed at the time of transfer and no cost accrued to MLC upon acquiring the rights.

**Note 14 CONTINGENCIES**

The continuation of funding from federal and other sources is contingent upon availability of funds and project performance. The funds are awarded annually based either upon receipt and approval of a program application or upon completion of a performance review. In addition, expenditures made under federal grants are subject to review and audit by the grantor agencies. To the extent, if any, that such a review or audit reduces expenditures allowable under these contracts, MLC will record such disallowances at the time the final assessment is made. Management believes that any liabilities for reimbursement, which may arise as a result of these audits, are not material.

**Note 15 CHANGE IN ACCOUNTING PRINCIPLE**

Effective July 1, 2018 Minnesota Literacy Council implemented the provisions of Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*.

This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The presentation in these financial statements has been adjusted accordingly. Net assets as of July 1, 2017 were reclassified by category with no impact on total net assets.

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