

**MINNESOTA LITERACY COUNCIL, INC.**

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

For The Years Ended  
June 30, 2017 and 2016

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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 (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, 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 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 Minnesota Literacy Council as of June 30, 2017 and 2016, 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2017 on our consideration of Minnesota Literacy Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is 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 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.*

REDPATH AND COMPANY, LTD.  
St. Paul, Minnesota

September 25, 2017

## **FINANCIAL STATEMENTS**

**MINNESOTA LITERACY COUNCIL, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
June 30, 2017 and 2016

**Statement 1**

	<u>2017</u>	<u>2016</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$1,112,284	\$1,010,441
Accounts receivable	43,853	-
Grants receivable	60,000	-
Pledges receivable, current portion	25,236	55,576
Government grants receivable	442,347	422,533
Prepaid expenses	178,052	143,795
Total current assets	<u>1,861,772</u>	<u>1,632,345</u>
Fixed assets, net	10,046	-
Pledges receivable, net	20,148	35,864
Beneficial interest in assets held by Community Foundation	754,639	689,531
Total assets	<u><u>\$2,646,605</u></u>	<u><u>\$2,357,740</u></u>
Liabilities and net assets:		
Current liabilities:		
Accounts payable	\$78,474	\$93,813
Accrued expenses	165,175	139,006
Fiscal agency obligation	52,241	44,198
Deferred revenue	96,687	102,755
Total current liabilities	<u>392,577</u>	<u>379,772</u>
Net assets:		
Unrestricted net assets:		
Undesignated	515,191	478,557
Board designated for programming, infrastructure and reserve	500,000	500,000
Board designated for endowment permanently held by Community Foundation	<u>720,544</u>	<u>657,378</u>
Total unrestricted net assets	1,735,735	1,635,935
Temporarily restricted net assets	<u>518,293</u>	<u>342,033</u>
Total net assets	<u>2,254,028</u>	<u>1,977,968</u>
Total liabilities and net assets	<u><u>\$2,646,605</u></u>	<u><u>\$2,357,740</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, 2017 and 2016

**Statement 2**

	2017				2016			
	Unrestricted		Board		Unrestricted		Board	
	Unrestricted Other	Designated for Endowment	Temporarily Restricted	Total	Unrestricted Other	Designated for Endowment	Temporarily Restricted	Total
Contributions and other support:								
Corporation/foundation grants	\$51,995	\$ -	\$542,458	\$594,453	\$33,457	\$ -	\$267,404	\$300,861
Contributions	192,405	-	45,700	238,105	148,382	-	21,943	170,325
In-kind contributions	11,200	-	-	11,200	11,200	-	-	11,200
Memberships	-	-	4,750	4,750	-	-	1,000	1,000
Total contributions and other support	255,600	0	592,908	848,508	193,039	0	290,347	483,386
Government grants:								
Government grants	2,974,551	-	26,400	3,000,951	2,821,026	-	-	2,821,026
Pass-through government grants	12,171	-	-	12,171	11,281	-	-	11,281
Total government grants	2,986,722	0	26,400	3,013,122	2,832,307	0	0	2,832,307
Other revenue:								
Program service fees and other	793,244	-	-	793,244	775,617	-	-	775,617
Endowment distributions and interest	28,037	-	-	28,037	29,563	-	-	29,563
Total other revenue	821,281	0	0	821,281	805,180	0	0	805,180
Net assets released from restrictions	444,990	-	(444,990)	-	523,117	-	(523,117)	-
Total revenues	4,508,593	0	174,318	4,682,911	4,353,643	0	(232,770)	4,120,873
Expenses:								
Program services	3,663,688	-	-	3,663,688	3,540,478	-	-	3,540,478
Management and general	453,078	-	-	453,078	467,769	-	-	467,769
Fundraising	355,193	-	-	355,193	272,381	-	-	272,381
Total expenses	4,471,959	0	0	4,471,959	4,280,628	0	0	4,280,628
Change in net assets before unrealized gain (loss)	36,634	-	174,318	210,952	73,015	-	(232,770)	(159,755)
Unrealized gain (loss) in beneficial interest	-	63,166	1,942	65,108	-	(50,994)	-	(50,994)
Change in net assets	36,634	63,166	176,260	276,060	73,015	(50,994)	(232,770)	(210,749)
Net assets - beginning of year	978,557	657,378	342,033	1,977,968	905,542	708,372	574,803	2,188,717
Net assets - end of year	\$1,015,191	\$720,544	\$518,293	\$2,254,028	\$978,557	\$657,378	\$342,033	\$1,977,968

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, 2017 and 2016

**Statement 3**

	2017			
	Program Services	Management and General	Fundraising	Total
Salaries	\$1,481,480	\$286,746	\$192,129	\$1,960,355
Employee benefits and payroll taxes	400,176	62,646	46,867	509,689
Total salaries and related expenses	<u>1,881,656</u>	<u>349,392</u>	<u>238,996</u>	<u>2,470,044</u>
AmeriCorps allowances, benefits and taxes	402,194	-	-	402,194
Occupancy	278,990	33,160	19,533	331,683
Professional services	644,225	42,878	35,073	722,176
Recruitment/staff development	48,548	9,933	3,208	61,689
Travel/meetings	27,285	7,345	728	35,358
Training	92,825	505	3,432	96,762
Supplies and equipment	245,777	5,818	6,839	258,434
Printing/postage	18,817	4,047	21,890	44,754
In-kind/pass-through expenses	23,371	-	-	23,371
Uncollectible pledges	-	-	25,494	25,494
Total expenses	<u>\$3,663,688</u>	<u>\$453,078</u>	<u>\$355,193</u>	<u>\$4,471,959</u>
	2016			
	Program Services	Management and General	Fundraising	Total
Salaries	\$1,450,956	\$291,522	\$177,937	\$1,920,415
Employee benefits and payroll taxes	401,048	67,675	44,076	512,799
Total salaries and related expenses	<u>1,852,004</u>	<u>359,197</u>	<u>222,013</u>	<u>2,433,214</u>
AmeriCorps allowances, benefits and taxes	398,733	-	-	398,733
Occupancy	267,878	38,277	18,587	324,742
Professional services	598,202	28,327	7,561	634,090
Recruitment/staff development	43,833	2,725	2,265	48,823
Travel/meetings	27,470	6,979	401	34,850
Training	28,700	1,501	2,937	33,138
Supplies and equipment	281,795	26,888	5,567	314,250
Printing/postage	17,988	3,871	13,048	34,907
Depreciation	1,394	4	2	1,400
In-kind expense/pass-through expense	22,481	-	-	22,481
Total expenses	<u>\$3,540,478</u>	<u>\$467,769</u>	<u>\$272,381</u>	<u>\$4,280,628</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, 2017 and 2016

**Statement 4**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$276,060	(\$210,749)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	-	1,400
Unrealized (gain) loss in beneficial interest	(65,108)	50,994
Change in assets and liabilities:		
Accounts receivable	(43,853)	1,613
Grants receivable	(60,000)	-
Pledges receivable	46,056	38,097
Government grants receivable	(19,814)	20,896
Prepaid expenses	(34,257)	11,407
Accounts payable	(15,339)	1,914
Accrued expenses	26,169	23,574
Fiscal agency obligation	8,043	5,237
Deferred revenue	(6,068)	(24,195)
Net cash provided by (used in) operating activities	<u>111,889</u>	<u>(79,812)</u>
Cash flows from investing activities:		
Purchase of fixed assets	(10,046)	-
Addition to beneficial interest in assets held by Community Foundation	-	(32,153)
Net cash used in investing activities	<u>(10,046)</u>	<u>(32,153)</u>
Net increase (decrease) in cash and cash equivalents	101,843	(111,965)
Cash and cash equivalents at beginning of year	<u>1,010,441</u>	<u>1,122,406</u>
Cash and cash equivalents at end of year	<u><u>\$1,112,284</u></u>	<u><u>\$1,010,441</u></u>

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

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**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 over 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 2,500 volunteers as literacy tutors and teachers each year.
  - Volunteer Outreach supports hundreds of literacy programs statewide in volunteer recruitment, training, support and management.
  - Technology Services provides customized training and technical assistance for adult education professionals in the use of educational technology.
  - 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**

MLC reports information regarding its financial position and activities according to three classes of net assets as follows:

Unrestricted – Those resources that are not subject to donor-imposed restrictions. Designated amounts represent those revenues that the board has set aside for a particular purpose.

Temporarily Restricted – Those resources subject to donor imposed restrictions, which will be satisfied by actions of MLC or the passage of time.

Permanently Restricted – Those resources subject to donor imposed restrictions that they be maintained permanently.

#### **C. 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.

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

Contributions, including unconditional promises to give, are recorded as unrestricted or temporarily restricted support, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

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 \$4,085 and \$9,003 at June 30, 2017 and 2016, respectively.

#### **E. 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, 2017 and 2016, MLC had no reserve for uncollectible receivables.

#### **F. 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.

**MINNESOTA LITERACY COUNCIL, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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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.

**G. 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 \$52,241 and \$44,198 of assets for LAN at June 30, 2017 and 2016, respectively.

**H. DEFERRED REVENUE**

Deferred revenue consists of VISTA cost share payments, Northstar Digital Literacy Assessment, and Adult Basic Education workshop fees paid in advance.

**I. 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.

**J. 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 activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. Salaries and related expenses are based on time records. Expenses, other than salaries and related expenses, which are not directly identifiable by program or support service are allocated based on analyses performed by MLC's management.

**K. 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.

**MINNESOTA LITERACY COUNCIL, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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**L. 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.

**M. 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.

**N. RECLASSIFICATION**

Certain prior year amounts have been reclassified to conform to the current year presentation. There was no impact on 2016 net assets or the change in net assets.

**Note 2 FIXED ASSETS**

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

	<u>2017</u>	<u>2016</u>
Equipment	\$133,098	\$152,240
Leasehold improvements	<u>13,956</u>	<u>13,956</u>
Gross fixed assets	147,054	166,196
Less accumulated depreciation	<u>(137,008)</u>	<u>(166,196)</u>
Net fixed assets	<u>\$10,046</u>	<u>\$0</u>

Depreciation expense was \$0 and \$1,400 for the years ended June 30, 2017 and 2016, respectively.



**MINNESOTA LITERACY COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2017 and 2016

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**Note 3 PLEDGES RECEIVABLE**

Collection of pledges receivable is expected as follows:

	<u>2017</u>	<u>2016</u>
Due in one year	\$25,236	\$55,576
Due in two to five years	<u>24,615</u>	<u>45,811</u>
Total	49,851	101,387
Less - allowance	(4,085)	(9,003)
Less - discount	<u>(382)</u>	<u>(944)</u>
Total	<u><u>\$45,384</u></u>	<u><u>\$91,440</u></u>

**Note 4 OPERATING LEASES**

MLC leases office space located at 700 Raymond Ave, St. Paul, Minnesota. The operating lease is effective through October 31, 2018. Minimum monthly lease payments started November 1, 2015 at \$10,825 and increase 3% annually.

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:

2018	\$190,365
2019	98,697
2020	51,803
2021	<u>8,678</u>
Total future minimum lease payments	<u><u>\$349,543</u></u>

Rent expenses for 2017 and 2016 were \$268,983 and \$266,361, respectively.

**MINNESOTA LITERACY COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**Note 5 TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of the following:

	<u>2017</u>	<u>2016</u>
Restricted as to purpose:		
Adult Basic Education	\$188,343	\$222,612
AmeriCorps - Summer Reads	8,001	17,720
Family Literacy	122,500	5,000
Health Literacy Partnership	20,684	18,658
Kraemer Memorial Education Grant Fund	33,874	32,179
Fischer Award	22,513	-
Northstar	25,000	-
Adult Indirect Service	12,000	-
Journeys and Routes	500	-
Restricted as to time:		
General operating	58,478	45,864
Software license	26,400	-
	<u>\$518,293</u>	<u>\$342,033</u>

**Note 6 NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets released from restrictions consist of the following:

	<u>2017</u>	<u>2016</u>
Program restrictions satisfied:		
Adult Basic Education	\$87,752	\$56,524
AmeriCorps - Summer Reads	37,820	6,947
Family Literacy	94,269	69,881
Health Literacy Partnership	2,724	1,895
Fischer Award	570	500
L3 St. Paul Library	42,000	125,000
Kraemer Memorial Education Grant Fund	2,383	-
Adult Indirect Service	20	1,520
Journeys and Routes	-	4,000
Time restriction satisfied:		
General operating	177,452	256,850
	<u>\$444,990</u>	<u>\$523,117</u>

**MINNESOTA LITERACY COUNCIL, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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**Note 7 BOARD DESIGNATED UNRESTRICTED NET ASSETS**

As of June 30, 2017 and 2016, the Board of Directors had designated \$500,000 to use when appropriate and as needed for adult and children’s programming initiatives, infrastructure and a contingency operating reserve.

**Note 8 ENDOWMENT**

MLC has established two funds held by the St. Paul Foundation (the Community Foundation). In 1999 an unrestricted, board designated endowment fund was established. In 2016, the temporarily restricted Kraemer Memorial Education Grant Fund 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, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Endowment Fund - board designated	\$720,544	\$658,378
Kraemer Memorial Education Grant Fund - temporarily restricted	34,095	31,153
Total	<u>\$754,639</u>	<u>\$689,531</u>

**MINNESOTA LITERACY COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2017 and 2016

Change in endowment net assets for the years ending June 30, 2017 and 2016 is as follows:

	Unrestricted	Temporarily Restricted	Total
Endowment net assets - June 30, 2015	\$708,372	\$ -	\$ -
Investment return:			
Interest and dividends	10,049	222	10,271
Net unrealized appreciation	(22,436)	240	(22,196)
Admin fees and investment expense	(8,762)	(186)	(8,948)
Total investment return	(21,149)	276	(20,873)
Other additions:			
Transfers to Community Foundation	-	32,153	32,153
Total other additions	0	32,153	32,153
Appropriation of endowment assets for expenditure	(28,845)	(1,276)	(30,121)
Endowment net assets - June 30, 2016	658,378	31,153	689,531
Investment return:			
Interest and dividends	10,188	481	10,669
Net unrealized appreciation	87,897	4,158	92,055
Admin fees and investment expense	(8,750)	(411)	(9,161)
Total investment return	89,335	4,228	93,563
Other additions:			
Transfers to Community Foundation	-	-	-
Total other additions	0	0	0
Appropriation of endowment assets for expenditure	(27,169)	(1,286)	(28,455)
Endowment net assets - June 30, 2017	\$720,544	\$34,095	\$754,639

**Note 9 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.

**MINNESOTA LITERACY COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2017 and 2016

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, 2017 and 2016, respectively, are as follows:

	Level 3	
	2017	2016
Beneficial interest in assets held by Community Foundation	<u>\$754,639</u>	<u>\$689,531</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:

	2017	2016
Balance, beginning of year	\$689,531	\$708,372
Funds transferred in	-	32,153
Net change in fair value	93,563	(20,873)
Distributions	<u>(28,455)</u>	<u>(30,121)</u>
Balance, end of year	<u>\$754,639</u>	<u>\$689,531</u>

**Note 10 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, 2017 and 2016 were \$49,106 and \$49,373, respectively.

**MINNESOTA LITERACY COUNCIL, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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**Note 11 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>2017</u>	<u>2016</u>
Rent for Rondo Learning Center	<u>\$11,200</u>	<u>\$11,200</u>

MLC also received approximately 34,000 and 28,000 hours of volunteer time that did not meet the criteria for recognition in the fiscal years ended June 30, 2017 and 2016, respectively.

**Note 12 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 13 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. Management believes that any liability for reimbursement, which may arise as a result of these audits, is not material.

**Note 14 SUBSEQUENT EVENTS**

Management has evaluated subsequent events through September 25, 2017, the date the report was available to be issued, and concluded that there are no subsequent events that require disclosure.