

MINNESOTA LITERACY COUNCIL, INC.

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

For The Years Ended
June 30, 2018 and 2017

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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, 2018 and 2017, 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. 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, Inc. as of June 30, 2018 and 2017, 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.

A handwritten signature in black ink that reads "Redpath and Company, LTD." in a cursive script.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

September 12, 2018

FINANCIAL STATEMENTS

MINNESOTA LITERACY COUNCIL, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

Statement 1

	<u>2018</u>	<u>2017</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$1,341,949	\$1,112,284
Accounts receivable	20	43,853
Grants receivable	-	60,000
Pledges receivable, current portion	23,112	25,236
Government grants receivable	390,221	442,347
Prepaid expenses	159,262	178,052
Total current assets	<u>1,914,564</u>	<u>1,861,772</u>
Fixed assets, net	17,391	10,046
Pledges receivable, net	5,216	20,148
Beneficial interest in assets held by Community Foundation	774,600	754,639
Total assets	<u><u>\$2,711,771</u></u>	<u><u>\$2,646,605</u></u>
Liabilities and net assets:		
Current liabilities:		
Accounts payable	\$114,629	\$78,474
Accrued expenses	168,347	165,175
Fiscal agency obligation	44,940	52,241
Deferred revenue	89,642	96,687
Total current liabilities	<u>417,558</u>	<u>392,577</u>
Net assets:		
Unrestricted net assets:		
Undesignated	525,269	515,191
Board designated for programming, infrastructure and reserve	500,000	500,000
Board designated for endowment permanently held by Community Foundation	<u>739,945</u>	<u>720,544</u>
Total unrestricted net assets	<u>1,765,214</u>	<u>1,735,735</u>
Temporarily restricted net assets	<u>528,999</u>	<u>518,293</u>
Total net assets	<u>2,294,213</u>	<u>2,254,028</u>
Total liabilities and net assets	<u><u>\$2,711,771</u></u>	<u><u>\$2,646,605</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, 2018 and 2017

Statement 2

	2018				2017			
	Unrestricted			Total	Unrestricted			Total
	Unrestricted Other	Board Designated for Endowment	Temporarily Restricted		Unrestricted Other	Board Designated for Endowment	Temporarily Restricted	
Contributions and other support:								
Corporation/foundation grants	\$33,787	\$ -	\$366,580	\$400,367	\$51,995	\$ -	\$542,458	\$594,453
Contributions	302,467	-	37,752	340,219	192,405	-	45,700	238,105
In-kind contributions	11,200	-	-	11,200	11,200	-	-	11,200
Memberships	-	-	5,500	5,500	-	-	4,750	4,750
Total contributions and other support	347,454	0	409,832	757,286	255,600	0	592,908	848,508
Government grants:								
Government grants	2,917,016	-	20,000	2,937,016	2,974,551	-	26,400	3,000,951
Pass-through government grants	8,991	-	-	8,991	12,171	-	-	12,171
Total government grants	2,926,007	0	20,000	2,946,007	2,986,722	0	26,400	3,013,122
Other revenue:								
Program service fees and other	850,126	-	-	850,126	793,244	-	-	793,244
Endowment distributions and interest	29,552	-	-	29,552	28,037	-	-	28,037
Total other revenue	879,678	0	0	879,678	821,281	0	0	821,281
Net assets released from restrictions	419,686	-	(419,686)	-	444,990	-	(444,990)	-
Total revenues	4,572,825	0	10,146	4,582,971	4,508,593	0	174,318	4,682,911
Expenses:								
Program services	3,688,053	-	-	3,688,053	3,663,688	-	-	3,663,688
Management and general	496,417	-	-	496,417	453,078	-	-	453,078
Fundraising	378,277	-	-	378,277	355,193	-	-	355,193
Total expenses	4,562,747	0	0	4,562,747	4,471,959	0	0	4,471,959
Change in net assets before unrealized gain	10,078	-	10,146	20,224	36,634	-	174,318	210,952
Unrealized gain in beneficial interest	-	19,401	560	19,961	-	63,166	1,942	65,108
Change in net assets	10,078	19,401	10,706	40,185	36,634	63,166	176,260	276,060
Net assets - beginning of year	1,015,191	720,544	518,293	2,254,028	978,557	657,378	342,033	1,977,968
Net assets - end of year	\$1,025,269	\$739,945	\$528,999	\$2,294,213	\$1,015,191	\$720,544	\$518,293	\$2,254,028

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, 2018 and 2017

Statement 3

	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>
	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
Hosted training and events	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 expense/pass-through expense	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>

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, 2018 and 2017

Statement 4

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$40,185	\$276,060
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	2,009	-
Unrealized (gain) loss in beneficial interest	(19,961)	(65,108)
Change in assets and liabilities:		
Accounts receivable	43,833	(43,853)
Grants receivable	60,000	(60,000)
Pledges receivable	17,056	46,056
Government grants receivable	52,126	(19,814)
Prepaid expenses	18,790	(34,257)
Accounts payable	36,155	(15,339)
Accrued expenses	3,172	26,169
Fiscal agency obligation	(7,301)	8,043
Deferred revenue	(7,045)	(6,068)
Net cash provided by operating activities	<u>239,019</u>	<u>111,889</u>
Cash flows from investing activities:		
Purchase of fixed assets	<u>(9,354)</u>	<u>(10,046)</u>
Net increase in cash and cash equivalents	229,665	101,843
Cash and cash equivalents at beginning of year	<u>1,112,284</u>	<u>1,010,441</u>
Cash and cash equivalents at end of year	<u><u>\$1,341,949</u></u>	<u><u>\$1,112,284</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 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

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 \$1,873 and \$4,085 at June 30, 2018 and 2017, 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, 2018 and 2017, 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.

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 \$44,940 and \$52,241 of assets for LAN at June 30, 2018 and 2017, 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, 2018 and 2017

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.

Note 2 FIXED ASSETS

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

	<u>2018</u>	<u>2017</u>
Equipment	\$142,452	\$133,098
Leasehold improvements	<u>13,956</u>	<u>13,956</u>
Gross fixed assets	156,408	147,054
Less accumulated depreciation	<u>(139,017)</u>	<u>(137,008)</u>
Net fixed assets	<u>\$17,391</u>	<u>\$10,046</u>

Depreciation expense was \$2,009 and \$0 for the years ended June 30, 2018 and 2017, respectively.

MINNESOTA LITERACY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 3 PLEDGES RECEIVABLE

Collection of pledges receivable is expected as follows:

	<u>2018</u>	<u>2017</u>
Due in one year	\$23,112	\$25,236
Due in two to five years	<u>7,175</u>	<u>24,615</u>
Total	30,287	49,851
Less - allowance	(1,873)	(4,085)
Less - discount	<u>(86)</u>	<u>(382)</u>
Total	<u><u>\$28,328</u></u>	<u><u>\$45,384</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, 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 will start 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:

2019	\$192,937
2020	195,203
2021	155,130
2022	149,508
2023	152,560
Thereafter	<u>51,192</u>
Total future minimum lease payments	<u><u>\$896,530</u></u>

Rent expenses for 2018 and 2017 were \$272,626 and \$268,983, respectively.

MINNESOTA LITERACY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 5 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>2018</u>	<u>2017</u>
Restricted as to purpose:		
Adult Basic Education	\$176,100	\$188,343
AmeriCorps - Summer Reads	1,773	8,001
Family Literacy	225	122,500
Health Literacy Partnership	23,058	20,684
Kraemer Memorial Education Grant Fund	34,997	33,874
Fischer Award	21,945	22,513
St. Paul Library Strategies	19,327	25,000
Adult Indirect Service	44,775	12,000
Journeys and Routes	-	500
Restricted as to time:		
General operating	186,799	58,478
Software license	<u>20,000</u>	<u>26,400</u>
 Total temporarily restricted	 <u><u>\$528,999</u></u>	 <u><u>\$518,293</u></u>

Note 6 NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from restrictions consist of the following:

	<u>2018</u>	<u>2017</u>
Program restrictions satisfied:		
Adult Basic Education	\$64,649	\$87,752
AmeriCorps - Summer Reads	13,698	37,820
Family Literacy	170,481	94,269
Health Literacy Partnership	3,126	2,724
Fischer Award	568	570
St. Paul Library Strategies	56,173	42,000
Kraemer Memorial Education Grant Fund	1,404	2,383
Adult Indirect Service	12,000	20
Time restriction satisfied:		
General operating	71,187	177,452
Software license	<u>26,400</u>	<u>-</u>
 Total net assets released from restrictions	 <u><u>\$419,686</u></u>	 <u><u>\$444,990</u></u>

MINNESOTA LITERACY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
 June 30, 2018 and 2017

Note 7 BOARD DESIGNATED UNRESTRICTED NET ASSETS

As of June 30, 2018 and 2017, 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, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Endowment Fund - board designated	\$739,945	\$720,544
Kraemer Memorial Education Grant Fund - temporarily restricted	<u>34,655</u>	<u>34,095</u>
Total	<u><u>\$774,600</u></u>	<u><u>\$754,639</u></u>

MINNESOTA LITERACY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Change in endowment net assets for the years ending June 30, 2018 and 2017 is as follows:

	Unrestricted	Temporarily Restricted	Total
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
Investment return:			
Interest and dividends	12,389	585	12,974
Net unrealized appreciation	44,423	2,103	46,526
Admin fees and investment expense	(9,372)	(443)	(9,815)
Total investment return	47,440	2,245	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	\$739,603	\$34,997	\$774,600

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, 2018 and 2017

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, 2018 and 2017, respectively, are as follows:

	Level 3	
	2018	2017
Beneficial interest in assets held by Community Foundation	<u>\$774,600</u>	<u>\$754,639</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:

	2018	2017
Balance, beginning of year	\$754,639	\$689,531
Net change in fair value	49,685	93,563
Distributions	<u>(29,724)</u>	<u>(28,455)</u>
Balance, end of year	<u>\$774,600</u>	<u>\$754,639</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, 2018 and 2017 were \$49,393 and \$49,106, respectively.

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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>2018</u>	<u>2017</u>
Rent for Rondo Learning Center	<u>\$11,200</u>	<u>\$11,200</u>

MLC also received approximately 26,500 and 34,000 hours of volunteer time that did not meet the criteria for recognition in the fiscal years ended June 30, 2018 and 2017, 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 12, 2018, the date the report was available to be issued, and concluded that there are no subsequent events that require disclosure.