MINNESOTA LITERACY COUNCIL, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

For The Years Ended
June 30, 2016 and 2015

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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, 2016 and 2015 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, 2016 and 2015, 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 13, 2016 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 13, 2016

FINANCIAL STATEMENTS

MINNESOTA LITERACY COUNCIL, INC.

STATEMENTS OF FINANCIAL POSITION **Statement 1**

June 30, 2016 and 2015

	2016	2015
Assets:		
Current assets:		
Cash and cash equivalents	$1,010,441	$1,122,406
Accounts receivable	-	1,613
Pledges receivable, current portion	55,576	73,546
Grants receivable	422,533	443,429
Prepaid expenses	44,025	38,982
Total current assets	1,532,575	1,679,976
Fixed assets, net	-	1,400
Software license, net	99,770	116,220
Pledges receivable, net	35,864	55,991
Beneficial interest in assets held by Community Foundation	689,531	708,372
Total assets	$2,357,740	$2,561,959
Liabilities and net assets:		
Current liabilities:		
Accounts payable	$93,813	$91,899
Accrued expenses	139,006	115,432
Fiscal agency obligation	44,198	38,961
Deferred revenue	102,755	126,950
Total current liabilities	379,772	373,242
Net assets:		
Unrestricted net assets:		
Undesignated	478,557	355,542
Board designated for programming, infrastructure and reserve	500,000	550,000
Board designated for endowment permanently held by Community Foundation	657,378	708,372
Total unrestricted net assets	1,635,935	1,613,914
Temporarily restricted net assets	342,033	574,803
Total net assets	1,977,968	2,188,717
Total liabilities and net assets	$2,357,740	$2,561,959

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

MINNESOTA LITERACY COUNCIL, INC.
STATEMENTS OF ACTIVITIES
For The Years Ended June 30, 2016 and 2015

Statement 2

	2016				2015			
	Unrestricted				Unrestricted			
	Unrestricted Other	Board Designated for Endowment	Temporarily Restricted	Total	Unrestricted Other	Board Designated for Endowment	Temporarily Restricted	Total
Contributions and other support:								
Corporation/foundation grants	$33,457	$ -	$267,404	$300,861	$37,862	$ -	$501,248	$539,110
Contributions	148,382	-	21,943	170,325	259,997	-	69,632	329,629
In-kind contributions	11,200	-	-	11,200	11,200	-	-	11,200
Memberships	-	-	1,000	1,000	-	-	1,000	1,000
Total contributions and other support	193,039	0	290,347	483,386	309,059	0	571,880	880,939
Government grants:								
Government grants	2,821,026	-	-	2,821,026	2,734,571	-	-	2,734,571
Pass-through government grants	11,281	-	-	11,281	9,612	-	-	9,612
Total government grants	2,832,307	0	0	2,832,307	2,744,183	0	0	2,744,183
Other revenue:								
Special events	-	-	-	-	650	-	-	650
Program service fees and other	775,617	-	-	775,617	758,489	-	-	758,489
Endowment distributions and interest	29,563	-	-	29,563	28,312	-	-	28,312
Total other revenue	805,180	0	0	805,180	787,451	0	0	787,451
Net assets released from restrictions	523,117	-	(523,117)	-	410,470	-	(410,470)	-
Total revenues	4,353,643	0	(232,770)	4,120,873	4,251,163	0	161,410	4,412,573
Expenses:								
Program services	3,540,478	-	-	3,540,478	3,423,606	-	-	3,423,606
Management and general	467,769	-	-	467,769	462,916	-	-	462,916
Fundraising	272,381	-	-	272,381	276,998	-	-	276,998
Total expenses	4,280,628	0	0	4,280,628	4,163,520	0	0	4,163,520
Change in net assets before unrealized gain (loss)	73,015	-	(232,770)	(159,755)	87,643	-	161,410	249,053
Unrealized gain (loss) in beneficial interest	-	(50,994)	-	(50,994)	-	(11,605)	-	(11,605)
Change in net assets	73,015	(50,994)	(232,770)	(210,749)	87,643	(11,605)	161,410	237,448
Net assets - beginning of year	905,542	708,372	574,803	2,188,717	817,899	719,977	413,393	1,951,269
Net assets - end of year	$978,557	$657,378	$342,033	$1,977,968	$905,542	$708,372	$574,803	$2,188,717

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

MINNESOTA LITERACY COUNCIL, INC.
STATEMENTS OF FUNCTIONAL EXPENSES **Statement 3**
For The Years Ended June 30, 2016 and 2015

	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	1,852,004	359,197	222,013	2,433,214
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	166,087	26,577	5,366	198,030
Printing/postage	17,988	3,871	13,048	34,907
Depreciation	117,102	315	203	117,620
In-kind/pass-through expenses	22,481	-	-	22,481
Total expenses	$3,540,478	$467,769	$272,381	$4,280,628

	2015			
	Program Services	Management and General	Fundraising	Total
Salaries	$1,401,713	$282,014	$163,922	$1,847,649
Employee benefits and payroll taxes	383,594	68,991	40,365	492,950
Total salaries and related expenses	1,785,307	351,005	204,287	2,340,599
AmeriCorps allowances, benefits and taxes	460,732	-	-	460,732
Occupancy	260,181	30,927	16,411	307,519
Professional services	596,138	23,672	10,455	630,265
Recruitment/staff development	33,298	6,028	697	40,023
Travel/meetings	29,229	10,973	234	40,436
Training	32,891	1,408	29,177	63,476
Supplies and equipment	93,053	33,339	5,366	131,758
Printing/postage	17,284	3,286	9,101	29,671
Depreciation	94,681	2,278	1,270	98,229
In-kind expense/pass-through expense	20,812	-	-	20,812
Total expenses	$3,423,606	$462,916	$276,998	$4,163,520

MINNESOTA LITERACY COUNCIL, INC.

STATEMENTS OF CASH FLOWS **Statement 4**

For The Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	($210,749)	$237,448
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	117,620	98,229
Unrealized (gain) loss in beneficial interest	50,994	11,605
Change in assets and liabilities:		
Accounts receivable	1,613	343
Pledges receivable	38,097	(57,032)
Grants receivable	20,896	95,830
Prepaid expenses	(5,043)	(7,266)
Accounts payable	1,914	20,454
Accrued expenses	23,574	945
Fiscal agency obligation	5,237	(11,516)
Deferred revenue	(24,195)	18,268
Net cash provided by operating activities	19,958	407,308
Cash flows from investing activities:		
Purchase of software license	(99,770)	(116,220)
Addition to beneficial interest in assets held by Community Foundation	(32,153)	-
Net cash used in investing activities	(131,923)	(116,220)
Net increase (decrease) in cash and cash equivalents	(111,965)	291,088
Cash and cash equivalents at beginning of year	1,122,406	831,318
Cash and cash equivalents at end of year	$1,010,441	$1,122,406

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 nearly 400 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 youth 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. Contributions receivable are presented net of allowances for bad debts of $9,003 and $15,433 at June 30, 2016 and 2015, respectively.

E. ACCOUNTS RECEIVABLE AND GRANTS RECEIVABLE

Accounts receivable and grants receivable are primarily from corporations and government agencies. All accounts receivable and grants receivable are deemed to be collectible within one year. Accordingly, no allowance is recorded.

F. FIXED ASSETS AND SOFTWARE LICENSE

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. Software license is amortized over the license term.

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 $44,198 and $38,961 of assets for LAN at June 30, 2016 and 2015, 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.

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:

	2016	2015
Equipment	$152,240	$152,240
Leasehold improvements	13,956	13,956
Gross fixed assets	166,196	166,196
Less accumulated depreciation	(166,196)	(164,796)
Net fixed assets	$ -	$1,400

The following is a summary of the software license as of June 30:

	2016	2015
Software license	$99,770	$116,220
Less accumulated amortization	-	-
Net software license	$99,770	$116,220

Depreciation expense, including amortization of software license, was $117,620 and $98,229 for the years ended June 30, 2016 and 2015, respectively.

Note 3 PLEDGES RECEIVABLE

Collection of pledges receivable is expected as follows:

	2016	2015
Due in one year	$55,576	$73,546
Due in two to five years	45,811	73,256
Total	101,387	146,802
Less - allowance	(9,003)	(15,433)
Less - discount	(944)	(1,832)
Total	$91,440	$129,537

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 starting November 1, 2015 are $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:

2017	$191,347
2018	190,366
2019	98,697
2020	51,803
2021	8,678
Total future minimum lease payments	$540,891

Rent expenses for 2016 and 2015 were $266,361 and $249,507, respectively.

Note 5 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	2016	2015
Restricted as to purpose:		
Adult Basic Education	$222,612	$164,761
AmeriCorps - Summer Reads	17,720	4,667
Family Literacy	5,000	35,704
Health Literacy Partnership	18,658	19,553
Kraemer Memorial Education Grant Fund	32,179	30,128
L3 St. Paul Library	-	25,000
Restricted as to time:		
General operating	45,864	294,990
Total temporarily restricted	$342,033	$574,803

Note 6 NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from restrictions consist of the following:

	2016	2015
Program restrictions satisfied:		
Adult Basic Education	$56,524	$36,653
Fischer Award	500	-
Adult Indirect Service	1,520	-
AmeriCorps - Summer Reads	6,947	21,350
Family Literacy	69,881	71,175
Health Literacy Partnership	1,895	1,792
L3 St. Paul Library	125,000	125,000
Journeys and Routes	4,000	14,000
Time restriction satisfied:		
General operating	256,850	51,523
Software License	-	88,977
Total net assets released from restrictions	$523,117	$410,470

Note 7 BOARD DESIGNATED UNRESTRICTED NET ASSETS

As of June 30, 2016 and 2015, the Board of Directors had designated $500,000 and $550,000, respectively 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 5.25% of a moving twenty-one quarter average but not less than 4.50% or greater than 6.00% of current market value.

The composition of endowment net assets by fund type as of June 30, 2016 and 2015 is as follows:

	2016	2015
Endowment Fund - board designated	$658,378	$708,372
Kraemer Memorial Education Grant Fund - temporaily restricted	31,153	-
Total	$689,531	$708,372

Change in endowment net assets for the years ending June 30, 2016 and 2015 is as follows:

	2016			2015
	Unrestricted	Temporarily Restricted	Total	Unrestricted
Endowment net assets - beginning of year	$708,372	$ -	$708,372	$719,977
Transfers to Community Foundation	-	32,153	32,153	-
Investment return:				
Interest and dividends	10,049	222	10,271	10,540
Net unrealized appreciation	(22,436)	240	(22,196)	13,386
Admin fees and investment expense	(8,762)	(186)	(8,948)	(7,802)
Net	(21,149)	276	(20,873)	16,124
Appropriation of endowment assets for expenditure	(28,845)	(1,276)	(30,121)	(27,729)
Endowment net assets - end of year	$658,378	$31,153	$689,531	$708,372

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.

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, 2016 and 2015, respectively, are as follows:

	Level 3	
	2016	2015
Beneficial interest in assets held by Community Foundation	$689,531	$708,372

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:

	2016	2015
Balance, beginning of year	$708,372	$719,977
Funds tranferred in	32,153	-
Net change in fair value	(20,873)	16,124
Distributions	(30,121)	(27,729)
Balance, end of year	$689,531	$708,372

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, 2016 and 2015 were $49,373 and $42,642, respectively.

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:

	2016	2015
Rent for Rondo Learning Center	$11,200	$11,200

MLC also received approximately 28,000 hours of volunteer time that did not meet the criteria for recognition in each of the fiscal years ended June 30, 2016 and 2015.

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 JOINT COSTS

Newsletter total costs of $5,926 were incurred during the year ended June 30, 2016 with $2,963 attributable to fundraising, $2,963 attributable to administration and $0 attributable to programs. Newsletter total costs of $3,407 were incurred during the year ended June 30, 2015 with $1,704 attributable to fundraising, $1,703 attributable to administration and $0 attributable to programs.

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

Note 15 SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 13, 2016, the date the report was available to be issued, and concluded that there are no subsequent events that require disclosure.