

LITERACY SERVICES OF WISCONSIN, INC.

FINANCIAL STATEMENTS

June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Literacy Services of Wisconsin, Inc.
Milwaukee, Wisconsin

We have audited the accompanying financial statements of Literacy Services of Wisconsin, Inc., which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Literacy Services of Wisconsin, Inc. as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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LITERACY SERVICES OF WISCONSIN, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2018

ASSETS	
CURRENT ASSETS	
Cash	\$ 107,706
Pledges receivable	156,712
Grants and contracts receivable	75,866
Prepaid expenses	<u>2,319</u>
Total current assets	342,603
FURNITURE AND EQUIPMENT	
Furniture and equipment	67,526
Less accumulated depreciation	<u>48,424</u>
Furniture and equipment - net	19,102
OTHER ASSETS	
Investments	789,760
Long-term pledges receivable	47,040
Cash surrender value of life insurance	<u>21,557</u>
Total other assets	<u>858,357</u>
Total assets	<u><u>\$ 1,220,062</u></u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	\$ 12,149
Accrued payroll	7,113
Accrued vacation	7,763
Current portion of capital lease payable	<u>1,675</u>
Total current liabilities	28,700
OTHER LIABILITIES	
Accrued rent liability	62,566
Capital lease payable less current portion	<u>7,089</u>
Total liabilities	98,355
NET ASSETS	
Unrestricted	463,821
Temporarily restricted	245,137
Permanently restricted	<u>412,749</u>
Total net assets	<u>1,121,707</u>
Total liabilities and net assets	<u><u>\$ 1,220,062</u></u>

See accompanying notes.

LITERACY SERVICES OF WISCONSIN, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Individual contributions	\$ 300,124	\$ 20,500	\$ -	\$ 320,624
Corporate and foundation contributions	54,000	464,000	-	518,000
In-kind contributions	536,733	10,440	-	547,173
Grants and contracts	537,506	-	-	537,506
Special events	113,211	-	-	113,211
Registration and material fees	12,805	-	-	12,805
Investment return	19,137	29,626	-	48,763
Change in value of cash surrender value of life insurance	219	-	-	219
Total support and revenue	1,573,735	524,566	-	2,098,301
EXPENSES				
Program services				
Adult Basic Education	604,222	-	-	604,222
English Language Learning	610,224	-	-	610,224
GED Preparation	474,641	-	-	474,641
Total program services	1,689,087	-	-	1,689,087
Supporting activities				
Management and general	102,988	-	-	102,988
Fundraising	130,213	-	-	130,213
Total supporting activities	233,201	-	-	233,201
Total expenses	1,922,288	-	-	1,922,288
Net assets released from restrictions	494,531	(494,531)	-	-
OTHER CHANGES				
Excess of fair value of assets acquired over liabilities assumed in acquisition of MALS	143,772	-	22,500	166,272
Change in net assets	289,750	30,035	22,500	342,285
Net assets - beginning of period	174,071	215,102	390,249	779,422
Net assets - end of period	\$ 463,821	\$ 245,137	\$ 412,749	\$ 1,121,707

See accompanying notes.

LITERACY SERVICES OF WISCONSIN, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2018

	Program Services			Management and General	Fundraising	Total
	Adult Basic Education	English Language Education	GED Preparation			
Salaries and wages	\$ 230,157	\$ 235,657	\$ 205,357	\$ 51,559	\$ 66,363	\$ 789,093
Employee benefits	30,808	17,204	22,403	11,479	2,075	83,970
Payroll taxes	18,963	22,778	17,115	5,365	5,522	69,743
Professional fees	224,638	215,946	139,699	10,703	8,260	599,245
Marketing	3,610	5,180	1,794	1,541	9,062	21,187
Office supplies	540	551	437	182	169	1,879
Telephone	2,750	5,652	2,508	1,112	212	12,234
Print and postage	668	708	510	121	2,661	4,668
Subscriptions	266	312	220	1,732	-	2,530
Occupancy	52,184	61,296	44,365	6,909	5,876	170,631
Utilities	6,367	5,411	5,411	955	955	19,099
GED scholarships and tests	402	512	1,850	-	-	2,764
Maintenance and equipment	7,760	8,885	6,084	1,068	1,014	24,811
Depreciation	2,667	3,621	2,334	319	318	9,259
Food and beverage	952	1,022	876	1,300	59	4,209
Travel	1,803	2,214	2,531	951	15	7,514
Bank and credit card fees	-	-	-	2,787	-	2,787
Technology	3,965	5,159	2,687	1,672	695	14,178
Insurance	3,250	3,731	3,052	1,731	207	11,971
Board and staff development	877	1,431	882	1,064	489	4,743
Miscellaneous expenses	65	63	63	438	53	682
Educational resources	11,530	12,890	14,462	-	18	38,901
Event fees	-	-	-	-	26,190	26,190
Total expenses	\$ 604,222	\$ 610,224	\$ 474,641	\$ 102,988	\$ 130,213	\$ 1,922,288

See accompanying notes.

LITERACY SERVICES OF WISCONSIN, INC.
STATEMENT OF CASH FLOWS
Year ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 342,285
Adjustments to reconcile change in net assets to net cash flows from operating activities	
Noncash items assumed in acquisition of MALS	(10,783)
Depreciation	9,259
Realized and unrealized gain on investments	(37,165)
Cash surrender value of life insurance	(219)
(Increase) decrease in assets	
Pledges receivable	(68,463)
Grants and contracts receivable	(75,866)
Prepaid expenses	9,739
Increase (decrease) in liabilities	
Accounts payable	(4,242)
Accrued payroll	6,191
Accrued vacation	(14,182)
Accrued rent liability	(18,358)
	138,196
Net cash flows from operating activities	138,196
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(72,177)
Interest and dividends retained in investments	(11,598)
Proceeds from sale of investments	30,000
	(53,775)
Net cash flows from investing activities	(53,775)
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on capital lease payable	(1,692)
	82,729
Change in cash	82,729
Cash - beginning of period	24,977
	\$ 107,706
Cash - end of period	\$ 107,706
SUPPLEMENTAL DISCLOSURES	
Cash paid for interest	\$ 296

See accompanying notes.

LITERACY SERVICES OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Literacy Services of Wisconsin, Inc. (the Organization) is a nonprofit corporation organized under the laws of the State of Wisconsin. Literacy Services of Wisconsin, Inc. educates, motivates, and inspires engaged adults to achieve greater independence and transform their lives.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets—Net assets that are not restricted by donors. Designations are voluntary board-approved segregations of unrestricted net assets for specific purposes, projects, or investments.

Temporarily restricted net assets—Net assets whose use has been limited by donor-imposed time restrictions or purpose restrictions.

Permanently restricted net assets—Net assets that have been restricted by donors to be maintained by the Organization in perpetuity.

Pledges Receivable

Pledges receivable are recognized as support or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional pledges receivable are recognized only when the conditions on which they depend are substantially met and the pledges become unconditional.

Grants and Contracts Receivable

The Organization considers all grants and contracts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Furniture and Equipment

Furniture and equipment is recorded at cost or, if donated, at the approximate fair value at the date of donation. The Organization capitalizes assets with an original cost of \$5,000 or greater. Depreciation is provided over the estimated useful lives of the assets using the straight-line method.

Investments Policy

The Organization carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities. Investment securities, in general, are exposed to various risks, such as interest rates, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of financial position.

LITERACY SERVICES OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, 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.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

Donated Goods and Services

Donated goods and services are recorded at fair value at the date of donation. Donated services are recognized in the financial statements at their fair value if the services require specialized skills and the services are provided by individuals possessing those skills, and the services would typically need to be purchased if not donated; or the services enhance or create an asset.

Advertising

Advertising costs are expensed as they are incurred. Advertising expense for the year ended June 30, 2018 was \$21,187.

Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Date of Management's Review

Management has evaluated subsequent events through October 24, 2018, the date which the financial statements were available to be issued.

LITERACY SERVICES OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 2 – PLEDGES RECEIVABLE

As of June 30, 2018 pledges receivable of \$156,712 are receivable in less than one year and pledges receivable of \$47,040 are receivable in one to five years.

NOTE 3 – INVESTMENTS

Investments at June 30, 2018 consisted of the following:

Money market	\$ 7,634
Stock mutual funds	169,433
Stock exchange traded funds	294,936
Bond mutual funds	<u>317,757</u>
Investments	<u><u>\$ 789,760</u></u>

Investment return for the year June 30, 2018 ended consisted of the following:

Interest and dividends	\$ 16,405
Realized and unrealized gain	37,165
Investment fees	<u>(4,807)</u>
Investment return	<u><u>\$ 48,763</u></u>

NOTE 4 – NET ASSETS

As of June 30, 2018 the board of directors has designated \$350,408 of unrestricted net assets for the organization's endowment.

Temporarily restricted net assets at June 30, 2018 consisted of the following:

GED Scholarships	\$ 14,821
Workforce Readiness Initiative	55,000
English Language Learning	24,744
Endowment earnings	56,360
Opportunity Pathway Program	3,500
Merger-related activities	66,712
Subsequent year rent	10,440
Subsequent year operations	<u>13,560</u>
Temporarily restricted net assets	<u><u>\$ 245,137</u></u>

Permanently restricted net assets is comprised of amounts contributed for which the principal donation amount is permanently preserved.

LITERACY SERVICES OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 5 – FAIR VALUE MEASUREMENTS

Fair values of assets measured on a recurring basis at June 30, 2018 are as follows:

	Fair Value	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Stock mutual funds	\$ 169,433	\$ 169,433	\$ -
Bond mutual funds	317,757	317,757	
Stock exchange traded funds	294,936	294,936	-
Cash surrender value of life insurance	21,557	-	21,557
June 30, 2018	<u>\$ 803,683</u>	<u>\$ 782,126</u>	<u>\$ 21,557</u>

Fair values for stock mutual, bond mutual, and stock exchange traded funds are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value for cash surrender value of life insurance is determined based on the Organization's share of the cash surrender value net indebtedness on that policy.

NOTE 6 – ENDOWMENT

The Organization's endowment consists of funds held in cash, money market, stock funds, bond funds, and cash surrender value of life insurance policy. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment net asset composition by type of fund as of June 30, 2018 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 56,360	\$ 412,749	\$ 469,109
Board-designated endowment funds	350,408	-	-	350,408
Total funds	<u>\$ 350,408</u>	<u>\$ 56,360</u>	<u>\$ 412,749</u>	<u>\$ 819,517</u>

The Organization follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds. UPMIFA requires that the portion of a donor restricted endowment fund that is classified as permanently restricted net assets is not reduced by losses on the investment of the fund, except to the extent required by the donor. Likewise, the amount of permanently restricted net assets is not reduced by an organization's appropriations from the fund. The portion of the fund that is not classified as permanently restricted net assets is reported as temporarily restricted net assets until appropriated for expenditure by the Organization.

LITERACY SERVICES OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 6 – ENDOWMENT (continued)

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effects of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization’s investment policies.

Investment Return Objectives, Risk Parameters, and Strategies. The Organization has adopted investment policies for endowment assets that are directed toward long-term performance and total return, rather than specific income goals. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity, as well as board-designated funds.

Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to provide for growth of capital and produce returns to fund operations, while assuming a moderate level of investment risk. To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both realized and unrealized gains/loss and interest and dividends.

The Organization targets a diversified asset allocation that places a greater emphasis on fixed income investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy. Periodically it may become necessary for management to request a disbursement from the investments to meet operational expenses. In those instances, management should prepare written documentation of what the requested funds would be used for and present it to the finance committee for approval. Only members of the finance committee are able to authorize withdrawals from the investments.

Changes in endowment net assets for the year ended June 30, 2018 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance - June 30, 2017	\$ 302,174	\$ 56,735	\$ 390,249	\$ 749,158
Contributions	28,896	-	22,500	51,396
Investment income	6,427	9,959	-	16,386
Net appreciation	14,796	22,588	-	37,384
Investment expenses	(1,885)	(2,922)	-	(4,807)
Amounts appropriated for expenditure	-	(30,000)	-	(30,000)
Balance - June 30, 2018	<u>\$ 350,408</u>	<u>\$ 56,360</u>	<u>\$ 412,749</u>	<u>\$ 819,517</u>

LITERACY SERVICES OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 7 – RETIREMENT PLANS

A simplified employee pension plan was started in 2012. Employees are able to make contributions and are eligible after three years of service to receive an employee match each year if approved by the board. Total employer contributions for the year ended June 30, 2018 was \$8,577.

The Organization also maintains a 403(b) retirement plan in which employees may defer a portion of their salary. The Organization does not make contributions into the 403(b) retirement plan.

NOTE 8 – OPERATING LEASES

The Organization entered into a lease for office and program space at 555 N. Plankinton Avenue in Milwaukee, Wisconsin. Rent payments are required through the initial lease term ending December 31, 2020. The Organization has an option for two five year lease extensions thereafter. For financial statement reporting purposes, annual rent expense will be recognized evenly across the term of the leases, taking the total lease payments divided by the total months of the lease. Any difference in cash payments and rent recognized is adjusted through the accrued rent liability on the statements of financial position. Rent expense for the year ended June 30, 2018 was \$165,029.

The Organization entered into a lease for program space at 1545 S. Layton Boulevard in Milwaukee, Wisconsin. Rent payments were required beginning July 1, 2017 through the initial lease term ending June 30, 2018. The lease required monthly payments of \$1,600. The value of the leased space was estimated to be \$3,565. The value of the donated rent (\$23,580) was recognized as a contribution in the year promised and the expense was recognized during the year ended June 30, 2018, the year in which the space was used. The Organization renewed this lease for the period July 1, 2018 through June 30, 2019. The lease requires monthly payments of \$2,610. The value of the leased space is estimated to be \$3,489. The value of the donated rent (\$10,440) has been recognized in the year ended June 30, 2018 as a promise to give and is included with in-kind contributions on the statement of activities. Rent expense under this agreement totaled \$41,180.

Future minimum lease payments for the years ending June 30 are as follows:

2019	\$ 196,385
2020	145,824
2021	<u>73,935</u>
	<u>\$ 416,144</u>

NOTE 9 – CAPITAL LEASE PAYABLE

The Organization has a capital lease for a copy machine with a cost of \$11,998. The lease requires monthly payments of principal and interest of \$225 through October 2017. Copier was disposed of during the year ended June 30, 2018. Interest expense under this capital lease for the year ended June 30, 2018 was \$39.

LITERACY SERVICES OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 9 – CAPITAL LEASE PAYABLE (continued)

The Organization entered into a capital lease for a copy machine with a cost of \$9,571 during the year ended June 30, 2018. The lease requires monthly payments of principal and interest of \$173 through February 2023. Accumulated depreciation at June 30, 2018 was \$1,117. Interest expense for the year ended June 30, 2018 was \$257.

Future minimum payments for the year ended June 30, 2018 are \$8,764 of which \$25 represents interest.

NOTE 10 – IN-KIND CONTRIBUTIONS

The fair value of in-kind contributions for the year ended June 30, 2018 included in the financial statements are as follows:

	Program Services			
	Adult Basic Education	English Language Education	GED Preparation	Total
Professional fees	\$ 222,176	\$ 213,483	\$ 101,074	\$ 536,733

The Organization also received \$10,440 of donated rent for the year-ended June 30, 2018. Rent expense related to the in-kind contribution will be recognized in the statement of activities in the month it is incurred.

In addition, volunteers provided 17,703 hours of program services with a value of \$397,958 according to the independent sector. The value of donated hours did not meet the criteria for recognition in the financial statements.

NOTE 11 – LETTER OF CREDIT

The Organization has a letter of credit available for \$7,270 at a bank that is held for the state of Wisconsin assurance for participation in the reimbursement method of unemployment. Bills are paid monthly for unemployment due; the assurance is available to be drawn on by the state in case the Organization becomes delinquent. Should the Organization terminate its participation in the program, after a period of time, the letter of assurance would be cancelled.

NOTE 12 – ACQUISITION OF MILWAUKEE ACHIEVERS LITERACY SERVICES, INC.

The Organization acquired Milwaukee Achiever Literacy Services, Inc. (MALS), a Wisconsin corporation exempt from income taxes under section 501(c)(3) of the Internal Revenue Code effective July 1, 2017. MALS's principal activity was to provide education, life skills training and workforce development instruction for adult learners in an atmosphere of mutual acceptance and respect. The acquisition occurred due to the common programming synergies between the clients each organization served and occurred via a majority vote of each organization's board of directors. No consideration was transferred in the acquisition.

LITERACY SERVICES OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 12 – ACQUISITION OF MILWAUKEE ACHIEVERS LITERACY SERVICES, INC. (continued)

The following table summarizes the amounts of the assets acquired and liabilities assumed recognized at the acquisition date:

Cash	\$ 78,096
Receivables	74,007
Prepaid expenses	4,395
Property and equipment	10,783
Accounts payable	<u>(1,009)</u>
Contribution from acquisition	<u>\$ 166,272</u>

The Articles of Merger (Ch. 181) was filed with the State of Wisconsin Department of Financial Institutions on June 26, 2017.