

**LITERACY SERVICES OF WISCONSIN, INC.**

**FINANCIAL STATEMENTS**

June 30, 2019 and 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 statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 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 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Adoption of New Accounting Pronouncement**

As discussed in Note 1 to the financial statements, Literacy Services of Wisconsin, Inc. adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended June 30, 2019. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

*Wegner CPAs LLP*

Wegner CPAs, LLP  
Waukesha, Wisconsin  
October 1, 2019

**LITERACY SERVICES OF WISCONSIN, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
June 30, 2019 and 2018

<b>ASSETS</b>	2019	2018
<b>CURRENT ASSETS</b>		
Cash	\$ 228,586	\$ 107,706
Pledges receivable	76,439	156,712
Grants and contracts receivable	36,955	75,866
Prepaid expenses	867	2,319
Total current assets	342,847	342,603
<b>FURNITURE AND EQUIPMENT</b>		
Furniture and equipment	81,448	67,526
Less accumulated depreciation	56,654	48,424
Furniture and equipment, net	24,794	19,102
<b>OTHER ASSETS</b>		
Investments	840,893	789,760
Long-term pledges receivable	14,796	47,040
Cash surrender value of life insurance	21,784	21,557
Total other assets	877,473	858,357
<b>Total assets</b>	<b>\$ 1,245,114</b>	<b>\$ 1,220,062</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 394	\$ 12,149
Accrued payroll	9,105	7,113
Accrued vacation	8,364	7,763
Current portion of capital lease payable	1,762	1,675
Total current liabilities	19,625	28,700
<b>OTHER LIABILITIES</b>		
Accrued rent liability	-	62,566
Capital lease payable less current portion	5,328	7,089
Total liabilities	24,953	98,355
<b>NET ASSETS</b>		
Without donor restrictions	659,322	463,821
With donor restrictions	560,839	657,886
Total net assets	1,220,161	1,121,707
<b>Total liabilities and net assets</b>	<b>\$ 1,245,114</b>	<b>\$ 1,220,062</b>

See accompanying notes.

**LITERACY SERVICES OF WISCONSIN, INC.**  
**STATEMENTS OF ACTIVITIES**  
Years Ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE</b>						
Individual contributions	\$ 354,521	\$ -	\$ 354,521	\$ 300,124	\$ 20,500	\$ 320,624
Corporate and foundation contributions	157,692	101,001	258,693	54,000	464,000	518,000
In-kind contributions	456,224	6,336	462,560	536,733	10,440	547,173
Grants and contracts	661,042	-	661,042	537,506	-	537,506
Special events	109,799	-	109,799	113,211	-	113,211
Registration and material fees	10,270	-	10,270	12,805	-	12,805
Investment return, net	22,069	29,099	51,168	19,137	29,626	48,763
Miscellaneous	52	-	52	-	-	-
Change in value of cash surrender value of life insurance	227	-	227	219	-	219
<b>Total support and revenue</b>	<b>1,771,896</b>	<b>136,436</b>	<b>1,908,332</b>	<b>1,573,735</b>	<b>524,566</b>	<b>2,098,301</b>
<b>EXPENSES</b>						
Program services						
Adult Basic Education	569,738	-	569,738	604,222	-	604,222
English Language Learning	523,883	-	523,883	610,224	-	610,224
GED Preparation	442,842	-	442,842	474,641	-	474,641
<b>Total program services</b>	<b>1,536,463</b>	<b>-</b>	<b>1,536,463</b>	<b>1,689,087</b>	<b>-</b>	<b>1,689,087</b>
Supporting activities						
Management and general	137,939	-	137,939	102,988	-	102,988
Fundraising	135,476	-	135,476	130,213	-	130,213
<b>Total supporting activities</b>	<b>273,415</b>	<b>-</b>	<b>273,415</b>	<b>233,201</b>	<b>-</b>	<b>233,201</b>
<b>Total expenses</b>	<b>1,809,878</b>	<b>-</b>	<b>1,809,878</b>	<b>1,922,288</b>	<b>-</b>	<b>1,922,288</b>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>						
Expiration of time restrictions	2,950	(2,950)	-	43,986	(43,986)	-
Satisfaction of purpose restrictions	230,533	(230,533)	-	450,545	(450,545)	-
<b>Net assets released from restrictions</b>	<b>233,483</b>	<b>(233,483)</b>	<b>-</b>	<b>494,531</b>	<b>(494,531)</b>	<b>-</b>
<b>OTHER CHANGES</b>						
Excess of fair value of assets acquired over liabilities assumed in acquisition of MALS	-	-	-	143,772	22,500	166,272
<b>Change in net assets</b>	<b>195,501</b>	<b>(97,047)</b>	<b>98,454</b>	<b>289,750</b>	<b>52,535</b>	<b>342,285</b>
Net assets at beginning of year	463,821	657,886	1,121,707	174,071	605,351	779,422
<b>Net assets at end of year</b>	<b>\$ 659,322</b>	<b>\$ 560,839</b>	<b>\$ 1,220,161</b>	<b>\$ 463,821</b>	<b>\$ 657,886</b>	<b>\$ 1,121,707</b>

**LITERACY SERVICES OF WISCONSIN, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year Ended June 30, 2019

	Program Services			Supporting Activities		Total Expenses
	Adult Basic Education	English Language Education	GED Preparation	Management and General	Fundraising	
Salaries and wages	\$ 232,438	\$ 248,988	\$ 204,027	\$ 80,230	\$ 60,480	\$ 826,163
Employee benefits	27,711	32,915	29,208	15,118	4,274	109,226
Payroll taxes	19,226	21,646	17,248	5,900	5,096	69,116
Professional fees	213,748	129,870	120,554	16,859	12,428	493,459
Marketing	3,360	4,804	1,532	1,244	6,859	17,799
Office supplies	686	813	568	229	399	2,695
Telephone	2,834	4,961	2,402	1,187	287	11,671
Print and postage	845	1,024	521	163	2,512	5,065
Subscriptions	194	228	75	778	26	1,301
Occupancy	38,875	46,801	34,762	4,946	4,950	130,334
Utilities	5,783	4,915	4,914	867	867	17,346
GED scholarships and tests	4	-	103	-	-	107
Maintenance and equipment	6,560	6,429	5,464	1,002	900	20,355
Depreciation	2,259	3,485	1,999	244	244	8,231
Food and beverage	1,503	2,081	1,018	1,694	633	6,929
Travel	1,184	1,505	1,228	519	158	4,594
Bank and credit card fees	-	-	-	2,857	-	2,857
Technology	4,604	6,797	4,328	659	1,783	18,171
Insurance	3,939	1,954	4,459	1,660	141	12,153
Board and staff development	1,874	1,167	1,950	703	839	6,533
Miscellaneous expenses	-	-	-	1,080	26	1,106
Educational resources	2,111	3,500	6,482	-	-	12,093
Event fees	-	-	-	-	32,574	32,574
<b>Total expenses</b>	<b>\$ 569,738</b>	<b>\$ 523,883</b>	<b>\$ 442,842</b>	<b>\$ 137,939</b>	<b>\$ 135,476</b>	<b>\$ 1,809,878</b>

See accompanying notes.

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

	Program Services			Supporting Activities		Total Expenses
	Adult Basic Education	English Language Education	GED Preparation	Management and General	Fundraising	
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
<b>Total expenses</b>	<b>\$ 604,222</b>	<b>\$ 610,224</b>	<b>\$ 474,641</b>	<b>\$ 102,988</b>	<b>\$ 130,213</b>	<b>\$ 1,922,288</b>

See accompanying notes



**LITERACY SERVICES OF WISCONSIN, INC.**  
**STATEMENTS OF CASH FLOWS**  
Years Ended June 30, 2019 and 2018

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 98,454	\$ 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	8,231	9,259
Net realized and unrealized gain on investments	(36,051)	(37,165)
Change in cash surrender value of life insurance	(227)	(219)
(Increase) decrease in assets		
Pledges receivable	112,517	(68,463)
Grants and contracts receivable	38,911	(75,866)
Prepaid expenses	1,452	9,739
Increase (decrease) in liabilities		
Accounts payable	(11,755)	(4,242)
Accrued payroll	1,992	6,191
Accrued vacation	601	(14,181)
Accrued rent liability	(62,566)	(18,358)
<b>Net cash flows from operating activities</b>	<b>151,559</b>	<b>138,197</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of furniture and equipment	(13,923)	-
Purchases of investments	(60,000)	(72,178)
Interest and dividends retained in investments	(15,082)	(11,598)
Proceeds from sale of investments	60,000	30,000
<b>Net cash flows from investing activities</b>	<b>(29,005)</b>	<b>(53,776)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on capital lease payable	(1,674)	(1,692)
<b>Change in cash</b>	<b>120,880</b>	<b>82,729</b>
Cash at beginning of year	107,706	24,977
<b>Cash at end of year</b>	<b>\$ 228,586</b>	<b>\$ 107,706</b>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Cash paid for interest	\$ 378	\$ 296

See accompanying notes.

**LITERACY SERVICES OF WISCONSIN, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019 and 2018

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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

**Adoption of New Accounting Pronouncement**

The Organization adopted the Financial Accounting Standards Board's Accounting Standards Update No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, as of and for the year ended June 30, 2019. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The changes required by the update have been applied retrospectively to all periods presented. A key change required by the update are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions.

**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**

The Organization carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements 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 statements of financial position.

**LITERACY SERVICES OF WISCONSIN, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019 and 2018

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Contributions**

Contributions received are recorded as increases in net assets without donor restrictions or net assets with donor restrictions, 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), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

**Expense Allocation**

The financial statements report certain categories of expenses that are attributable to more than one program service or supporting activity. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and wages, employee benefits, payroll taxes, professional fees, marketing, office supplies, telephone, print and postage, subscriptions, occupancy, utilities, maintenance and equipment, depreciation, food and beverage, travel, technology, insurance, and board and staff development, which are allocated on the basis of estimates of time and effort.

**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 years ended June 30, 2019 and 2018 was \$17,799 and \$21,187, respectively.

**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 1, 2019, the date which the financial statements were available to be issued.

**LITERACY SERVICES OF WISCONSIN, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2019 and 2018

**NOTE 2 – PLEDGES RECEIVABLE**

Pledges receivable consist of the following:

	<u>2019</u>	<u>2018</u>
Receivable in less than one year	\$ 76,439	\$ 156,712
Receivable in one to five years	<u>14,796</u>	<u>47,040</u>
Pledges receivable	<u>\$ 91,235</u>	<u>\$ 203,752</u>

**NOTE 3 – INVESTMENTS**

Investments consist of the following:

	<u>2019</u>	<u>2018</u>
Money market funds	\$ 7,750	\$ 7,634
Stock mutual funds	186,411	169,433
Stock exchange traded funds	331,255	294,936
Bond mutual funds	274,746	317,757
Balanced mutual funds	<u>40,731</u>	<u>-</u>
Investments	<u>\$ 840,893</u>	<u>\$ 789,760</u>

Investment return consists of the following:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 20,208	\$ 16,405
Realized and unrealized gains	36,051	37,165
Investment fees	<u>(5,091)</u>	<u>(4,807)</u>
Investment return, net	<u>\$ 51,168</u>	<u>\$ 48,763</u>

**NOTE 4 – 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 years ended June 30, 2019 and 2018 was \$13,806 and \$8,577, respectively.

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.

**LITERACY SERVICES OF WISCONSIN, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019 and 2018

**NOTE 5 – CAPITAL LEASE PAYABLE**

The Organization has a capital lease for a copy machine with a cost of \$11,998. The lease required 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. 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, 2019 and 2018 was \$3,031 and \$1,117. Interest expense for the years ended June 30, 2019 and 2018 was \$378 and \$257, respectively.

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

2020	\$	2,079
2021		2,079
2022		2,079
2023		2,079
Total minimum capital leases payments		8,316
Less the amount representing interest		(1,226)
Present value of net minimum capital lease payments		\$ 7,090

**NOTE 6 – LIQUIDITY AND AVAILABILITY**

The following reflects the Organization's financial assets as of the date of the statement of financial position reduced by amounts not available for expenditures within one year of the date of statement of financial position because of donor-imposed restrictions or internal designations.

Financial assets at year-end:		
Cash	\$	228,586
Pledges receivable		91,235
Grants and contracts receivable		36,955
Investments		840,893
Cash surrender value of life insurance		21,784
Total financial assets		1,219,453
Less those unavailable for general expenditures within one year due to:		
Restricted by donors with purpose restrictions		(137,480)
Restricted by donors in perpetuity		(412,749)
Financial assets available to meet cash needs for general expenditures within one year	\$	669,224

Included in amounts restricted by donors with purpose restrictions is \$85,459 of endowment earnings which can be made available for use, subject to the Organization's investment and spending policy. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

**LITERACY SERVICES OF WISCONSIN, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019 and 2018

**NOTE 7 – NET ASSETS**

As of June 30, 2019 and 2018 the board of directors has designated \$372,661 and \$350,408, respectively, of net assets without donor restrictions for the Organization’s board designated endowment.

Net assets with donor restrictions consist of the following:

	2019	2018
Subject to the passage of time:		
Subsequent years' operations	\$ 10,610	\$ 13,560
Subject to expenditure for specified purpose:		
GED Scholarships	14,821	14,821
Workforce Readiness Initiative	-	55,000
English Language Learning	2,855	24,744
Opportunity Pathway Program	-	3,500
Tutor In-Service	2,686	-
Merger-related activities	25,323	66,712
Subsequent year rent	6,336	10,440
Subject to the Organization's spending policy and appropriation:		
Endowment earnings	85,459	56,360
Endowment fund principal	412,749	412,749
Net assets with donor restrictions	\$ 560,839	\$ 657,886

**NOTE 8 – IN-KIND CONTRIBUTIONS**

The fair value of in-kind contributions for the years ended June 30, 2019 and 2018 included in the financial statements are as follows:

	Program Services			
	Adult Basic Education	English Language Education	GED Preparation	Total
2019 Professional fees	\$ 211,054	\$ 130,831	\$ 114,339	\$ 456,224
2018 Professional fees	\$ 222,176	\$ 213,483	\$ 101,074	\$ 536,733

The Organization also received \$6,336 and \$10,440, respectively, of donated rent for the years ended June 30, 2019 and 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 14,935 and 17,703 hours, respectively, of program services with a value of \$335,740 and \$397,958, respectively, according to the independent sector. The value of donated hours did not meet the criteria for recognition in the financial statements.

**LITERACY SERVICES OF WISCONSIN, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019 and 2018

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NOTE 9 – 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.

The Board of Directors of the Organization has enacted Uniform Prudent Management of Institutional Funds Act (UPMIFA) as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulate the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of the initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the discretion of the applicable donor gift instrument. The Organization has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

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/losses 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.

*Underwater Endowment Funds:* From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual donation.

**LITERACY SERVICES OF WISCONSIN, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2019 and 2018

NOTE 9 – ENDOWMENT (continued)

Endowment net asset composition by type of fund as of June 30, 2019 and 2018 are as follows:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Original donor-restricted gift amount	\$ -	\$ 412,749	\$ 412,749
Accumulated investment gains	-	85,459	85,459
Board-designated endowment funds	<u>372,661</u>	<u>-</u>	<u>372,661</u>
Total endowment funds	<u>\$ 372,661</u>	<u>\$ 498,208</u>	<u>\$ 870,869</u>
	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Original donor-restricted gift amount	\$ -	\$ 412,749	\$ 412,749
Accumulated investment gains	-	56,360	56,360
Board-designated endowment funds	<u>350,408</u>	<u>-</u>	<u>350,408</u>
Total endowment funds	<u>\$ 350,408</u>	<u>\$ 469,109</u>	<u>\$ 819,517</u>
Changes in endowment net assets are as follows:			
	Without Donor Restrictions	With Donor Restrictions	Total
Balance at June 30, 2017	\$ 302,174	\$ 446,984	\$ 749,158
Contributions	28,896	22,500	51,396
Investment return, net	19,338	29,625	48,963
Amounts appropriated for expenditure	<u>-</u>	<u>(30,000)</u>	<u>(30,000)</u>
Balance at June 30, 2018	350,408	469,109	819,517
Investment return, net	<u>22,253</u>	<u>29,099</u>	<u>51,352</u>
Balance at June 30, 2019	<u>\$ 372,661</u>	<u>\$ 498,208</u>	<u>\$ 870,869</u>



**LITERACY SERVICES OF WISCONSIN, INC.**  
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**NOTE 10 – FAIR VALUE MEASUREMENTS**

Fair values of assets measured on a recurring basis are as follows:

	Fair Value	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Stock mutual funds	\$ 186,411	\$ 186,411	\$ -
Stock exchange traded funds	331,255	331,255	-
Bond mutual funds	274,746	274,746	-
Balanced mutual funds	40,731	40,731	-
Cash surrender value of life insurance	21,784	-	21,784
	<u>\$ 854,927</u>	<u>\$ 833,143</u>	<u>\$ 21,784</u>
June 30, 2019			
	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
	<u>\$ 803,683</u>	<u>\$ 782,126</u>	<u>\$ 21,557</u>
June 30, 2018			

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 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.

**LITERACY SERVICES OF WISCONSIN, INC.**  
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**NOTE 12 – OPERATING LEASES**

The Organization entered into a lease for office and program space at 555 N. Plankinton Avenue in Milwaukee, Wisconsin and was subsequently amended during the year ended June 30, 2019. Prior to amendment, the Organization reported annual rent expense evenly across the term of the lease, taking the total lease payments divided by the total months of the lease as the original lease called for annual rent escalators. Any difference in cash payments and rent recognized was adjusted through the accrued rent liability on the statements of financial position. After subsequent lease amendment, annual rent payments of \$139,500 are required through the initial lease term ending December 31, 2026 with no annual escalators. The Organization has an option for a five year lease extension thereafter.

The Organization entered into a lease for program space at 1545 S. Layton Boulevard in Milwaukee, Wisconsin. Rent payments were required beginning July 1, 2018 through the initial lease term ending June 30, 2019. The lease required monthly payments of \$2,610. The value of the leased space was estimated to be \$3,489. The value of the donated rent (\$10,440) was recognized as a contribution in the year promised and the expense was recognized during the year ended June 30, 2019, the year in which the space was used. The Organization renewed this lease for the period July 1, 2019 through June 30, 2020. The lease requires monthly payments of \$2,990. The value of the leased space is estimated to be \$3,518. The value of the donated rent (\$6,336) has been recognized in the year ended June 30, 2019 as a promise to give and is included with in-kind contributions on the statement of activities.

Rent expense for the years ended June 30, 2019 and 2018 was \$124,060 and \$165,029, respectively.

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

2020	\$ 175,380
2021	139,500
2022	139,500
2023	139,500
2024	139,500
Thereafter	<u>209,250</u>
	<u>\$ 942,630</u>