

LITERACY SERVICES OF WISCONSIN, INC.

FINANCIAL STATEMENTS

June 30, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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 Guidance

As discussed in Note 1 to the financial statements, Literacy Services of Wisconsin, Inc. adopted the Financial Accounting Standards Board's Accounting Standards Update No. 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, as of July 1, 2019. Our opinion is not modified with respect to this matter.

Wegner CPAs LLP

Wegner CPAs, LLP
Waukesha, Wisconsin
November 6, 2020

LITERACY SERVICES OF WISCONSIN, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2020 and 2019

ASSETS	<u>2020</u>	<u>2019</u>
CURRENT ASSETS		
Cash	\$ 265,952	\$ 228,586
Current portion of pledges receivable	30,659	76,439
Grants and contracts receivable	73,916	36,955
Prepaid expenses	11,398	867
	<u>381,925</u>	<u>342,847</u>
FURNITURE AND EQUIPMENT		
Furniture and equipment	81,448	81,448
Less accumulated depreciation	64,253	56,654
	<u>17,195</u>	<u>24,794</u>
OTHER ASSETS		
Investments	842,924	840,893
Long-term pledges receivable	-	14,796
Cash surrender value of life insurance	21,985	21,784
	<u>864,909</u>	<u>877,473</u>
Total other assets	<u>864,909</u>	<u>877,473</u>
Total assets	<u>\$ 1,264,029</u>	<u>\$ 1,245,114</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 83	\$ 394
Accrued payroll	9,089	9,105
Accrued vacation	14,253	8,364
Current portion of capital lease payable	1,853	1,762
Paycheck Protection Program loan	214,500	-
	<u>239,778</u>	<u>19,625</u>
OTHER LIABILITIES		
Capital lease payable less current portion	3,475	5,328
	<u>243,253</u>	<u>24,953</u>
NET ASSETS		
Without donor restrictions	429,416	659,322
With donor restrictions	591,360	560,839
	<u>1,020,776</u>	<u>1,220,161</u>
Total net assets	<u>1,020,776</u>	<u>1,220,161</u>
Total liabilities and net assets	<u>\$ 1,264,029</u>	<u>\$ 1,245,114</u>

See accompanying notes.

LITERACY SERVICES OF WISCONSIN, INC.
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Contributions						
Individual contributions	\$ 230,784	\$ 8,400	\$ 239,184	\$ 354,521	\$ -	\$ 354,521
Corporate and foundation contributions	131,033	160,500	291,533	157,692	101,001	258,693
Grants and contracts	659,586	-	659,586	661,042	-	661,042
Special events	-	44,750	44,750	109,799	-	109,799
In-kind contributions	360,206	-	360,206	456,224	6,336	462,560
Program service revenue						
Registration and material fees	7,231	-	7,231	10,270	-	10,270
Miscellaneous	11	-	11	52	-	52
Investment return, net	976	1,111	2,087	22,069	29,099	51,168
Change in value of cash surrender value of life insurance	201	-	201	227	-	227
Total support and revenue	1,390,028	214,761	1,604,789	1,771,896	136,436	1,908,332
EXPENSES						
Program services						
Adult Basic Education	515,995	-	515,995	569,738	-	569,738
English Language Learning	588,107	-	588,107	523,883	-	523,883
Adult Secondary Learning	454,512	-	454,512	442,842	-	442,842
Total program services	1,558,614	-	1,558,614	1,536,463	-	1,536,463
Supporting activities						
Management and general	132,654	-	132,654	137,939	-	137,939
Fundraising	123,619	-	123,619	135,476	-	135,476
Total supporting activities	256,273	-	256,273	273,415	-	273,415
Total expenses	1,814,887	-	1,814,887	1,809,878	-	1,809,878
NET ASSETS RELEASED FROM RESTRICTIONS						
Expiration of time restrictions	9,396	(9,396)	-	2,950	(2,950)	-
Satisfaction of purpose restrictions	174,844	(174,844)	-	230,533	(230,533)	-
Net assets released from restrictions	184,240	(184,240)	-	233,483	(233,483)	-
OTHER CHANGES						
Excess of fair value of assets acquired over liabilities assumed in acquisition of GWL	10,713	-	10,713	-	-	-
Change in net assets	(229,906)	30,521	(199,385)	195,501	(97,047)	98,454
Net assets at beginning of year	659,322	560,839	1,220,161	463,821	657,886	1,121,707
Net assets at end of year	\$ 429,416	\$ 591,360	\$ 1,020,776	\$ 659,322	\$ 560,839	\$ 1,220,161

LITERACY SERVICES OF WISCONSIN, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2020

	Program Services			Supporting Activities		Total Expenses
	Adult Basic Education	English Language Education	Adult Secondary Learning	Management and General	Fundraising	
Salaries and wages	\$ 205,042	\$ 288,175	\$ 244,076	\$ 70,764	\$ 82,644	\$ 890,701
Employee benefits	20,392	35,734	27,038	11,090	8,909	103,163
Payroll taxes	17,840	25,836	21,584	5,055	5,509	75,824
Professional fees	168,469	130,678	68,207	14,160	385	381,899
Marketing and outreach	2,393	3,369	2,003	1,405	10,317	19,487
Office supplies	664	736	430	153	293	2,276
Telephone	4,290	4,288	3,497	1,484	414	13,973
Print and postage	367	371	233	97	3,253	4,321
Subscriptions	188	363	119	1,901	26	2,597
Occupancy	67,243	65,485	62,844	7,396	7,397	210,365
Utilities	6,529	5,898	5,318	939	939	19,623
GED scholarships and tests	19	5	34	1	-	59
Maintenance and equipment	6,699	8,379	5,477	748	756	22,059
Depreciation	2,631	2,899	1,599	235	235	7,599
Food and beverage	1,352	1,886	1,056	1,144	364	5,802
Travel	634	-	-	2,448	18	3,100
Bank and credit card fees	-	-	-	1,697	-	1,697
Technology	4,638	7,163	5,397	98	1,068	18,364
Insurance	2,677	3,021	3,495	1,952	346	11,491
Board and staff development	2,581	1,496	881	574	629	6,161
Miscellaneous expenses	-	10	3	713	26	752
Educational resources	1,347	2,315	1,221	-	-	4,883
Event fees	-	-	-	-	91	91
Bad debt expense	-	-	-	8,600	-	8,600
Total expenses	\$ 515,995	\$ 588,107	\$ 454,512	\$ 132,654	\$ 123,619	\$ 1,814,887

See accompanying notes.

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	Adult Secondary Learning	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 and outreach	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
Total expenses	\$ 569,738	\$ 523,883	\$ 442,842	\$ 137,939	\$ 135,476	\$ 1,809,878

See accompanying notes

LITERACY SERVICES OF WISCONSIN, INC.
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (199,385)	\$ 98,454
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	7,599	8,231
Net realized and unrealized (gain) loss on investments	13,172	(36,051)
Change in cash surrender value of life insurance	(201)	(227)
Bad debt expense	8,600	-
(Increase) decrease in assets		
Pledges receivable	51,976	112,517
Grants and contracts receivable	(36,961)	38,911
Prepaid expenses	(10,531)	1,452
Increase (decrease) in liabilities		
Accounts payable	(311)	(11,755)
Accrued payroll	(16)	1,992
Accrued vacation	5,889	601
Accrued rent liability	-	(62,566)
Net cash flows from operating activities	<u>(160,169)</u>	<u>151,559</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of furniture and equipment	-	(13,923)
Purchases of investments	-	(60,000)
Interest and dividends retained in investments	(15,203)	(15,082)
Proceeds from sale of investments	-	60,000
Net cash flows from investing activities	<u>(15,203)</u>	<u>(29,005)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease payable	(1,762)	(1,674)
Proceeds from Paycheck Protection Program loan	214,500	-
Net cash flows from financing activities	<u>212,738</u>	<u>(1,674)</u>
Change in cash	37,366	120,880
Cash at beginning of year	<u>228,586</u>	<u>107,706</u>
Cash at end of year	<u>\$ 265,952</u>	<u>\$ 228,586</u>
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	\$ 296	\$ 378

See accompanying notes.

LITERACY SERVICES OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Literacy Services of Wisconsin, Inc. (the Organization) is a nonprofit corporation organized under the laws of the State of Wisconsin. The Organization educates, motivates, and inspires engaged adults to achieve greater independence and transform their lives. The Organization's core programs focus on foundational reading, writing, and numeracy; English language learning; and General Educational Development preparation and High School Equivalency. The Organization provides these programs in multiple locations and instructional modes, including one-on-one tutoring, small classes, conversation groups, coaching, and cohort-based models, to meet student where they are both academically and physically. Digital literacy and technology are interwoven into all programs to enhance learning and provide online and blended learning options. These programs ensure that every student has a clear path to their desired academic goals.

Adoption of New Accounting Guidance

On June 21, 2018, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU provides a more robust framework for evaluating whether transactions such as grants and similar contracts with government agencies and others should be accounted for as exchange transactions or contributions. The ASU also assists entities in determining whether a contribution is conditional. The Organization adopted the requirements of the ASU as of July 1, 2019. The changes in the ASU have been applied on a modified prospective basis, that is, the changes have been applied to agreements that are either not completed as of July 1, 2019, or entered into after that date. As a result, most government grants accounted for as exchange transactions under previous guidance are now accounted for as conditional contributions.

Pledges Receivable

Unconditional pledges receivable are recognized as revenues 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

Grants and contracts receivable represents amounts due from government agencies for costs incurred under cost reimbursement grant agreements. Grants and contracts receivable are stated at the amount management expects to be collected from outstanding balances. As of June 30, 2020 and 2019, management has determined, based on historical experience that all amounts are fully collectible and no allowance for doubtful accounts is necessary.

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.

LITERACY SERVICES OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Furniture and Equipment

Furniture and equipment are 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.

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 on the basis of estimates of time and effort include salaries and wages, employee benefits, payroll taxes, professional fees, marketing, office supplies, telephone, print and postage, subscriptions, food and beverage, travel, and board and staff development. The expenses that are allocated on the basis of square footage and number of students served in each learning area include occupancy, utilities, maintenance and equipment, depreciation, technology, and insurance.

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.

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.

LITERACY SERVICES OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Date of Management’s Review

Management has evaluated subsequent events through November 6, 2020, the date which the financial statements were available to be issued.

NOTE 2 – PLEDGES RECEIVABLE

Pledges receivable consist of the following:

	2020	2019
Receivable in less than one year	\$ 30,659	\$ 76,439
Receivable in one to five years	-	14,796
Pledges receivable	\$ 30,659	\$ 91,235

NOTE 3 – INVESTMENTS

Investments consist of the following:

	2020	2019
Money market funds	\$ 8,692	\$ 7,750
Stock mutual funds	179,023	186,411
Stock exchange traded funds	333,702	331,255
Bond mutual funds	283,497	274,746
Balanced mutual funds	38,010	40,731
Investments	\$ 842,924	\$ 840,893

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 employer match each year. Further, an eligible employee must have earned at least \$5,000 in the previous two years and reasonably expect to earn \$5,000 in the year of participation in order to participate in the plan. Total employer contributions for the years ended June 30, 2020 and 2019 was \$15,525 and \$13,806, respectively.

LITERACY SERVICES OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 5 – PAYCHECK PROTECTION PROGRAM LOAN

On April 17, 2020, the Organization received a \$214,500 loan under the Paycheck Protection Program established by the Coronavirus Aid, Relief, and Economic Security Act and administered by the U.S. Small Business Administration. The loan accrues interest at 1% but payments are deferred until a determination of the amount of forgiveness is made. The amount of forgiveness depends, in part, on the total amount of eligible expenses paid by the Organization during the covered period. Eligible expenses include payroll costs, interest on mortgages, rent, and utilities. Any unforgiven portion is payable over two years, maturing April 17, 2022.

NOTE 6 – CAPITAL LEASE PAYABLE

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, 2020 and 2019 was \$4,945 and \$3,031, respectively. Interest expense for the years ended June 30, 2020 and 2019 was \$296 and \$378, respectively.

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

2021	\$	2,079
2022		2,079
2023		1,504
Total minimum capital leases payments		5,662
Less the amount representing interest		(334)
Present value of net minimum capital lease payments	\$	5,328

NOTE 7 – IN-KIND CONTRIBUTIONS

The fair value of in-kind contributions for the years ended June 30, 2020 and 2019 included in the financial statements are as follows:

	Program Services			Total
	Adult Basic Education	English Language Education	Adult Secondary Learning	
2020 Professional fees	\$ 171,577	\$ 123,678	\$ 64,951	\$ 360,206
2019 Professional fees	\$ 211,054	\$ 130,831	\$ 114,339	\$ 456,224

The Organization received no donated rent for the year ended June 30, 2020. The Organization also received \$6,336 of donated rent for the year ended June 30, 2019. Rent expense related to the in-kind contribution will be recognized in the statement of activities in the month it is incurred.

LITERACY SERVICES OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 7 – IN-KIND CONTRIBUTIONS (continued)

In addition, volunteers provided 12,589 and 14,935 hours, respectively, of program services with an approximate value of \$285,000 and \$335,000, respectively, according to the independent sector. The value of donated hours did not meet the criteria for recognition in the financial statements.

NOTE 8 – 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. The Organization cancelled its letter of credit in July 2020.

NOTE 9 – NET ASSETS

As of June 30, 2020 and 2019 the board of directors has designated \$366,241 and \$372,661, respectively, of net assets without donor restrictions for the Organization's board designated endowment.

Net assets with donor restrictions consist of the following:

	<u>2020</u>	<u>2019</u>
Subject to the passage of time:		
Subsequent years' operations	\$ -	\$ 10,610
Subject to expenditure for specified purpose:		
GED Scholarships	15,220	14,821
Workforce Readiness Initiative	2,500	-
English Language Learning	-	2,855
Northside Capacity Building	17,361	-
Tutor In-Service	229	2,686
Career Pathways	2,500	-
Merger-related activities	9,481	25,323
Subsequent year rent	-	6,336
Subsequent year special events	44,750	-
Endowment:		
Subject to the Organization's spending policy and appropriation:		
Endowment earnings - operating support	86,570	85,459
Endowment fund restricted in perpetuity	<u>412,749</u>	<u>412,749</u>
Net assets with donor restrictions	<u>\$ 591,360</u>	<u>\$ 560,839</u>

LITERACY SERVICES OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 10 – LIQUIDITY AND AVAILABILITY

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

	2020	2019
Financial assets at year-end:		
Cash	\$ 265,952	\$ 228,586
Pledges receivable	30,659	91,235
Grants and contracts receivable	73,916	36,955
Investments	842,924	840,893
Cash surrender value of life insurance	21,985	21,784
 Total financial assets	 1,235,436	 1,219,453
 Less those unavailable for general expenditures within one year due to:		
Restricted by donors with purpose restrictions	(178,611)	(137,480)
Restricted by donors in perpetuity	(412,749)	(412,749)
 Financial assets available to meet cash needs for general expenditures within one year	 \$ 644,076	 \$ 669,224

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.

NOTE 11 – OPERATING LEASES

The Organization has leases for office and program space throughout Milwaukee and Waukesha County. The leases require monthly payments ranging from \$1,996 to \$11,625 and expire at various dates through December 2025. For the lease that the Organization holds at 555 N. Plankinton Avenue in Milwaukee, Wisconsin, there is an option for a five year lease extension upon expiration in December 2025.

The Organization entered into a lease for program space at 1545 S. Layton Boulevard in Milwaukee, Wisconsin. Rent payments were required beginning July 1, 2019 through the lease term ending June 30, 2020. The lease required monthly payments of \$2,990. The value of the leased space was estimated to be \$3,518. The value of the donated rent (\$6,336) was recognized as a contribution in the year promised (year ending June 30, 2019) and the expense was recognized during the year ended June 30, 2020, the year in which the space was used. The Organization renewed this lease for the period July 1, 2020 through June 30, 2021. The lease requires monthly payments of \$3,555 with no donated rent being built into the renewed lease.

LITERACY SERVICES OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 11 – OPERATING LEASES (continued)

Rent expense for the years ended June 30, 2020 and 2019 was \$204,656 and \$124,060, respectively.

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

2021	\$ 216,701
2022	164,062
2023	159,896
2024	139,500
2025	139,500
Thereafter	<u>69,750</u>
	<u>\$ 889,409</u>

NOTE 12 – 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	\$ 179,023	\$ 179,023	\$ -
Stock exchange traded funds	333,702	333,702	-
Bond mutual funds	283,497	283,497	-
Balanced mutual funds	38,010	38,010	-
Cash surrender value of life insurance	<u>21,985</u>	<u>-</u>	<u>21,985</u>
June 30, 2020	<u>\$ 856,217</u>	<u>\$ 834,232</u>	<u>\$ 21,985</u>
	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	<u>21,784</u>	<u>-</u>	<u>21,784</u>
June 30, 2019	<u>\$ 854,927</u>	<u>\$ 833,143</u>	<u>\$ 21,784</u>

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.

LITERACY SERVICES OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 13 – 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.
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NOTE 13 – ENDOWMENT (continued)

Endowment net asset composition by type of fund as of June 30, 2020 and 2019 are as follows:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Original donor-restricted gift amount	\$ -	\$ 412,749	\$ 412,749
Accumulated investment gains	-	86,570	86,570
Board-designated endowment funds	366,241	-	366,241
Total endowment funds	\$ 366,241	\$ 499,319	\$ 865,560

	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	372,661	-	372,661
Total endowment funds	\$ 372,661	\$ 498,208	\$ 870,869

Changes in endowment net assets are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance at June 30, 2018	\$ 350,408	\$ 469,109	\$ 819,517
Investment return, net	22,253	29,099	51,352
Balance at June 30, 2019	372,661	498,208	870,869
Investment return, net	1,130	1,111	2,241
Write-off of uncollectible pledges receivable	(7,550)	-	(7,550)
Balance at June 30, 2020	\$ 366,241	\$ 499,319	\$ 865,560

LITERACY SERVICES OF WISCONSIN, INC.
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NOTE 14 – ACQUISITION OF GREATER WAUKESHA LITERACY

Effective as of January 1, 2020, Literacy Council of Greater Waukesha, Inc. (d/b/a Greater Waukesha Literacy), a Wisconsin nonstock corporation exempt from income taxes under section 501(c)(3) of the Internal Revenue Code (“GWL”), merged with and into the Organization. GWL’s principal activity was to provide education and basic literacy skills to adults. 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.

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

Cash	\$ 10,300
Receivables	1,590
Prepaid expenses	174
Accounts payable	(66)
Accrued payroll	<u>(1,285)</u>
Contribution from acquisition	<u>\$ 10,713</u>

The Articles of Merger (Ch. 181) was filed with the state of Wisconsin Department of Financial Institutions and became effective on January 1, 2020.

NOTE 15 – CONCENTRATION OF CREDIT RISK

The Organization maintains its cash balances in three financial institutions located in Southeastern Wisconsin. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2020, the Organization’s uninsured cash balances total approximately \$15,000. At June 30, 2019, there were no uninsured cash balances.

NOTE 16 – RISKS AND UNCERTAINTIES

In March 2020, the United States economy began suffering adverse effects from the COVID-19 virus global crisis. In response to the crisis, the Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law on March 27, 2020. As noted in footnote 5, the Organization was approved for a loan under the Paycheck Protection program (PPP), established by the CARES Act. Management is continuously monitoring the situation to appropriately address the impact on the business.

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.