

LITERACY SERVICES OF WISCONSIN, INC.

FINANCIAL STATEMENTS

June 30, 2021 and 2020

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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, 2021 and 2020, 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, 2021 and 2020, 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.


Wegner CPAs, LLP
Waukesha, Wisconsin
October 19, 2021

LITERACY SERVICES OF WISCONSIN, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2021 and 2020

ASSETS	2021	2020
CURRENT ASSETS		
Cash	\$ 305,777	\$ 265,952
Pledges receivable	62,667	30,659
Grants and contracts receivable	97,313	73,916
Prepaid expenses	14,930	11,398
Total current assets	480,687	381,925
FURNITURE AND EQUIPMENT		
Furniture and equipment	81,448	81,448
Less accumulated depreciation	71,035	64,253
Furniture and equipment, net	10,413	17,195
OTHER ASSETS		
Investments	1,076,565	842,924
Cash surrender value of life insurance	22,231	21,985
Total other assets	1,098,796	864,909
Total assets	\$ 1,589,896	\$ 1,264,029
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 11,952	\$ 83
Accrued payroll	5,988	9,089
Accrued vacation	15,577	14,253
Current portion of capital lease payable	1,948	1,853
Paycheck Protection Program loan	191,827	214,500
Grant advance	3,333	-
Total current liabilities	230,625	239,778
OTHER LIABILITIES		
Capital lease payable less current portion	1,527	3,475
Total liabilities	232,152	243,253
NET ASSETS		
Without donor restrictions	675,106	429,416
With donor restrictions	682,638	591,360
Total net assets	1,357,744	1,020,776
Total liabilities and net assets	\$ 1,589,896	\$ 1,264,029

See accompanying notes.

LITERACY SERVICES OF WISCONSIN, INC.
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Contributions						
Individual contributions	\$ 331,746	\$ -	\$ 331,746	\$ 230,784	\$ 8,400	\$ 239,184
Corporate and foundation contributions	144,130	191,100	335,230	131,033	160,500	291,533
Grants and contracts	734,835	-	734,835	659,586	-	659,586
Special events	59,218	-	59,218	-	44,750	44,750
In-kind contributions	221,117	-	221,117	360,206	-	360,206
Program service revenue						
Registration and material fees	2,232	-	2,232	7,231	-	7,231
Miscellaneous	-	-	-	11	-	11
Investment return, net	106,208	127,499	233,707	976	1,111	2,087
Paycheck Protection Program forgiveness	214,500	-	214,500	-	-	-
Change in value of cash surrender value of life insurance	246	-	246	201	-	201
Total support and revenue	1,814,232	318,599	2,132,831	1,390,028	214,761	1,604,789
EXPENSES						
Program services						
Adult Basic Education	462,783	-	462,783	515,995	-	515,995
English Language Learning	565,734	-	565,734	588,107	-	588,107
Adult Secondary Learning	493,579	-	493,579	454,512	-	454,512
Total program services	1,522,096	-	1,522,096	1,558,614	-	1,558,614
Supporting activities						
Management and general	148,395	-	148,395	132,654	-	132,654
Fundraising	125,372	-	125,372	123,619	-	123,619
Total supporting activities	273,767	-	273,767	256,273	-	256,273
Total expenses	1,795,863	-	1,795,863	1,814,887	-	1,814,887
NET ASSETS RELEASED FROM RESTRICTIONS						
Expiration of time restrictions	44,750	(44,750)	-	9,396	(9,396)	-
Satisfaction of purpose restrictions	182,571	(182,571)	-	174,844	(174,844)	-
Net assets released from restrictions	227,321	(227,321)	-	184,240	(184,240)	-
OTHER CHANGES						
Excess of fair value of assets acquired over liabilities assumed in acquisition of GWL	-	-	-	10,713	-	10,713
Change in net assets	245,690	91,278	336,968	(229,906)	30,521	(199,385)
Net assets at beginning of year	429,416	591,360	1,020,776	659,322	560,839	1,220,161
Net assets at end of year	\$ 675,106	\$ 682,638	\$ 1,357,744	\$ 429,416	\$ 591,360	\$ 1,020,776

See accompanying notes.

LITERACY SERVICES OF WISCONSIN, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2021

	Program Services			Supporting Activities		Total Expenses
	Adult Basic Education	English Language Education	Adult Secondary Learning	Management and General	Fundraising	
Salaries and wages	\$ 220,972	\$ 313,244	\$ 275,153	\$ 75,217	\$ 79,758	\$ 964,344
Employee benefits	17,476	33,528	34,335	13,556	7,901	106,796
Payroll taxes	17,827	25,006	21,893	5,663	6,187	76,576
Professional fees	89,955	78,118	57,160	27,133	229	252,595
Marketing	2,021	2,044	1,701	988	5,752	12,506
Office supplies	492	562	174	666	176	2,070
Telephone	7,155	6,750	5,904	1,703	804	22,316
Print and postage	234	338	120	43	1,962	2,697
Subscriptions	200	301	170	2,096	26	2,793
Occupancy	79,712	79,033	70,290	7,400	7,381	243,816
Utilities	5,490	4,666	4,666	823	823	16,468
GED scholarships and tests	-	-	34	-	-	34
Maintenance and equipment	10,819	8,014	3,043	526	462	22,864
Depreciation	2,371	2,877	1,065	234	235	6,782
Food and beverage	-	-	-	139	-	139
Travel	11	46	64	67	39	227
Bank and credit card fees	-	-	-	2,678	-	2,678
Technology	3,164	6,586	13,035	1,705	2,395	26,885
Insurance	3,387	3,561	2,047	2,011	276	11,282
Board and staff development	1,101	413	425	189	60	2,188
Miscellaneous expenses	-	-	-	127	26	153
Educational resources	396	647	2,300	-	-	3,343
Event fees	-	-	-	-	10,880	10,880
Bad debt expense	-	-	-	5,431	-	5,431
Total expenses	\$ 462,783	\$ 565,734	\$ 493,579	\$ 148,395	\$ 125,372	\$ 1,795,863

See accompanying notes.

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	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.
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 336,968	\$ (199,385)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	6,782	7,599
Net realized and unrealized (gain) loss on investments	(218,000)	13,172
Change in cash surrender value of life insurance	(246)	(201)
Bad debt expense	5,431	8,600
Paycheck Protection Program loan forgiveness	(214,500)	-
(Increase) decrease in assets		
Pledges receivable	(37,440)	51,976
Grants and contracts receivable	(23,397)	(36,961)
Prepaid expenses	(3,532)	(10,531)
Increase (decrease) in liabilities		
Accounts payable	11,869	(311)
Accrued payroll	(3,101)	(16)
Accrued vacation	1,324	5,889
Grant advance	3,333	-
Net cash flows from operating activities	<u>(134,509)</u>	<u>(160,169)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends retained in investments	(15,640)	(15,203)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease payable	(1,853)	(1,762)
Proceeds from Paycheck Protection Program loan	191,827	214,500
Net cash flows from financing activities	<u>189,974</u>	<u>212,738</u>
Change in cash	39,825	37,366
Cash at beginning of year	<u>265,952</u>	<u>228,586</u>
Cash at end of year	<u>\$ 305,777</u>	<u>\$ 265,952</u>
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	\$ 210	\$ 296

See accompanying notes.

LITERACY SERVICES OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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 is primarily funded by grants and 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. At June 30, 2021 and 2020, all pledges receivable are considered current.

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, 2021 and 2020, 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.

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.

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.

LITERACY SERVICES OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2021 and 2020 was \$12,506 and \$19,487, respectively.

Income Tax Status

The Organization is exempt from federal income tax under Section 501(a) of the Internal Revenue Code of 1986, as amended (the Code), as an Organization described in Section 501(c)(3) of the 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) of the Code.

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 19, 2021, the date which the financial statements were available to be issued.

NOTE 2 – CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash balances in three financial institutions located in Southeastern Wisconsin. The balances at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2021 and 2020, the Organization's uninsured cash balances totaled approximately \$53,000 and \$15,000, respectively.

LITERACY SERVICES OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 3 – INVESTMENTS

Investments consist of the following:

	2021	2020
Money market funds	\$ 6,394	\$ 8,692
Stock mutual funds	754,268	179,023
Stock exchange traded funds	-	333,702
Bond mutual funds	315,903	283,497
Balanced mutual funds	-	38,010
Investments	<u>\$ 1,076,565</u>	<u>\$ 842,924</u>

Fair values of stock mutual funds, stock exchange traded funds, bond mutual funds, and balanced mutual funds are based on quoted net asset values of the shares as reported by the fund. The stock mutual funds, stock exchange traded funds, bond mutual funds, and balanced mutual funds held by the Organization are open-end mutual funds registered with the U.S. Securities and Exchange Commission. The funds must publish their daily net asset value and transact at that price. The stock mutual funds, stock exchange traded funds, bond mutual funds, and balanced mutual funds held by the Organization are considered to be actively traded.

NOTE 4 – PAYCHECK PROTECTION PROGRAM LOAN

Literacy Services of Wisconsin, Inc. received two loans totaling \$406,327 under the Paycheck Protection Program (PPP) established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act and administered by the U.S. Small Business Administration (SBA). The loans accrue interest at 1% but payments are deferred for borrowers who apply for forgiveness until SBA remits the borrower's forgiveness amount to the lender. The amount of forgiveness depends, in part, on the total amount of eligible expenses paid by Literacy Services of Wisconsin, Inc. during the covered period. Eligible expenses may include payroll costs, interest on mortgages, rent, and utilities. Any unforgiven portion is payable over two years.

On March 23, 2021, the SBA preliminarily approved forgiveness of Literacy Services of Wisconsin, Inc.'s first draw loan in the amount of \$214,500 and accrued interest. On October 14, 2021, Literacy Services of Wisconsin, Inc. has applied for forgiveness of its second draw loan. Literacy Services of Wisconsin, Inc. must retain PPP documentation in its files for six years after the date the loan is forgiven or repaid in full and permit authorized representatives of SBA to access such files upon request. SBA may review any loan at any time at its discretion. Therefore, SBA may review Literacy Services of Wisconsin, Inc.'s good-faith certification concerning the necessity of its loan request, whether Literacy Services of Wisconsin, Inc. calculated the loan amount correctly, whether Literacy Services of Wisconsin, Inc. used loan proceeds for the allowable uses specified in the CARES Act, and whether Literacy Services of Wisconsin, Inc. is entitled to loan forgiveness in the amount claimed on its application. If SBA determines Literacy Services of Wisconsin, Inc. was ineligible for the loan or for forgiveness in whole or in part, SBA will seek repayment of the outstanding loan balance.

LITERACY SERVICES OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 5 – RETIREMENT PLAN

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, 2021 and 2020 was \$14,183 and \$15,525, respectively.

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, 2021 and 2020 was \$6,859 and \$4,945, respectively. Interest expense for the years ended June 30, 2021 and 2020 was \$210 and \$296, respectively.

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

2023	1,504
Total minimum capital leases payments	3,583
Less the amount representing interest	(108)
Present value of net minimum capital lease payments	\$ 3,475

NOTE 7 – IN-KIND CONTRIBUTIONS

The fair value of in-kind contributions for the years ended June 30, 2021 and 2020 included in the financial statements are as follows:

	Program Services			Total
	Adult Basic Education	English Language Education	Adult Secondary Learning	
2021 Professional fees	\$ 118,892	\$ 62,686	\$ 39,539	\$ 221,117
2020 Professional Fees	\$ 171,577	\$ 123,678	\$ 64,951	\$ 360,206

In addition, volunteers provided 7,018 and 12,589 hours, respectively, of program services with a value of \$157,770 and \$285,000, 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, 2021 and 2020

NOTE 8 – NET ASSETS

As of June 30, 2021 and 2020 the board of directors has designated \$472,628 and \$366,241, respectively, of net assets without donor restrictions for the Organization's board designated endowment.

Net assets with donor restrictions consist of the following:

	2021	2020
Subject to expenditure for specified purpose or time:		
GED Scholarships	\$ 15,220	\$ 15,220
Workforce Readiness Initiative	-	2,500
Northside Capacity Building	-	17,361
Tutor In-Service	-	229
Career Pathways	-	2,500
Merger-related activities	-	9,481
Subsequent year special events	-	44,750
SSNC Adult Literacy Program	20,000	-
Neighborhood OPP	20,000	-
Promotion	600	-
Endowment:		
Subject to the Organization's spending policy and appropriation:		
Endowment for operating support	626,818	499,319
Net assets with donor restrictions	\$ 682,638	\$ 591,360

NOTE 9 – 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's lease at 1545 S. Layton Boulevard in Milwaukee, Wisconsin expired on June 30, 2021 and was not renewed. The lease required monthly payments of \$3,555 in the current year.

Rent expense for the years ended June 30, 2021 and 2020 was \$243,798 and \$204,656, respectively.

LITERACY SERVICES OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 9 – OPERATING LEASES (continued)

Future minimum lease payments for the year ending June 30, 2021 are as follows:

2022		\$ 182,772
2023		160,330
2024		139,500
2025		139,500
2026		69,750
		\$ 691,852

NOTE 10 – LIQUIDITY AND AVAILABILITY

The following reflects the Organization’s financial assets as of June 30, 2021 and 2020 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:

	2021	2020
Financial assets at year-end:		
Cash	\$ 305,777	\$ 265,952
Pledges receivable	62,667	30,659
Grants and contracts receivable	97,313	73,916
Investments	1,076,565	842,924
Cash surrender value of life insurance	22,231	21,985
Total financial assets	1,564,553	1,235,436
Less those unavailable for general expenditures within one year due to:		
Restricted by donors with purpose restrictions	(269,889)	(178,611)
Restricted by donors in perpetuity	(412,749)	(412,749)
Board designated for endowment	(472,628)	(366,241)
Cash surrender value of life insurance	(22,231)	(21,985)
Financial assets available to meet cash needs for general expenditures within one year	\$ 387,056	\$ 255,850

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 – 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

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June 30, 2021 and 2020

NOTE 11 – ENDOWMENT (continued)

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. 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.

Under the investment 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.

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.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

NOTE 11 – ENDOWMENT (continued)

Endowment net asset composition by type of fund as of June 30, 2021 and 2020 are as follows:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Original donor-restricted gift amount	\$ -	\$ 412,749	\$ 412,749
Accumulated investment gains	-	214,069	214,069
Board-designated endowment funds	<u>472,628</u>	<u>-</u>	<u>472,628</u>
Total endowment funds	<u>\$ 472,628</u>	<u>\$ 626,818</u>	<u>\$ 1,099,446</u>
	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	<u>366,241</u>	<u>-</u>	<u>366,241</u>
Total endowment funds	<u>\$ 366,241</u>	<u>\$ 499,319</u>	<u>\$ 865,560</u>

Changes in endowment net assets are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
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	<u>(7,550)</u>	<u>-</u>	<u>(7,550)</u>
Balance at June 30, 2020	366,241	499,319	865,560
Investment return, net	<u>106,387</u>	<u>127,499</u>	<u>233,886</u>
Balance at June 30, 2021	<u>\$ 472,628</u>	<u>\$ 626,818</u>	<u>\$ 1,099,446</u>

NOTE 12 – COVID CONSIDERATIONS

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. The Organization altered operations and services to reduce the spread of COVID-19. These changes included cancelling or conducting

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NOTE 12 – COVID CONSIDERATIONS (continued)

virtually certain planned in-person events, moving program services to a virtual platform, and temporary closings.

While the disruption is currently expected to be temporary, the ultimate disruption and effect on the Organization are uncertain and the related financial impact cannot be reasonably estimated. As disclosed in Note 4, the Organization was approved for a loan under the Paycheck Protection program second draw (PPP) and received forgiveness for the Paycheck Protection program first draw (PPP), established by the CARES Act to assist with COVID-19 impact.