

LITERACY SERVICES OF WISCONSIN, INC.

FINANCIAL STATEMENTS

June 30, 2022 and 2021

CONTENTS

| | |
|---|---|
| Independent Auditor's Report | 1 |
| Statements of Financial Position..... | 3 |
| Statements of Activities..... | 4 |
| Statements of Functional Expenses | 5 |
| Statements of Cash Flows | 7 |
| Notes to Financial Statements | 8 |

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of Literacy Services of Wisconsin, Inc., which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Literacy Services of Wisconsin, Inc. as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Literacy Services of Wisconsin, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, as of July 1, 2021. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Literacy Services of Wisconsin, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher

than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Literacy Services of Wisconsin, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Literacy Services of Wisconsin, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Wegner CPAs LLP

Wegner CPAs, LLP
Waukesha, Wisconsin
October 13, 2022

LITERACY SERVICES OF WISCONSIN, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2022 and 2021

| ASSETS | 2022 | 2021 |
|--|---------------------|---------------------|
| CURRENT ASSETS | | |
| Cash | \$ 315,953 | \$ 305,777 |
| Pledges receivable | 71,939 | 62,667 |
| Grants and contracts receivable | 98,417 | 97,313 |
| Prepaid expenses | 7,747 | 14,930 |
| Total current assets | 494,056 | 480,687 |
| FURNITURE AND EQUIPMENT | | |
| Furniture and equipment | 94,948 | 81,448 |
| Less accumulated depreciation | 78,248 | 71,035 |
| Furniture and equipment, net | 16,700 | 10,413 |
| OTHER ASSETS | | |
| Investments | 934,499 | 1,076,565 |
| Cash surrender value of life insurance | 22,996 | 22,231 |
| Total other assets | 957,495 | 1,098,796 |
| Total assets | \$ 1,468,251 | \$ 1,589,896 |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 1,447 | \$ 11,952 |
| Accrued payroll | 5,947 | 5,988 |
| Accrued vacation | 14,070 | 15,577 |
| Current portion of capital lease payable | 1,527 | 1,948 |
| Paycheck Protection Program loan | - | 191,827 |
| Grant advance | - | 3,333 |
| Total current liabilities | 22,991 | 230,625 |
| OTHER LIABILITIES | | |
| Capital lease payable less current portion | - | 1,527 |
| Total liabilities | 22,991 | 232,152 |
| NET ASSETS | | |
| Without donor restrictions | 761,620 | 675,106 |
| With donor restrictions | 683,640 | 682,638 |
| Total net assets | 1,445,260 | 1,357,744 |
| Total liabilities and net assets | \$ 1,468,251 | \$ 1,589,896 |

See accompanying notes.

LITERACY SERVICES OF WISCONSIN, INC.
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2022 and 2021

| | 2022 | | | 2021 | | |
|---|-------------------------------|----------------------------|---------------------|-------------------------------|----------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| SUPPORT AND REVENUE | | | | | | |
| Contributions | | | | | | |
| Individual contributions | \$ 360,381 | \$ - | \$ 360,381 | \$ 331,746 | \$ - | \$ 331,746 |
| Corporate and foundation contributions | 154,507 | 309,900 | 464,407 | 144,130 | 191,100 | 335,230 |
| Grants and contracts | 797,402 | - | 797,402 | 734,835 | - | 734,835 |
| Special events | 107,905 | - | 107,905 | 59,218 | - | 59,218 |
| In-kind contributions | 247,319 | - | 247,319 | 221,117 | - | 221,117 |
| Program service revenue | | | | | | |
| Registration and material fees | 2,521 | - | 2,521 | 2,232 | - | 2,232 |
| Miscellaneous | 23 | - | 23 | - | - | - |
| Investment return, net | (74,062) | (67,985) | (142,047) | 106,208 | 127,499 | 233,707 |
| Paycheck Protection Program forgiveness | 191,827 | - | 191,827 | 214,500 | - | 214,500 |
| Change in value of cash surrender value of life insurance | 765 | - | 765 | 246 | - | 246 |
| Total support and revenue | 1,788,588 | 241,915 | 2,030,503 | 1,814,232 | 318,599 | 2,132,831 |
| EXPENSES | | | | | | |
| Program services | | | | | | |
| Adult Basic Education | 461,925 | - | 461,925 | 462,783 | - | 462,783 |
| English Language Learning | 550,078 | - | 550,078 | 565,734 | - | 565,734 |
| Credentialing | 600,909 | - | 600,909 | 493,579 | - | 493,579 |
| Total program services | 1,612,912 | - | 1,612,912 | 1,522,096 | - | 1,522,096 |
| Supporting activities | | | | | | |
| Management and general | 151,577 | - | 151,577 | 148,395 | - | 148,395 |
| Fundraising | 178,498 | - | 178,498 | 125,372 | - | 125,372 |
| Total supporting activities | 330,075 | - | 330,075 | 273,767 | - | 273,767 |
| Total expenses | 1,942,987 | - | 1,942,987 | 1,795,863 | - | 1,795,863 |
| NET ASSETS RELEASED FROM RESTRICTIONS | | | | | | |
| Expiration of time restrictions | - | - | - | 44,750 | (44,750) | - |
| Satisfaction of purpose restrictions | 240,913 | (240,913) | - | 182,571 | (182,571) | - |
| Net assets released from restrictions | 240,913 | (240,913) | - | 227,321 | (227,321) | - |
| Change in net assets | 86,514 | 1,002 | 87,516 | 245,690 | 91,278 | 336,968 |
| Net assets at beginning of year | 675,106 | 682,638 | 1,357,744 | 429,416 | 591,360 | 1,020,776 |
| Net assets at end of year | \$ 761,620 | \$ 683,640 | \$ 1,445,260 | \$ 675,106 | \$ 682,638 | \$ 1,357,744 |

See accompanying notes.

LITERACY SERVICES OF WISCONSIN, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2022

| | Program Services | | | Supporting Activities | | Total Expenses |
|-----------------------------|-----------------------|---------------------------|-------------------|------------------------|-------------------|---------------------|
| | Adult Basic Education | English Language Learning | Credentialing | Management and General | Fundraising | |
| Salaries and wages | \$ 204,364 | \$ 263,926 | \$ 397,950 | \$ 86,297 | \$ 89,222 | \$ 1,041,759 |
| Employee benefits | 14,904 | 23,066 | 37,772 | 13,040 | 6,901 | 95,683 |
| Payroll taxes | 15,803 | 20,503 | 30,578 | 6,276 | 6,641 | 79,801 |
| Professional fees | 83,053 | 105,841 | 51,553 | 14,223 | - | 254,670 |
| Marketing | 4,368 | 4,540 | 3,454 | 4,574 | 6,154 | 23,090 |
| Office supplies | 423 | 409 | 549 | 264 | 38 | 1,683 |
| Telephone | 6,959 | 6,657 | 3,048 | 1,606 | 707 | 18,977 |
| Print and postage | 405 | 403 | 172 | 162 | 1,768 | 2,910 |
| Subscriptions | 333 | 372 | 73 | 1,991 | 32 | 2,801 |
| Occupancy | 82,099 | 71,783 | 40,878 | 7,305 | 7,306 | 209,371 |
| Utilities | 8,181 | 8,122 | 1,471 | 988 | 987 | 19,749 |
| GED scholarships and tests | - | - | 3,049 | - | - | 3,049 |
| Maintenance and equipment | 8,743 | 13,318 | 3,353 | 947 | 907 | 27,268 |
| Depreciation | 2,988 | 2,966 | 537 | 361 | 361 | 7,213 |
| Food and beverage | 111 | 445 | 349 | 3,167 | 274 | 4,346 |
| Travel | 54 | 192 | 96 | 468 | - | 810 |
| Bank and credit card fees | - | - | - | 2,639 | - | 2,639 |
| Technology | 19,806 | 20,204 | 14,190 | 2,195 | 2,587 | 58,982 |
| Insurance | 6,099 | 3,010 | 6,163 | 2,247 | 320 | 17,839 |
| Board and staff development | 1,742 | 1,725 | 1,910 | 1,076 | 772 | 7,225 |
| Miscellaneous expenses | - | - | - | 1,751 | 26 | 1,777 |
| Educational resources | 1,490 | 2,596 | 3,764 | - | - | 7,850 |
| Event fees | - | - | - | - | 53,495 | 53,495 |
| Total expenses | \$ 461,925 | \$ 550,078 | \$ 600,909 | \$ 151,577 | \$ 178,498 | \$ 1,942,987 |

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 Learning | Credentialing | 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.
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2022 and 2021

| | 2022 | 2021 |
|--|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 87,516 | \$ 336,968 |
| Adjustments to reconcile change in net assets to net cash flows from operating activities | | |
| Depreciation | 7,213 | 6,782 |
| Net realized and unrealized (gain) loss on investments | 153,325 | (218,000) |
| Change in cash surrender value of life insurance | (765) | (246) |
| Bad debt expense | - | 5,431 |
| Paycheck Protection Program loan forgiveness | (191,827) | (214,500) |
| (Increase) decrease in assets | | |
| Pledges receivable | (9,272) | (37,440) |
| Grants and contracts receivable | (1,104) | (23,397) |
| Prepaid expenses | 7,183 | (3,532) |
| Increase (decrease) in liabilities | | |
| Accounts payable | (10,505) | 11,869 |
| Accrued payroll | (41) | (3,101) |
| Accrued vacation | (1,507) | 1,324 |
| Grant advance | (3,333) | 3,333 |
| Net cash flows from operating activities | 36,883 | (134,509) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest and dividends retained in investments | (11,259) | (15,640) |
| Purchase of equipment | (13,500) | - |
| Net cash flows from investing activities | (24,759) | (15,640) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on capital lease payable | (1,948) | (1,853) |
| Proceeds from Paycheck Protection Program loan | - | 191,827 |
| Net cash flows from financing activities | (1,948) | 189,974 |
| Change in cash | 10,176 | 39,825 |
| Cash at beginning of year | 305,777 | 265,952 |
| Cash at end of year | \$ 315,953 | \$ 305,777 |
| SUPPLEMENTAL DISCLOSURES | | |
| Cash paid for interest | \$ 127 | \$ 210 |

See accompanying notes.

LITERACY SERVICES OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

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.

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.

Donated Goods and Services

Donated goods and services are recorded at fair value at the date of donation. Donated services are recognized as contributions if the services create or enhance nonfinancial assets or they require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

LITERACY SERVICES OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Volunteers also provided various services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met. The Organization received 11,711 and 13,517 volunteer hours for the years ended June 30, 2022 and 2021, respectively. Management estimates the fair value of those services to be \$385,333 and \$378,886 for the years ended June 30, 2022 and 2021, respectively.

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, food and beverage, travel, technology, insurance, and board and staff development, which are allocated on the basis of estimates of time and effort. Depreciation, occupancy, utilities, maintenance and equipment, technology, and insurance expenses are allocated on the basis of square footage.

Advertising and Marketing

The Organization uses advertising and marketing to promote its programs among the individuals it serves. These costs are expensed as they are incurred.

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

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Adoption of New Accounting Guidance

On September 17, 2020, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The intent of this Update is to improve transparency in the reporting of contributed nonfinancial assets received by not-for-profit entities. The Update requires a not-for-profit entity to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. The Update also requires enhanced disclosures about the valuation of contributed nonfinancial assets and their use in programs and other activities, including any donor-imposed restrictions on such use. The Organization adopted the requirements of this Update effective July 1, 2021. The changes required by this Update have been applied retrospectively to all periods presented.

LITERACY SERVICES OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Date of Management’s Review

Management has evaluated subsequent events through October 13, 2022, the date which the financial statements were available to be issued.

NOTE 2 – CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash balances at a financial institution located in Southeastern Wisconsin. The balances at the institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2022 and 2021, the Organization’s uninsured cash balances totaled approximately \$70,000 and \$53,000, respectively.

NOTE 3 – INVESTMENTS

Investments consist of the following:

| | 2022 | 2021 |
|--------------------|------------|--------------|
| Money market funds | \$ 12,014 | \$ 6,394 |
| Stock mutual funds | 580,409 | 754,268 |
| Bond mutual funds | 342,076 | 315,903 |
| Investments | \$ 934,499 | \$ 1,076,565 |

Fair values of stock mutual funds and bond mutual funds are based on quoted net asset values of the shares as reported by the fund. The stock mutual funds and bond 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 and bond mutual funds held by the Organization are considered to be actively traded.

NOTE 4 – 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, 2022 and 2021 was \$13,919 and \$14,183, respectively.

NOTE 5 – 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, 2022 and 2021 was \$8,774 and \$6,859, respectively. Interest expense for the years ended June 30, 2022 and 2021 was \$120 and \$210, respectively. Future minimum payments for the year ending June 30, 2023 are \$1,527.

LITERACY SERVICES OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 6 – PAYCHECK PROTECTION PROGRAM LOANS

The Organization received 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). On March 23, 2021, the SBA preliminarily approved forgiveness of the Organization's \$214,500 first draw loan. On October 18, 2021, the SBA preliminarily approved forgiveness of the Organization's \$191,827 second draw loan. The Organization 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 the Organization's good faith certification concerning the necessity of its loan request, whether the Organization calculated the loan amount correctly, whether the Organization used loan proceeds for the allowable uses specified in the CARES Act, and whether the Organization is entitled to loan forgiveness in the amount claimed on its application. If SBA determines the Organization was ineligible for the loan or for forgiveness in whole or in part, SBA will seek repayment of the outstanding loan balance.

NOTE 7 – CONTRIBUTED NONFINANCIAL ASSETS

Contributed nonfinancial assets recognized within the statements of activities include:

| | 2022 | 2021 |
|-------------------------|------------|------------|
| Educational services | \$ 237,302 | \$ 210,992 |
| Career coach consultant | 2,825 | 9,645 |
| Web Designer | 7,192 | 480 |
| | \$ 247,319 | \$ 221,117 |

Contributed services recognized comprise of professional services from professors, speech and language pathologists, other educators, and consultants providing education and services to improve reading, writing, speaking English, and prepare students for tests to earn a Certificate of General Education Development or High School Equivalency Diploma. Such services are valued and reported at the estimated fair value in the financial statements based on average rates from current rates for similar services and hourly rates based on the Independent Sector as well as the National Education Association, with the Do Good Institute, for national value of volunteer hour in the United States. Web designer services are valued at current rates for similar services in Milwaukee, Wisconsin. These contributed services are all used within the Organization's program services.

NOTE 8 – OPERATING LEASES

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

LITERACY SERVICES OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 8 – OPERATING LEASES (continued)

Rent expense for the years ended June 30, 2022 and 2021 was \$209,293 and \$243,798, respectively.

Future minimum lease payments for the year ending June 30, 2022 are as follows:

| | |
|------|------------|
| 2023 | \$ 160,330 |
| 2024 | 139,500 |
| 2025 | 139,500 |
| 2026 | 69,750 |

NOTE 9 – NET ASSETS

As of June 30, 2022 and 2021 the board of directors has designated \$399,314 and \$472,628 respectively, of net assets without donor restrictions for the Organization's board designated endowment.

Net assets with donor restrictions consist of the following:

| | 2022 | 2021 |
|--|------------|------------|
| Subject to expenditure for specified purpose or time: | | |
| GED Scholarships | \$ 14,220 | \$ 15,220 |
| Opportunity Pathway Program | 4,000 | - |
| Tutor In-Service | 2,546 | - |
| Merger-related activities | 103,000 | - |
| SSNC Adult Literacy Program | - | 20,000 |
| Neighborhood OPP | - | 20,000 |
| Promotion | - | 600 |
| Other program costs | 1,042 | - |
| Endowment: | | |
| Subject to the Organization's spending policy and appropriation: | | |
| Endowment for operating support | 558,832 | 626,818 |
| Net assets with donor restrictions | \$ 683,640 | \$ 682,638 |

LITERACY SERVICES OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 10 – ENDOWMENT

The Organization's endowment consists of funds held in cash, money market, mutual funds, and a 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 interpreted 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. 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.

LITERACY SERVICES OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 10 – ENDOWMENT (continued)

Endowment net asset composition by type of fund as of June 30, 2022 and 2021 are as follows:

| | 2022 | | |
|---|-------------------------------|----------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Donor-restricted endowment funds: | | | |
| Original donor-restricted gift amount | \$ - | \$ 412,749 | \$ 412,749 |
| Accumulated investment gains | - | 146,083 | 146,083 |
| Board-designated endowment funds | 399,314 | - | 399,314 |
| Total endowment funds | <u>\$ 399,314</u> | <u>\$ 558,832</u> | <u>\$ 958,146</u> |
| | | | |
| | 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 | 472,628 | - | 472,628 |
| Total endowment funds | <u>\$ 472,628</u> | <u>\$ 626,818</u> | <u>\$ 1,099,446</u> |
| Changes in endowment net assets are as follows: | | | |
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Balance at June 30, 2020 | \$ 366,241 | \$ 499,319 | \$ 865,560 |
| Investment return, net | 106,387 | 127,499 | 233,886 |
| Balance at June 30, 2021 | 472,628 | 626,818 | 1,099,446 |
| Investment return, net | (73,314) | (67,986) | (141,300) |
| Balance at June 30, 2022 | <u>\$ 399,314</u> | <u>\$ 558,832</u> | <u>\$ 958,146</u> |

LITERACY SERVICES OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 11 – LIQUIDITY AND AVAILABILITY

The following reflects the Organization’s financial assets as of June 30, 2022 and 2021 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:

| | <u>2022</u> | <u>2021</u> |
|--|-------------------|-------------------|
| Financial assets at year-end: | | |
| Cash | \$ 315,953 | \$ 305,777 |
| Pledges receivable | 71,939 | 30,659 |
| Grants and contracts receivable | 98,417 | 97,313 |
| Investments | 934,499 | 1,076,565 |
| Cash surrender value of life insurance | <u>22,996</u> | <u>22,231</u> |
| Total financial assets | 1,443,804 | 1,532,545 |
| Less those unavailable for general expenditures within one year due to: | | |
| Restricted by donors with purpose restrictions | (270,891) | (269,889) |
| Restricted by donors in perpetuity | (412,749) | (412,749) |
| Board designated for endowment | <u>(399,314)</u> | <u>(472,628)</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 360,850</u> | <u>\$ 377,279</u> |

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.