

**LITERACY SERVICES OF WISCONSIN, INC.**

**FINANCIAL STATEMENTS**

June 30, 2023 and 2022

## 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, 2023 and 2022, 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, 2023 and 2022, 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 (ASU) No. 2016-02, *Leases (Topic 842)*, and all subsequently issued clarifying ASUs as of July 1, 2022. 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  
Waukesha, Wisconsin  
October 11, 2023

**LITERACY SERVICES OF WISCONSIN, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
June 30, 2023 and 2022

<b>ASSETS</b>	<u>2023</u>	<u>2022</u>
<b>CURRENT ASSETS</b>		
Cash	\$ 311,204	\$ 315,953
Pledges receivable	58,834	71,939
Grants and contracts receivable	138,009	98,417
Prepaid expenses	7,051	7,747
Total current assets	<u>515,098</u>	<u>494,056</u>
<b>FURNITURE AND EQUIPMENT</b>		
Furniture and equipment	85,377	94,948
Less accumulated depreciation	<u>75,435</u>	<u>78,248</u>
Furniture and equipment, net	9,942	16,700
<b>OTHER ASSETS</b>		
Investments	973,950	934,499
Cash surrender value of life insurance	23,387	22,996
Operating lease right-of-use assets	402,736	-
Finance lease right-of-use asset	<u>8,597</u>	<u>-</u>
Total other assets	<u>1,408,670</u>	<u>957,495</u>
<b>Total assets</b>	<u><u>\$ 1,933,710</u></u>	<u><u>\$ 1,468,251</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 9,580	\$ 1,447
Accrued payroll	6,754	5,947
Accrued vacation	21,769	14,070
Current portion of operating lease liabilities	155,827	-
Current portion of finance lease liability	<u>1,695</u>	<u>1,527</u>
Total current liabilities	195,625	22,991
<b>LONG-TERM LIABILITIES</b>		
Operating lease liabilities less current portion	250,686	-
Finance lease liability less current portion	<u>6,984</u>	<u>-</u>
Total liabilities	453,295	22,991
<b>NET ASSETS</b>		
Without donor restrictions	760,592	761,620
With donor restrictions	<u>719,823</u>	<u>683,640</u>
Total net assets	<u>1,480,415</u>	<u>1,445,260</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 1,933,710</u></u>	<u><u>\$ 1,468,251</u></u>

See accompanying notes.

**LITERACY SERVICES OF WISCONSIN, INC.**  
**STATEMENTS OF ACTIVITIES**  
Years Ended June 30, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE</b>						
Contributions						
Individual contributions	\$ 279,500	\$ -	\$ 279,500	\$ 360,381	\$ -	\$ 360,381
Corporate and foundation contributions	128,555	350,700	479,255	154,507	309,900	464,407
Grants and contracts	956,026	-	956,026	797,402	-	797,402
Special events	118,048	-	118,048	107,905	-	107,905
In-kind contributions	277,271	-	277,271	247,319	-	247,319
Program service revenue						
Registration and material fees	3,644	-	3,644	2,521	-	2,521
Miscellaneous	582	-	582	23	-	23
Investment return, net	44,018	48,345	92,363	(74,062)	(67,985)	(142,047)
Paycheck Protection Program forgiveness	-	-	-	191,827	-	191,827
Change in value of cash surrender value of life insurance	391	-	391	765	-	765
<b>Total support and revenue</b>	<b>1,808,035</b>	<b>399,045</b>	<b>2,207,080</b>	<b>1,788,588</b>	<b>241,915</b>	<b>2,030,503</b>
<b>EXPENSES</b>						
Program services						
Adult Basic Education	712,635	-	712,635	461,925	-	461,925
English Language Learning	457,015	-	457,015	550,078	-	550,078
Credentialing	639,444	-	639,444	600,909	-	600,909
<b>Total program services</b>	<b>1,809,094</b>	<b>-</b>	<b>1,809,094</b>	<b>1,612,912</b>	<b>-</b>	<b>1,612,912</b>
Supporting activities						
Management and general	168,703	-	168,703	151,577	-	151,577
Fundraising	194,128	-	194,128	178,498	-	178,498
<b>Total supporting activities</b>	<b>362,831</b>	<b>-</b>	<b>362,831</b>	<b>330,075</b>	<b>-</b>	<b>330,075</b>
<b>Total expenses</b>	<b>2,171,925</b>	<b>-</b>	<b>2,171,925</b>	<b>1,942,987</b>	<b>-</b>	<b>1,942,987</b>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>						
Satisfaction of purpose restrictions	362,862	(362,862)	-	240,913	(240,913)	-
<b>Change in net assets</b>	<b>(1,028)</b>	<b>36,183</b>	<b>35,155</b>	<b>86,514</b>	<b>1,002</b>	<b>87,516</b>
Net assets at beginning of year	761,620	683,640	1,445,260	675,106	682,638	1,357,744
<b>Net assets at end of year</b>	<b>\$ 760,592</b>	<b>\$ 719,823</b>	<b>\$ 1,480,415</b>	<b>\$ 761,620</b>	<b>\$ 683,640</b>	<b>\$ 1,445,260</b>

See accompanying notes.

**LITERACY SERVICES OF WISCONSIN, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year Ended June 30, 2023

	Program Services			Supporting Activities		Total Expenses
	Adult Basic Education	English Language Learning	Credentialing	Management and General	Fundraising	
Salaries and wages	\$ 355,518	\$ 231,722	\$ 385,115	\$ 94,551	\$ 104,822	\$ 1,171,728
Employee benefits	38,356	20,991	36,053	17,935	8,691	122,026
Payroll taxes	25,882	17,442	28,929	6,824	7,559	86,636
Professional fees	127,737	83,088	106,705	22,005	300	339,835
Marketing	6,179	3,516	3,439	2,288	12,479	27,901
Office supplies	1,470	675	634	232	237	3,248
Telephone	7,295	3,776	3,180	1,433	533	16,217
Print and postage	661	349	283	72	2,349	3,714
Subscriptions	576	329	237	1,853	40	3,035
Occupancy	94,587	64,766	41,350	7,528	7,453	215,684
Utilities	10,778	6,365	4,678	1,213	1,212	24,246
GED scholarships and tests	-	-	5,094	-	-	5,094
Maintenance and equipment	8,959	5,073	3,893	370	821	19,116
Depreciation and amortization	3,337	2,052	1,539	350	385	7,663
Food and beverage	610	365	933	1,547	132	3,587
Travel	2,173	1,341	1,460	116	36	5,126
Bank and credit card fees	-	-	-	3,411	-	3,411
Technology	14,163	6,354	6,409	2,356	1,307	30,589
Insurance	9,419	5,439	4,165	2,908	846	22,777
Board and staff development	2,663	1,504	1,914	1,174	424	7,679
Miscellaneous	114	70	404	288	39	915
Interest	142	75	55	249	14	535
Educational resources	2,016	1,723	2,975	-	-	6,714
Event fees	-	-	-	-	44,449	44,449
<b>Total expenses</b>	<b>\$ 712,635</b>	<b>\$ 457,015</b>	<b>\$ 639,444</b>	<b>\$ 168,703</b>	<b>\$ 194,128</b>	<b>\$ 2,171,925</b>

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	-	-	-	1,751	26	1,777
Educational resources	1,490	2,596	3,764	-	-	7,850
Event fees	-	-	-	-	53,495	53,495
<b>Total expenses</b>	<b>\$ 461,925</b>	<b>\$ 550,078</b>	<b>\$ 600,909</b>	<b>\$ 151,577</b>	<b>\$ 178,498</b>	<b>\$ 1,942,987</b>



**LITERACY SERVICES OF WISCONSIN, INC.**  
**STATEMENTS OF CASH FLOWS**  
Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 35,155	\$ 87,516
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	7,663	7,213
Amortization of operating lease right of use assets	150,175	-
Net realized and unrealized (gain) loss on investments	(72,831)	153,325
Change in cash surrender value of life insurance	(391)	(765)
Paycheck Protection Program loan forgiveness	-	(191,827)
(Increase) decrease in assets		
Pledges receivable	13,105	(9,272)
Grants and contracts receivable	(39,592)	(1,104)
Prepaid expenses	694	7,183
Increase (decrease) in liabilities		
Accounts payable	8,133	(10,505)
Accrued payroll	807	(41)
Accrued vacation	7,699	(1,507)
Grant advance	-	(3,333)
Operating lease liabilities	(146,398)	-
<b>Net cash flows from operating activities</b>	<b>(35,781)</b>	<b>36,883</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and dividends retained in investments	(19,516)	(11,259)
Purchase of investments	(650)	-
Proceeds from sale of investments	53,546	-
Purchase of equipment	-	(13,500)
<b>Net cash flows from investing activities</b>	<b>33,380</b>	<b>(24,759)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on finance lease liability	(2,348)	(1,948)
<b>Change in cash</b>	<b>(4,749)</b>	<b>10,176</b>
Cash at beginning of year	315,953	305,777
<b>Cash at end of year</b>	<b>\$ 311,204</b>	<b>\$ 315,953</b>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Cash paid for interest	\$ 535	\$ 127

See accompanying notes.

**LITERACY SERVICES OF WISCONSIN, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2023 and 2022

---

---

**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, 2023 and 2022

---

---

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 11,824 and 11,711 volunteer hours for the years ended June 30, 2023 and 2022, respectively. Management estimates the fair value of those services to be \$419,846 and \$385,333 for the years ended June 30, 2023 and 2022, respectively.

**Leases**

The Organization does not recognize short-term leases in the statement of financial position. For these leases, the Organization recognizes the lease payments in the change in net assets on a straight-line basis over the lease term and variable lease payments in the period in which the obligation for those payments is incurred. The Organization also does not separate nonlease components from lease components for all classes of underlying assets and instead accounts for each separate lease component and the nonlease components associated with that lease component as a single lease component. If the rate implicit in the lease is not readily determinable, the Organization uses a risk-free rate as the discount rate for the lease for all classes of underlying assets

**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, 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.

**LITERACY SERVICES OF WISCONSIN, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2023 and 2022

---

---

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Adoption of New Accounting Guidance**

On February 25, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-02, Leases (Topic 842). The guidance in this Update and all subsequently issued clarifying Updates supersede the guidance in FASB Accounting Standards Codification (ASC) Topic 840, Leases, and creates FASB ASC Topic 842, Leases. The main difference between previous guidance and Topic 842 is the recognition of assets and liabilities by lessees for those leases classified as operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of use asset representing its right to use the underlying asset for the lease term. Also, under Topic 842, disclosures are required by lessees and lessors to report useful information to users of statements about the amount, timing, and uncertainty of cash flows arising from leases.

The Organization adopted the requirements of Topic 842 as of July 1, 2022, using the optional transition method that allows the Organization to initially apply the new guidance at the adoption date and recognize a cumulative-effect adjustment to the opening balance of net assets in the period of adoption. The Organization's reporting for the year ended June 30, 2022, is in accordance with the previous guidance in Topic 840.

The Organization elected the package of practical expedients permitted under the transition guidance within Topic 842. This package allowed the Organization to account for its leases that commenced before the adoption date without reassessing whether any expired or existing contracts are or contain leases, the lease classification for any expired or existing leases, and initial direct costs for any existing leases.

The adoption of Topic 842 resulted in the recognition of operating lease right-of-use assets of \$552,911 and operating lease liabilities of \$552,911 as of July 1, 2022. The adoption of Topic 842 did not have a material effect on the Organization's change in net assets or cash flows.

**Date of Management's Review**

Management has evaluated subsequent events through October 11, 2023, 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, 2023 and 2022, the Organization's uninsured cash balances totaled approximately \$62,500 and \$70,000, respectively.

**LITERACY SERVICES OF WISCONSIN, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2023 and 2022

---

**NOTE 3 – INVESTMENTS**

Investments consist of the following:

	2023	2022
Money market funds	\$ 9,750	\$ 12,014
Stock mutual funds	650,248	580,409
Bond mutual funds	313,952	342,076
Investments	\$ 973,950	\$ 934,499

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, 2023 and 2022 was \$14,578 and \$13,919, respectively.

**NOTE 5 – 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.

**LITERACY SERVICES OF WISCONSIN, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2023 and 2022

**NOTE 6 – LEASES**

The Organization leases office space at two locations and office equipment that expire at various dates through March 31, 2028. Some leases include options to renew, which the Organization is reasonably certain will not be exercised. Lease payments are generally fixed and the Organization does not expect to exercise any options to terminate these leases.

The components of total least cost are as follows:

Finance lease cost	
Amortization of right-of-use assets	\$ 913
Interest on lease liabilities	201
Operating lease cost	<u>163,663</u>
Total lease cost	<u>\$ 164,777</u>

Other information related to leases is as follows:

Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from finance lease	\$ 173
Financing cash flows from finance lease	2,220
Operating cash flows from operating leases	159,886
Right-of-use assets obtained in exchange for new finance lease liability	10,870
Weighted-average remaining lease term	
Finance lease	4.75 years
Operating leases	2.56 years
Weighted-average discount rate	
Finance lease	3.94%
Operating leases	2.85%

The maturities of lease liabilities as of June 30, 2023, are as follows:

	Finance Lease	Operating Leases
Year ending June 30:	<u>          </u>	<u>          </u>
2024	\$ 2,000	\$ 164,996
2025	2,000	164,996
2026	2,000	90,996
2027	2,000	-
2028	<u>1,499</u>	<u>-</u>
Total minimum lease payments	9,499	420,988
Imputed interest	<u>(820)</u>	<u>(14,475)</u>
Total lease liabilities	<u>\$ 8,679</u>	<u>\$ 406,513</u>

As of June 30, 2022, the Organization has leases for office space and equipment that expire at various dates through April 2026. Rental expenses for these leases total \$216,129 for the year ended June 30, 2022.

**LITERACY SERVICES OF WISCONSIN, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2023 and 2022

**NOTE 7 – CONTRIBUTED NONFINANCIAL ASSETS**

Contributed nonfinancial assets recognized within the statements of activities include:

	2023	2022
Educational services	\$ 272,994	\$ 237,302
Career coach consultant	3,164	2,825
Web Designer	1,113	7,192
	\$ 277,271	\$ 247,319

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 utilizing 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 – NET ASSETS**

As of June 30, 2023 and 2022 the board of directors has designated \$390,161 and \$399,314 respectively, of net assets without donor restrictions for the Organization's board designated endowment.

Net assets with donor restrictions consist of the following:

	2023	2022
Subject to expenditure for specified purpose or time:		
GED Scholarships	\$ 14,220	\$ 14,220
Opportunity Pathway Program	54,100	4,000
Tutor In-Service	-	2,546
Merger-related activities	29,000	103,000
Reducing Barriers	14,375	-
Other program costs	951	1,042
Endowment:		
Subject to the Organization's spending policy and appropriation:		
Endowment for operating support	607,177	558,832
Net assets with donor restrictions	\$ 719,823	\$ 683,640

**LITERACY SERVICES OF WISCONSIN, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2023 and 2022

---

NOTE 9 – 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, 2023 and 2022

NOTE 9 – ENDOWMENT (continued)

Endowment net asset composition by type of fund as of June 30, 2023 and 2022 are as follows:

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Original donor-restricted gift amount	\$ -	\$ 412,749	\$ 412,749
Accumulated investment gains	-	194,428	194,428
Board-designated endowment funds	390,161	-	390,161
Total endowment funds	<u>\$ 390,161</u>	<u>\$ 607,177</u>	<u>\$ 997,338</u>
	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>

Changes in endowment net assets are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance at June 30, 2021	\$ 472,628	\$ 626,818	\$ 1,099,446
Contribution	650	-	650
Investment return, net	(73,964)	(67,986)	(141,950)
Balance at June 30, 2022	399,314	558,832	958,146
Investment return, net	44,393	48,345	92,738
Appropriations	(53,546)	-	(53,546)
Balance at June 30, 2023	<u>\$ 390,161</u>	<u>\$ 607,177</u>	<u>\$ 997,338</u>

**LITERACY SERVICES OF WISCONSIN, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2023 and 2022

---

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:

	2023	2022
Financial assets at year-end:		
Cash	\$ 311,204	\$ 315,953
Pledges receivable	58,834	71,939
Grants and contracts receivable	138,009	98,417
Investments	973,950	934,499
Cash surrender value of life insurance	23,387	22,996
Total financial assets	1,505,384	1,443,804
Less those unavailable for general expenditures within one year due to:		
Restricted by donors with purpose restrictions	(307,074)	(270,891)
Restricted by donors in perpetuity	(412,749)	(412,749)
Board designated for endowment	(390,161)	(399,314)
Financial assets available to meet cash needs for general expenditures within one year	\$ 395,400	\$ 360,850

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.