

**MIDTOWN EDUCATIONAL FOUNDATION**

**FINANCIAL STATEMENTS**

**YEARS ENDED MAY 31, 2017 AND 2016**



Board of Trustees  
Midtown Educational Foundation  
Chicago, Illinois

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of **MIDTOWN EDUCATIONAL FOUNDATION** (a nonprofit organization) which comprise the statements of financial position as of May 31, 2017 and 2016, 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 financials statements are free of 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 **MIDTOWN EDUCATIONAL FOUNDATION** as of May 31, 2017 and 2016, 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.

## Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenses on page 17 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Sassetti LLC*

September 1, 2017  
Oak Park, Illinois

**MIDTOWN EDUCATIONAL FOUNDATION  
STATEMENTS OF FINANCIAL POSITION  
MAY 31, 2017 AND 2016**

|  | 2017                    | 2016                    |
|--|-------------------------|-------------------------|
| <b><u>Assets</u></b>   |                         |                         |
| Current Assets:  |                         |                         |
| Cash and cash equivalents  | \$ 1,556,247            | \$ 1,295,566            |
| Investments  | 330,774                 | 588,954                 |
| Contributions receivable, net of allowance of<br>\$10,000 for uncollectible accounts | 51,172                  | 80,060                  |
| Other receivables and assets   | 21,073                  | 935                     |
| Prepaid assets   | 111,413                 | 127,748                 |
| <b>Total current assets</b>  | <b>2,070,679</b>        | <b>2,093,263</b>        |
| Property and Equipment, at cost:   |                         |                         |
| Land   | 690,000                 | 690,000                 |
| Building and improvements  | 6,779,761               | 6,562,197               |
| Leasehold improvements   | 497,318                 | 544,755                 |
| Furniture and equipment  | 565,524                 | 545,428                 |
|  | 8,532,603               | 8,342,380               |
| Less accumulated depreciation  | (5,761,948)             | (5,426,215)             |
| <b>Net property and equipment</b>  | <b>2,770,655</b>        | <b>2,916,165</b>        |
| Other Assets:  |                         |                         |
| Permanently restricted cash  | 6,100                   | 6,100                   |
| Life insurance policy at present value   | 94,346                  | 90,893                  |
| <b>Total other assets</b>  | <b>100,446</b>          | <b>96,993</b>           |
| <br><b>Total Assets</b>  | <br><b>\$ 4,941,780</b> | <br><b>\$ 5,106,421</b> |
| <b><u>Liabilities and Net Assets</u></b>   |                         |                         |
| Current Liabilities:   |                         |                         |
| Accounts payable and accrued expenses  | \$ 41,751               | \$ 59,049               |
| Accrued payroll and related taxes  | 123,215                 | 128,191                 |
| Accrued real estate taxes  | 1,659                   | 1,768                   |
| Tenant security deposits   | 29,410                  | 35,550                  |
| Deferred revenue   | 372,451                 | 158,650                 |
| <b>Total current liabilities</b>   | <b>568,486</b>          | <b>383,208</b>          |
| Net Assets:  |                         |                         |
| Unrestricted   |                         |                         |
| Board designated fund  | 832,882                 | 820,939                 |
| Undesignated   | 2,920,159               | 3,305,487               |
| <b>Total unrestricted net assets</b>   | 3,753,041               | 4,126,426               |
| Temporarily restricted   | 614,153                 | 590,687                 |
| Permanently restricted   | 6,100                   | 6,100                   |
| <b>Total net assets</b>  | <b>4,373,294</b>        | <b>4,723,213</b>        |
| <br><b>Total Liabilities and Net Assets</b>  | <br><b>\$ 4,941,780</b> | <br><b>\$ 5,106,421</b> |

See independent auditors' report and notes to financial statements.

**MIDTOWN EDUCATIONAL FOUNDATION  
STATEMENTS OF ACTIVITIES  
YEARS ENDED MAY 31, 2017 AND 2016**

|   | 2017                |                           |                           |                     | 2016                |                           |                           |                     |
|---|---------------------|---------------------------|---------------------------|---------------------|---------------------|---------------------------|---------------------------|---------------------|
|   | Unrestricted        | Temporarily<br>Restricted | Permanently<br>Restricted | Total               | Unrestricted        | Temporarily<br>Restricted | Permanently<br>Restricted | Total               |
| <b><u>Revenues, Gains and Other Support</u></b> |                     |                           |                           |                     |                     |                           |                           |                     |
| Contributions                                   | \$ 485,540          | \$ 862,831                | \$ -                      | \$ 1,348,371        | \$ 456,772          | \$ 848,214                | \$ -                      | \$ 1,304,986        |
| Special event revenue                           | 1,343,473           | -                         | -                         | 1,343,473           | 1,445,001           | -                         | -                         | 1,445,001           |
| Less: Costs of direct benefit to donors         | (205,752)           | -                         | -                         | (205,752)           | (127,044)           | -                         | -                         | (127,044)           |
| In-kind donations                               | 44,588              | -                         | -                         | 44,588              | 43,093              | -                         | -                         | 43,093              |
| Program service fees                            | 154,778             | -                         | -                         | 154,778             | 197,420             | -                         | -                         | 197,420             |
| Rental income                                   | 509,477             | -                         | -                         | 509,477             | 505,941             | -                         | -                         | 505,941             |
| Investment income                               | 47,231              | -                         | -                         | 47,231              | (13,381)            | -                         | -                         | (13,381)            |
| Miscellaneous income                            | 5,176               | -                         | -                         | 5,176               | 2,503               | -                         | -                         | 2,503               |
| Net assets released from restrictions -         |                     |                           |                           |                     |                     |                           |                           |                     |
| Satisfaction of program restrictions            | 707,382             | (707,382)                 | -                         | -                   | 1,091,806           | (1,091,806)               | -                         | -                   |
| Expiration of time restrictions                 | 131,983             | (131,983)                 | -                         | -                   | 98,552              | (98,552)                  | -                         | -                   |
| Total revenues, gains and other support         | <u>3,223,876</u>    | <u>23,466</u>             | <u>-</u>                  | <u>3,247,342</u>    | <u>3,700,663</u>    | <u>(342,144)</u>          | <u>-</u>                  | <u>3,358,519</u>    |
| <b><u>Expenses</u></b>                          |                     |                           |                           |                     |                     |                           |                           |                     |
| Program services                                | 2,156,627           | -                         | -                         | 2,156,627           | 2,165,816           | -                         | -                         | 2,165,816           |
| Rental operations                               | 389,685             | -                         | -                         | 389,685             | 392,033             | -                         | -                         | 392,033             |
| Management and general                          | 476,837             | -                         | -                         | 476,837             | 471,241             | -                         | -                         | 471,241             |
| Fundraising                                     | 574,112             | -                         | -                         | 574,112             | 641,851             | -                         | -                         | 641,851             |
| Total expenses                                  | <u>3,597,261</u>    | <u>-</u>                  | <u>-</u>                  | <u>3,597,261</u>    | <u>3,670,941</u>    | <u>-</u>                  | <u>-</u>                  | <u>3,670,941</u>    |
| <b>Change in net assets</b>                     | (373,385)           | 23,466                    | -                         | (349,919)           | 29,722              | (342,144)                 | -                         | (312,422)           |
| <b>Net assets, beginning of year</b>            | 4,126,426           | 590,687                   | 6,100                     | 4,723,213           | 4,096,704           | 932,831                   | 6,100                     | 5,035,635           |
| <b>Net assets, end of year</b>                  | <u>\$ 3,753,041</u> | <u>\$ 614,153</u>         | <u>\$ 6,100</u>           | <u>\$ 4,373,294</u> | <u>\$ 4,126,426</u> | <u>\$ 590,687</u>         | <u>\$ 6,100</u>           | <u>\$ 4,723,213</u> |

See independent auditors' report and notes to financial statements.

**MIDTOWN EDUCATIONAL FOUNDATION  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED MAY 31, 2017**

|   | One-on-One<br>Program | Achievement<br>Program | College<br>Orientation<br>Program | Parenting<br>Program | Total<br>Program<br>Services | Management<br>and General | Fundraising       | Total<br>Non-program | Rental<br>Operations | Totals              |
|---|-----------------------|------------------------|-----------------------------------|----------------------|------------------------------|---------------------------|-------------------|----------------------|----------------------|---------------------|
| Salaries                                  | \$ 264,945            | \$ 308,758             | \$ 401,336                        | \$ 152,342           | \$ 1,127,381                 | \$ 151,293                | \$ 216,183        | \$ 367,476           | \$ 4,389             | \$ 1,499,246        |
| Benefits and payroll taxes                | 52,281                | 81,710                 | 71,087                            | 44,371               | 249,449                      | 48,220                    | 83,697            | 131,917              | 903                  | 382,269             |
| Total salaries and related expenses       | 317,226               | 390,468                | 472,423                           | 196,713              | 1,376,830                    | 199,513                   | 299,880           | 499,393              | 5,292                | 1,881,515           |
| Professional fees                         | 11,189                | 10,421                 | 13,618                            | 4,759                | 39,987                       | 161,471                   | 85,961            | 247,432              | -                    | 287,419             |
| Occupancy                                 | 36,549                | 45,778                 | 56,371                            | 21,239               | 159,937                      | 10,170                    | 13,625            | 23,795               | 207,794              | 391,526             |
| Transportation                            | 4,410                 | 9,635                  | 6,401                             | 131                  | 20,577                       | 11                        | 35                | 46                   | -                    | 20,623              |
| Insurance                                 | 8,603                 | 10,137                 | 13,177                            | 5,001                | 36,918                       | 22,424                    | -                 | 22,424               | 28,154               | 87,496              |
| Supplies                                  | 9,147                 | 18,186                 | 28,547                            | 6,717                | 62,597                       | 12,833                    | -                 | 12,833               | -                    | 75,430              |
| Printing and postage                      | 1,740                 | 1,892                  | 4,360                             | 998                  | 8,990                        | 12,852                    | 483               | 13,335               | -                    | 22,325              |
| Equipment                                 | 1,709                 | 1,929                  | 3,256                             | 1,059                | 7,953                        | 887                       | -                 | 887                  | -                    | 8,840               |
| Public relations and volunteer training   | 2,344                 | 2,772                  | 6,083                             | 1,372                | 12,571                       | 3,492                     | 34,141            | 37,633               | -                    | 50,204              |
| Employee travel and training              | 2,567                 | 1,612                  | 2,755                             | 657                  | 7,591                        | 17,108                    | 7,889             | 24,997               | -                    | 32,588              |
| Program trips and outings                 | 1,844                 | 8,834                  | 14,732                            | -                    | 25,410                       | -                         | -                 | -                    | -                    | 25,410              |
| Center events                             | 4,100                 | 1,545                  | 1,881                             | 5,235                | 12,761                       | 47                        | -                 | 47                   | -                    | 12,808              |
| Partner services                          | 5,501                 | 3,827                  | 95                                | 1,149                | 10,572                       | -                         | -                 | -                    | -                    | 10,572              |
| Summer housing                            | 400                   | 50,309                 | 43,718                            | 211                  | 94,638                       | 20                        | -                 | 20                   | -                    | 94,658              |
| Scholarships                              | -                     | -                      | 51,100                            | -                    | 51,100                       | -                         | -                 | -                    | -                    | 51,100              |
| Miscellaneous                             | 1,122                 | 1,400                  | 1,814                             | 592                  | 4,928                        | 24,382                    | 75                | 24,457               | 8                    | 29,393              |
| Management service expense                | 2,987                 | 3,309                  | 4,316                             | 1,900                | 12,512                       | 109                       | -                 | 109                  | 47,641               | 60,262              |
| In-kind                                   | -                     | -                      | -                                 | -                    | -                            | -                         | 44,588            | 44,588               | -                    | 44,588              |
| Bad debt expense                          | -                     | -                      | -                                 | -                    | -                            | -                         | -                 | -                    | -                    | -                   |
| Real estate taxes                         | -                     | -                      | -                                 | -                    | -                            | -                         | -                 | -                    | 1,975                | 1,975               |
| Total operating expenses                  | 411,438               | 562,054                | 724,647                           | 247,733              | 1,945,872                    | 465,319                   | 486,677           | 951,996              | 290,864              | 3,188,732           |
| Depreciation expense                      | 49,510                | 57,166                 | 74,390                            | 29,689               | 210,755                      | 11,518                    | 14,639            | 26,157               | 98,821               | 335,733             |
| Total Expenses Prior to Special<br>Events | 460,948               | 619,220                | 799,037                           | 277,422              | 2,156,627                    | 476,837                   | 501,316           | 978,153              | 389,685              | 3,524,465           |
| Special event expenses                    | -                     | -                      | -                                 | -                    | -                            | -                         | 72,796            | 72,796               | -                    | 72,796              |
| <b>Total Expenses</b>                     | <b>\$ 460,948</b>     | <b>\$ 619,220</b>      | <b>\$ 799,037</b>                 | <b>\$ 277,422</b>    | <b>\$ 2,156,627</b>          | <b>\$ 476,837</b>         | <b>\$ 574,112</b> | <b>\$ 1,050,949</b>  | <b>\$ 389,685</b>    | <b>\$ 3,597,261</b> |

See independent auditors' report and notes to financial statements.

**MIDTOWN EDUCATIONAL FOUNDATION  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED MAY 31, 2016**

|   | One-on-One<br>Program | Achievement<br>Program | College<br>Orientation<br>Program | Parenting<br>Program | Total<br>Program<br>Services | Management<br>and General | Fundraising       | Total<br>Non-program | Rental<br>Operations | Totals              |
|---|-----------------------|------------------------|-----------------------------------|----------------------|------------------------------|---------------------------|-------------------|----------------------|----------------------|---------------------|
| Salaries                                  | \$ 270,338            | \$ 322,858             | \$ 414,237                        | \$ 141,968           | \$ 1,149,401                 | \$ 154,522                | \$ 223,614        | \$ 378,136           | \$ 442               | 1,527,979           |
| Benefits and payroll taxes                | 42,265                | 70,834                 | 67,712                            | 30,882               | 211,693                      | 41,857                    | 60,576            | 102,433              | 69                   | 314,195             |
| Total salaries and related expenses       | 312,603               | 393,692                | 481,949                           | 172,850              | 1,361,094                    | 196,379                   | 284,190           | 480,569              | 511                  | 1,842,174           |
| Professional fees                         | 8,397                 | 7,396                  | 9,349                             | 3,144                | 28,286                       | 135,459                   | 67,314            | 202,773              | -                    | 231,059             |
| Occupancy                                 | 38,266                | 45,370                 | 58,202                            | 20,203               | 162,041                      | 9,526                     | 12,938            | 22,464               | 206,218              | 390,723             |
| Transportation                            | 5,872                 | 3,510                  | 5,837                             | 124                  | 15,343                       | 7                         | -                 | 7                    | -                    | 15,350              |
| Insurance                                 | 8,873                 | 10,553                 | 13,501                            | 4,687                | 37,614                       | 20,011                    | -                 | 20,011               | 27,747               | 85,372              |
| Supplies                                  | 10,104                | 17,068                 | 31,513                            | 5,975                | 64,660                       | 10,554                    | 3,995             | 14,549               | -                    | 79,209              |
| Printing and postage                      | 2,249                 | 2,641                  | 3,396                             | 1,197                | 9,483                        | 30,891                    | 16,140            | 47,031               | -                    | 56,514              |
| Equipment                                 | 1,628                 | 1,785                  | 2,357                             | 901                  | 6,671                        | 2,540                     | -                 | 2,540                | -                    | 9,211               |
| Public relations and volunteer training   | 655                   | 812                    | 1,023                             | 337                  | 2,827                        | 24,908                    | 57,171            | 82,079               | -                    | 84,906              |
| Employee travel and training              | 3,055                 | 3,138                  | 3,734                             | 868                  | 10,795                       | 10,194                    | 6,940             | 17,134               | -                    | 27,929              |
| Program trips and outings                 | 4,240                 | 16,400                 | 7,772                             | 194                  | 28,606                       | 12                        | -                 | 12                   | -                    | 28,618              |
| Center events                             | 1,859                 | 339                    | 518                               | 4,588                | 7,304                        | 8                         | -                 | 8                    | -                    | 7,312               |
| Partner services                          | 8,178                 | 1,802                  | 254                               | 2,760                | 12,994                       | -                         | -                 | -                    | -                    | 12,994              |
| Summer housing                            | 7,241                 | 37,275                 | 54,963                            | 290                  | 99,769                       | 18                        | -                 | 18                   | -                    | 99,787              |
| Scholarships                              | -                     | -                      | 80,250                            | -                    | 80,250                       | -                         | -                 | -                    | -                    | 80,250              |
| Miscellaneous                             | 1,550                 | 1,951                  | 2,420                             | 755                  | 6,676                        | 16,982                    | 359               | 17,341               | (6,446)              | 17,571              |
| Management service expense                | 3,566                 | 3,814                  | 5,087                             | 1,999                | 14,466                       | 149                       | -                 | 149                  | 69,005               | 83,620              |
| In-kind                                   | -                     | -                      | -                                 | -                    | -                            | -                         | 43,093            | 43,093               | -                    | 43,093              |
| Bad debt expense                          | -                     | -                      | -                                 | -                    | -                            | 7,517                     | -                 | 7,517                | -                    | 7,517               |
| Real estate taxes                         | -                     | -                      | -                                 | -                    | -                            | -                         | -                 | -                    | 1,869                | 1,869               |
| Total operating expenses                  | 418,336               | 547,546                | 762,125                           | 220,872              | 1,948,879                    | 465,155                   | 492,140           | 957,295              | 298,904              | 3,205,078           |
| Depreciation expense                      | 49,828                | 57,116                 | 74,170                            | 26,888               | 208,002                      | 6,021                     | 6,838             | 12,859               | 93,129               | 313,990             |
| Total Expenses Prior to Special<br>Events | 468,164               | 604,662                | 836,295                           | 247,760              | 2,156,881                    | 471,176                   | 498,978           | 970,154              | 392,033              | 3,519,068           |
| Special event expenses                    | 2,109                 | 2,504                  | 3,206                             | 1,116                | 8,935                        | 65                        | 142,873           | 142,938              | -                    | 151,873             |
| <b>Total Expenses</b>                     | <b>\$ 470,273</b>     | <b>\$ 607,166</b>      | <b>\$ 839,501</b>                 | <b>\$ 248,876</b>    | <b>\$ 2,165,816</b>          | <b>\$ 471,241</b>         | <b>\$ 641,851</b> | <b>\$ 1,113,092</b>  | <b>\$ 392,033</b>    | <b>\$ 3,670,941</b> |

See independent auditors' report and notes to financial statements.

**MIDTOWN EDUCATIONAL FOUNDATION  
STATEMENTS OF CASH FLOWS  
YEARS ENDED MAY 31, 2017 AND 2016**

|  | 2017                | 2016                |
|--|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                     |                     |
| Change in net assets   | \$ (349,919)        | \$ (312,422)        |
| Adjustment to reconcile change in net assets to<br>net cash provided by operating activities - |                     |                     |
| Depreciation   | 335,733             | 313,990             |
| Net realized and unrealized losses (gains) on investments                                      | (37,731)            | 25,639              |
| Change in assets - (increase) decrease   |                     |                     |
| Contributions receivable   | 28,888              | 39,137              |
| Other receivables and assets   | (20,138)            | 17,376              |
| Prepaid assets   | 16,335              | 25,682              |
| Change in liabilities - increase (decrease)  |                     |                     |
| Accounts payable   | (17,298)            | (43,507)            |
| Accrued payroll and related taxes  | (4,976)             | 48,126              |
| Accrued real estate taxes  | (109)               | 134                 |
| Tenant security deposits   | (6,140)             | -                   |
| Deferred revenue   | 213,801             | (67,750)            |
|  | <u>158,446</u>      | <u>46,405</u>       |
| Net Cash Provided by Operating Activities  |                     |                     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                     |                     |
| Additions to property and equipment  | (190,223)           | (266,251)           |
| Change in present value of life insurance policy   | (3,453)             | (3,206)             |
| Noncash donations of securities  | (211,362)           | (107,808)           |
| Proceeds from sale of investments  | 507,273             | 103,350             |
|  | <u>102,235</u>      | <u>(273,915)</u>    |
| Net Cash Provided by (Used in) Investing Activities  |                     |                     |
| <b>NET INCREASE (DECREASE) IN CASH AND<br/>CASH EQUIVALENTS</b>                                | 260,681             | (227,510)           |
| <b>CASH AND CASH EQUIVALENTS</b>   |                     |                     |
| Beginning of year  | <u>1,295,566</u>    | <u>1,523,076</u>    |
| End of year  | <u>\$ 1,556,247</u> | <u>\$ 1,295,566</u> |
| <b>SUPPLEMENTAL DISCLOSURE</b>   |                     |                     |
| Taxes paid   | <u>\$ -</u>         | <u>\$ -</u>         |
| Interest paid  | <u>\$ -</u>         | <u>\$ -</u>         |

See independent auditors' report and notes to financial statements.



**MIDTOWN EDUCATIONAL FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED MAY 31, 2017 AND 2016**

**Note 1- Nature of Operations and Summary of Significant Accounting Policies**

Nature of Foundation

Midtown Educational Foundation (the Foundation) is a not-for-profit Illinois corporation exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. The Foundation is not considered to be a private foundation. Its first site of operation, the Midtown Center for boys, was founded in 1965 and the Foundation incorporated itself in 1985. That same year Metro Achievement Center for Girls was formed. The centers provide after-school and summertime enrichment programs for disadvantaged youth that strengthen the student in both academics and character.

Programs span grades four through twelve and include the following:

*Walgreens One-on-One* (4<sup>th</sup> to 6<sup>th</sup> grade) – Young professional volunteers act as individual tutors/mentors for students. Weekly sessions aim to encourage good attitudes toward learning; assist students with homework; present positive role models for students and develop in students the study habits associated with high achievers.

*Midtown/Metro Achievement Program* (7<sup>th</sup> & 8<sup>th</sup> grade) – Math, Science, and English courses prepare students to enter a college preparatory high school, and ultimately, college. Character development is strongly emphasized through individual advising. Students acquire the habits and attitudes of successful people of good character.

*College Orientation Program* (9<sup>th</sup> to 12<sup>th</sup> grade) – The centers help students prepare for college entrance exams and explore college options. Students engage in enrichment activities such as cultural field trips, college tours and service projects.

*The Parenting Program (for parents of Midtown/Metro students)* – The centers provide seminars and other forms of support for parents, since parental leadership is key to the Foundation's philosophy.

Basis of Accounting

The accounts and financial statements are maintained on the accrual basis of accounting and accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

As required by the generally accepted accounting principles, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

**MIDTOWN EDUCATIONAL FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED MAY 31, 2017 AND 2016**

**Note 1- Nature of Operations and Summary of Significant Accounting Policies (continued)**

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities and the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require 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 the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Concentration of Risk

The Foundation received approximately 39% and 41% of its funding from the annual dinner event during the years ended May 31, 2017 and 2016, respectively. Future revenue is contingent upon the continued success of this event. Any significant changes in this funding source in the future may cause disruption in program activities.

Cash and Cash Equivalents

The Foundation maintains its cash balances at high credit quality financial institutions. The balance may, at times, exceed federally insured credit limits.

The Foundation considers all highly liquid investments, including money market accounts, to be cash equivalents.

Investments

Investments in equity securities with readily determinable fair values and all debt securities are measured at their fair value in the Statements of Financial Position, and unrealized gains and losses are recorded in the Statements of Activities.

Accounts Receivable

Accounts receivable consist of both unconditional promises to give by donors and amounts due from rental services. Unconditional promises to give are recorded in the year the promises are made, either unrestricted, or restricted for the subsequent period. Contributions of assets other than cash are recorded at their estimated fair value. The Foundation believes that its accounts receivable are collectible and that its allowance for doubtful accounts of \$10,000 is adequate at both May 31, 2017 and 2016.

**MIDTOWN EDUCATIONAL FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED MAY 31, 2017 AND 2016**

**Note 1- Nature of Operations and Summary of Significant Accounting Policies (continued)**

Property and Equipment

Expenditures for property and equipment and items which substantially increase the useful lives of existing assets are capitalized at cost. The Foundation capitalizes amounts of \$1,000 or greater. The Foundation provided for depreciation on the straight-line method at rates designed to depreciate the costs of the following assets over their estimated useful lives:

|                           |               |
|---------------------------|---------------|
| Building and improvements | 2 - 29 years  |
| Furniture and equipment   | 3 - 15 years  |
| Leasehold improvements    | 10 - 30 years |

Support and Revenue

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

The Foundation reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations regarding how long those long-lived assets must be maintained, the Foundation reports expiration of donor restriction when the donated or acquired long-lived assets are placed in service.

Income Tax Status

The Foundation is exempt from federal income taxes under the provisions of the Internal Revenue Code Section 501(c)(3). However, income deemed to be "unrelated business income" would be taxable only to the extent such revenues exceed costs and expenses as fairly allocated. The Foundation's Board does not believe that it has taxable income for 2016 or prior years. The Foundation's Form 990, *Return of Organization Exempt from Income Tax* are subject to examination by the IRS, generally for three years after they were filed.

In-Kind Contributions

In addition to receiving cash contributions, the Foundation receives in-kind contributions from various donors. It is the policy of the Foundation to record the estimated fair value of certain in-kind contributions as an expense in its financial statements, and similarly increase donation by a like amount. For the years ended May 31, 2017 and 2016, the Foundation received in-kind contributions in the amount of \$44,588 and \$43,093, respectively for donated goods and services.

**MIDTOWN EDUCATIONAL FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED MAY 31, 2017 AND 2016**

**Note 1- Nature of Operations and Summary of Significant Accounting Policies (continued)**

In-Kind Contributions (continued)

The Foundation also received approximately 16,776 and 17,696 hours of donated services during the years ended May 31, 2017 and 2016, respectively. The services, which were primarily for tutoring, do not meet the requirements for recognition and therefore, were not included in the financial statements.

Reclassifications

Certain reclassifications have been made to the May 31, 2016 financial information in order to conform to the current presentation.

**Note 2 - Life Insurance Policy**

In 1997, the Foundation received a beneficial interest in a life insurance policy paid in full from a donor and his wife in which the Foundation is the owner. Per the written intent by the donor and his wife, the life insurance policy is to be held until both are deceased, at which time the face value of \$237,959 will be disbursed to the Foundation. The Foundation has recorded the value of life insurance policy, at its net present value of \$94,346 and \$90,893 at May 31, 2017 and 2016, respectively, based on the joint life expectancy of the donor and his wife.

**Note 3 – Conditional Promises to Give**

At May 31, 2017 and 2016, a community trust holds approximately \$393,402 and \$369,603, respectively, in a fund for scholarships to be awarded annually at the discretion of the Foundation to qualified high school students attending Foundation programs. The Foundation does not recognize this fund in its Statement of Financial Position. Distributions from the fund are recognized as revenue with the corresponding scholarship award recognized as expense in the Statement of Activities.

At both May 31, 2017 and 2016, the Foundation had \$10,000 of conditional promises to give which were at the discretion of an awarding agency. This has not been recognized as assets in the Statement of Financial Position as of either May 31, 2017 or 2016.

**MIDTOWN EDUCATIONAL FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED MAY 31, 2017 AND 2016**

**Note 4 – Investments**

The Foundation follows generally accepted accounting principles associated with fair value measurements and disclosure. Generally accepted accounting principles define fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at fair value, the Foundation considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance.

Generally accepted accounting principles related to fair value disclosure also establish a fair value hierarchy that requires the Foundation to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of inputs that may be used to measure fair value are as follows:

- Level 1 - quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or
- Level 3 - unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Publicly traded mutual funds with a readily determinable market value, categorized as Level 1, are carried at fair value. There were no Level 2 or Level 3 investments.

The determinable fair value of investments held by the Foundation as of May 31, 2017 and 2016 are as follows:

|   | 2017              | 2016              |
|---|-------------------|-------------------|
| <u>Level 1 (fair value measured using quoted market prices)</u> |                   |                   |
| Stock mutual funds  | \$ 202,887        | \$ 347,809        |
| Bond mutual funds   | 85,470            | 161,493           |
| Income mutual funds   | 42,417            | 79,652            |
|   | <u>\$ 330,774</u> | <u>\$ 588,954</u> |

**MIDTOWN EDUCATIONAL FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED MAY 31, 2017 AND 2016**

**Note 4 – Investments (continued)**

Investment income consisted of the following at May 31:

|                                      | 2017      | 2016        |
|--------------------------------------|-----------|-------------|
| Interest and dividends               | \$ 9,500  | \$ 12,258   |
| Realized gains on sales              | 32,068    | 15,846      |
| Unrealized gain (loss) on fair value | 5,663     | (41,485)    |
|                                      | \$ 47,231 | \$ (13,381) |

Investment securities are exposed to various risks including interest rate, market and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Statement of Financial Position.

**Note 5 – Lease Income**

The Foundation leases office space to unrelated third parties under leases with varying terms.

Future minimum rental income anticipated under these operating leases is as follows for the years ending May 31:

|                              |              |
|------------------------------|--------------|
| 2018                         | \$ 341,026   |
| 2019                         | 145,511      |
| 2020                         | 132,311      |
| 2021                         | 118,050      |
| 2022                         | 119,582      |
| 2023 and beyond              | 390,760      |
| Total minimum future rentals | \$ 1,247,240 |

**Note 6 – Line of Credit**

The Foundation has a \$350,000 revolving line of credit expiring December 28, 2018 with an index interest rate currently at 4.5%. At May 31, 2017 and 2016, there were no amounts borrowed against this line. The line is collateralized by certain property of the Foundation which had a net book value of approximately \$1,852,313 and \$1,825,000 as of May 31, 2017 and 2016, respectively, and the assignment of all rents associated with the property. Interest on any borrowings varies with the bank's prime rate, and is payable monthly.

**MIDTOWN EDUCATIONAL FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED MAY 31, 2017 AND 2016**

**Note 7 – Permanently Restricted Net Assets**

Permanently restricted net assets at May 31, 2017 and 2016 totaled \$6,100. Income earned on these funds is utilized to support the Foundation’s operating activities.

**Note 8 – Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes as of May 31, 2017 and 2016:

|                      | 2017       | 2016       |
|----------------------|------------|------------|
| Future periods       | \$ 120,233 | \$ 192,264 |
| Capital improvements | 193,940    | 194,924    |
| Scholarships         | 167,389    | 149,739    |
| Student programs     | -          | 6,954      |
| Other                | 132,591    | 46,806     |
| Total                | \$ 614,153 | \$ 590,687 |

**Note 9 – Board Designated Endowment**

The Foundation has established a Board of Directors’ designated endowment fund to fulfill the Foundation’s mission to provide for inner city youth programs for decades to come. This fund was established through an appropriation of the Foundation’s unrestricted net assets. Unless approved by the Board of Directors by a three-quarter majority vote, the principal amount of fund is to be held in perpetuity. Earnings are available for use by the Foundation for current operating expenses and programs. However, through May 31, 2017, the Board has not allocated the use of endowment funds.

**Return Objectives and Risk Parameters**

The Foundation has adopted an investment policy for endowment assets that takes into consideration the desire to grow and preserve capital as well as generate income. Under the policy, as approved by the Board on July 12, 2016, the endowment assets may be invested in the equity securities, investment grade (BBB or higher) debt securities, mutual funds, U.S. Treasury bills, money market funds, commercial paper, certificates of deposit, and cash.

**MIDTOWN EDUCATIONAL FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED MAY 31, 2017 AND 2016**

**Note 9 – Board Designated Endowment (continued)**

Changes in Endowment Net Assets:

|  | 2017       | 2016       |
|--|------------|------------|
| Endowment net assets, beginning of year            | \$ 820,939 | \$ 793,291 |
| Investment return                                  |            |            |
| Investment income                                  | 7,321      | 10,939     |
| Net appreciation                                   | 4,622      | 16,709     |
| Total investment return                            | 11,943     | 27,648     |
| Contributions                                      | -          | -          |
| Appropriation of endowment assets for expenditures | -          | -          |
| Endowment net assets, end of year                  | \$ 832,882 | \$ 820,939 |

The Foundation expects its endowment funds, over time, will provide an average rate of return equivalent to benchmarks for the following groups of investments:

| <u>Investment</u>       | <u>Benchmark</u>   |
|-------------------------|--|
| Cash                    | 90 day T-Bill rate   |
| Certificates of deposit | 90 day T-Bill rate   |
| Commercial paper        | 90 day T-Bill rate   |
| Money market funds      | 90 day T-Bill rate   |
| US treasury bills       | 90 day T-Bill rate   |
| Equity securities       | S&P 500 Index  |
| Debt securities         | Corporate / Government Bond Index                              |
| Mutual funds            | 65% S&P Index and 35% Corporate Bond Index (a "balanced fund") |

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, The Foundation relies on a total return strategy in appreciation (realized and unrealized) and current yield (interest and dividends).

**Note 10 - Special Events**

Net revenue from special events for the years ended May 31, is comprised of:

|   | 2017         | 2016         |
|---|--------------|--------------|
| Contributions                           | \$ 1,000,898 | \$ 1,083,923 |
| Ticket sales                            | 342,575      | 361,078      |
| Less costs of direct benefits to donors | (205,752)    | (127,044)    |
| Net revenues from special events        | \$ 1,137,721 | \$ 1,317,957 |



**MIDTOWN EDUCATIONAL FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED MAY 31, 2017 AND 2016**

**Note 11 – Subsequent Events**

The Foundation has evaluated subsequent events through September 1, 2017, the date which the financial statements were available to be issued.

**Note 12 – Recent Accounting Pronouncements**

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities. Key elements of the ASU include a reduction in the number of asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. The new standard will be effective for the Organization's May 31, 2019 financial statements. Early adoption is permitted.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessors and lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of income recognition in the income statement. The new standard will be effective for the Organization's May 31, 2021 financial statements.

The Organization is currently evaluating the impact of the adoption of the above standards on its financial statements.

## **Supplemental Information**

**MIDTOWN EDUCATIONAL FOUNDATION  
SCHEDULE OF EXPENSES  
YEARS ENDED MAY 31, 2017 AND 2016**

|                                     | <u>2017</u>        |                   | <u>2016</u>        |                   |
|-------------------------------------|--------------------|-------------------|--------------------|-------------------|
|                                     | <u>Amount</u>      | <u>Percentage</u> | <u>Amount</u>      | <u>Percentage</u> |
| Program expenses                    | \$2,156,627        |                   | \$2,165,816        |                   |
| Estimated volunteer expenses*       | <u>420,910</u>     |                   | <u>445,231</u>     |                   |
| Adjusted program expenses           | 2,577,537          | 73%               | 2,611,047          | 74%               |
| Management and general              | 476,837            | 14%               | 471,241            | 13%               |
| Fundraising expenses                | <u>456,728</u>     | <u>13%</u>        | <u>455,885</u>     | <u>13%</u>        |
| Subtotal                            | <u>3,511,102</u>   | <u>100%</u>       | <u>3,538,173</u>   | <u>100%</u>       |
| Minus estimated volunteer expenses* | (420,910)          |                   | (445,231)          |                   |
| Other in-kind expenses              | 44,588             |                   | 43,093             |                   |
| Direct costs of rental operations   | 389,685            |                   | 392,033            |                   |
| Direct costs of special events      | <u>72,796</u>      |                   | <u>142,873</u>     |                   |
| Total expenses - page 4             | <u>\$3,597,261</u> |                   | <u>\$3,670,941</u> |                   |

\* Note - The Midtown Educational Foundation received 16,776 and 17,696 hours of volunteer services from teachers and advisory staff for the 2017 and 2016 fiscal years, respectively. These estimated expenses are not recognized as in-kind expenditures for financial statement purposes under ASC 958-605. According to the US Department of Labor - Bureau of Statistics the average wage for this class of employee was \$25.09 and \$25.16 per hour for the 2017 and 2016 calendar years, respectively.