

MIDTOWN EDUCATIONAL FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED MAY 31, 2016 AND 2015



Board of Trustees  
Midtown Educational Foundation  
Chicago, Illinois

## **INDEPENDENT AUDITORS' 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, 2016 and 2015, 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, 2016 and 2015, 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*

August 29, 2016  
Oak Park, Illinois

**MIDTOWN EDUCATIONAL FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**May 31, 2016 and 2015**

	2016	2015
<b><u>Assets</u></b>		
Current Assets:		
Cash and cash equivalents	\$ 1,295,566	\$ 1,523,076
Investments	588,954	610,135
Contributions receivable, net of allowance of \$10,000 for uncollectible accounts	80,060	119,197
Other receivables and assets	935	18,311
Prepaid assets	127,748	153,430
Total current assets	2,093,263	2,424,149
Property and Equipment, at cost:		
Land	690,000	690,000
Building and improvements	6,562,197	6,481,492
Leasehold improvements	544,755	463,542
Furniture and equipment	545,428	441,095
	8,342,380	8,076,129
Less accumulated depreciation	(5,426,215)	(5,112,225)
Net property and equipment	2,916,165	2,963,904
Other Assets:		
Permanently restricted cash	6,100	6,100
Life insurance policy at present value	90,893	87,687
Total other assets	96,993	93,787
<b>Total Assets</b>	<b>\$ 5,106,421</b>	<b>\$ 5,481,840</b>
<b><u>Liabilities and Net Assets</u></b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 59,049	\$ 102,556
Accrued payroll and related taxes	128,191	80,065
Accrued real estate taxes	1,768	1,634
Tenant security deposits	35,550	35,550
Deferred revenue	158,650	226,400
Total current liabilities	383,208	446,205
Net Assets:		
Unrestricted		
Board designated fund	820,939	793,291
Undesignated	3,305,487	3,303,413
Total unrestricted net assets	4,126,426	4,096,704
Temporarily restricted	590,687	932,831
Permanently restricted	6,100	6,100
Total net assets	4,723,213	5,035,635
<b>Total Liabilities and Net Assets</b>	<b>\$ 5,106,421</b>	<b>\$ 5,481,840</b>

See independent auditors' report and notes to financial statements.

MIDTOWN EDUCATIONAL FOUNDATION  
STATEMENTS OF ACTIVITIES  
Years Ended May 31, 2016 and 2015

	2016			2015				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, Gains and Other Support</b>								
Contributions	\$ 456,772	\$ 848,214	\$ -	\$ 1,304,986	\$ 560,061	\$ 1,320,527	\$ -	\$ 1,880,588
Special event revenue	1,445,001	-	-	1,445,001	1,068,675	-	-	1,068,675
Less: Costs of direct benefit to donors	(127,044)	-	-	(127,044)	(133,172)	-	-	(133,172)
Net revenues from special events	1,317,957	-	-	1,317,957	935,503	-	-	935,503
In-kind donations	43,093	-	-	43,093	23,656	-	-	23,656
Program service fees	197,420	-	-	197,420	212,352	-	-	212,352
Rental income	505,941	-	-	505,941	434,732	-	-	434,732
Investment income	(13,381)	-	-	(13,381)	28,205	-	-	28,205
Miscellaneous income	2,503	-	-	2,503	1,739	-	-	1,739
Net assets released from restrictions -								
Satisfaction of program restrictions	1,091,806	(1,091,806)	-	-	822,598	(822,598)	-	-
Expiration of time restrictions	98,552	(98,552)	-	-	208,993	(208,993)	-	-
Total revenues, gains and other support	3,700,663	(342,144)	-	3,358,519	3,227,839	288,936	-	3,516,775
<b>Expenses</b>								
Program services	2,165,816	-	-	2,165,816	2,128,872	-	-	2,128,872
Rental operations	392,033	-	-	392,033	452,530	-	-	452,530
Management and general	471,241	-	-	471,241	465,448	-	-	465,448
Fundraising	641,851	-	-	641,851	586,400	-	-	586,400
Total expenses	3,670,941	-	-	3,670,941	3,633,250	-	-	3,633,250
Change in net assets	29,722	(342,144)	-	(312,422)	(405,411)	288,936	-	(116,475)
Net assets, beginning of year	4,096,704	932,831	6,100	5,035,635	4,502,115	643,895	6,100	5,152,110
Net assets, end of year	\$ 4,126,426	\$ 590,687	\$ 6,100	\$ 4,723,213	\$ 4,096,704	\$ 932,831	\$ 6,100	\$ 5,035,635

See independent auditors' report and notes to financial statements.

MIDTOWN EDUCATIONAL FOUNDATION  
STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended May 31, 2016

	One-on-One Program	Achievement Program	College Orientation Program	Parenting Program	Total Program Services	Management and General	Fundraising	Subtotal	Rental 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 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  
STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended May 31, 2015

	One-on-One Program	Achievement Program	College Orientation Program	Parenting Program	Total Program Services	Management and General	Fundraising	Subtotal	Rental Operations	Totals
Salaries	\$ 241,379	\$ 309,927	\$ 367,398	\$ 167,976	\$ 1,086,680	\$ 150,937	\$ 193,008	\$ 345,945	\$ 1,360	1,433,985
Benefits and payroll taxes	46,548	68,234	60,064	25,248	200,094	31,156	43,243	74,399	194	274,687
Total salaries and related expenses	287,927	378,161	427,462	193,224	1,286,774	182,093	238,251	420,344	1,554	1,708,672
Professional fees	12,465	14,837	16,309	6,841	50,452	160,182	79,703	239,885	-	290,337
Occupancy	38,526	52,826	57,261	26,457	175,070	9,832	11,979	21,811	284,776	481,657
Transportation	4,783	9,784	7,577	441	22,585	19	-	19	-	22,604
Insurance	8,099	10,292	12,135	5,578	36,104	22,481	5	22,486	26,225	84,815
Supplies	9,441	17,685	34,913	7,238	69,277	8,246	4,042	12,288	-	81,565
Printing and postage	2,805	3,300	4,247	2,476	12,828	16,326	26,933	43,259	-	56,087
Equipment	1,514	1,910	3,877	1,037	8,338	1,216	1	1,217	-	9,555
Public relations and volunteer training	2,111	2,715	3,238	1,462	9,526	13,238	70,487	83,725	-	93,251
Employee travel and training	2,260	2,550	3,172	1,403	9,385	10,149	7,753	17,902	-	27,287
Program trips and outings	2,900	13,212	3,336	38	19,486	2	-	2	-	19,488
Center events	3,669	1,040	1,467	5,135	11,311	22	1	23	-	11,334
Partner services	10,524	87	78	4,360	15,049	-	-	-	-	15,049
Summer housing	42	29,500	68,174	-	97,716	-	-	-	-	97,716
Scholarships	-	-	79,000	-	79,000	-	-	-	-	79,000
Miscellaneous	1,501	2,199	2,495	1,090	7,285	29,999	2	30,001	35,886	73,172
Management service expense	2,227	2,506	2,773	1,406	8,912	35	-	35	47,395	56,342
In-kind	-	-	-	-	-	7,900	11,906	19,806	3,850	23,656
Real estate taxes	-	-	-	-	-	-	-	-	(46,070)	(46,070)
Total operating expenses	390,794	542,604	727,514	258,186	1,919,098	461,740	451,063	912,803	353,616	3,185,517
Depreciation expense	49,046	59,493	68,564	32,671	209,774	3,708	3,593	7,301	98,914	315,989
Total Expenses Prior to Special Events	439,840	602,097	796,078	290,857	2,128,872	465,448	454,656	920,104	452,530	3,501,506
Special event expenses	-	-	-	-	-	-	131,744	131,744	-	131,744
<b>Total Expenses</b>	<b>439,840</b>	<b>602,097</b>	<b>796,078</b>	<b>290,857</b>	<b>2,128,872</b>	<b>465,448</b>	<b>586,400</b>	<b>1,051,848</b>	<b>452,530</b>	<b>3,633,250</b>

See independent auditors' report and notes to financial statements.

**MIDTOWN EDUCATIONAL FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended May 31, 2016 and 2015**

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (312,422)	\$ (116,475)
Adjustment to reconcile change in net assets to net cash provided by operating activities -		
Depreciation	313,990	315,989
Net realized and unrealized losses (gains) on investr	25,639	(16,435)
Change in assets - (increase) decrease		
Contributions receivable	39,137	170,746
Other receivables and assets	17,376	(10,359)
Prepaid assets	25,682	34,915
Change in liabilities - increase (decrease)		
Accounts payables	(43,507)	53,083
Accrued payroll and related taxes	48,126	11,399
Accrued real estate taxes	134	(30,338)
Tenant security deposits	-	25,000
Deferred revenue	(67,750)	123,600
	46,405	561,125
Net Cash Provided by Operating Activities	46,405	561,125
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property and equipment	(266,251)	(121,973)
Change in present value of life insurance policy	(3,206)	(3,322)
Noncash donations of securities	(107,808)	(39,161)
Proceeds from sale of investments	103,350	30,091
	(273,915)	(134,365)
Net Cash Used in Investing Activities	(273,915)	(134,365)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(227,510)	426,760
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	1,523,076	1,096,316
End of year	\$ 1,295,566	\$ 1,523,076
<b>SUPPLEMENTAL DISCLOSURE</b>		
Taxes paid	\$ -	\$ -
Interest paid	-	-

See independent auditors' report and notes to financial statements.



**MIDTOWN EDUCATIONAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended May 31, 2016 and 2015**

**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, 2016 and 2015**

**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

During the years ended May 31, 2016 and 2015, the Foundation received approximately 32% of its funding from the annual dinner event. 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, 2016 and 2015.

**MIDTOWN EDUCATIONAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended May 31, 2016 and 2015**

**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 2015 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, 2016 and 2015, the Foundation received in-kind contributions in the amount of \$43,093 and \$23,656, respectively for donated goods and services.

**MIDTOWN EDUCATIONAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended May 31, 2016 and 2015**

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

In-Kind Contributions (continued)

The Foundation also received approximately 17,696 and 16,216 hours of donated services during the years ended May 31, 2016 and 2015, 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, 2015 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 \$90,893 and \$87,687 at May 31, 2016 and 2015, respectively, based on the joint life expectancy of the donor and his wife.

**Note 3 – Conditional Promises to Give**

At May 31, 2016 and 2015, a community trust holds approximately \$369,603 and \$393,709, 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, 2016 and 2015, 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, 2016 or 2015.

**MIDTOWN EDUCATIONAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended May 31, 2016 and 2015**

**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 - un-observable 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, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
<u>Level 1 (fair value measured using quoted market prices)</u>		
Stock mutual funds	\$ 347,809	\$ 371,761
Bond mutual funds	161,493	135,966
Income mutual funds	79,652	102,408
	<u>\$ 588,954</u>	<u>\$ 610,135</u>

**MIDTOWN EDUCATIONAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended May 31, 2016 and 2015**

**Note 4 – Investments (continued)**

Investment income consisted of the following at May 31:

	2016	2015
Interest and dividends	\$ 12,258	\$ 11,771
Realized gains on sales	15,846	17,381
Unrealized loss on fair value	(41,485)	(947)
	<u>\$ (13,381)</u>	<u>\$ 28,205</u>

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 Rental Receivable**

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:

2017	\$ 429,070
2018	331,923
2019	132,734
2020	116,518
2021	118,050
2022 & Beyond	<u>542,909</u>
Total minimum future rentals	<u>\$ 1,671,204</u>

**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, 2016 and 2015, 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 \$1,825,000 and \$1,935,000 as of May 31, 2016 and 2015, 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, 2016 and 2015**

**Note 7 – Permanently Restricted Net Assets**

Permanently restricted net assets at May 31, 2016 and 2015 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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Future periods	\$ 192,264	\$ 182,619
Capital improvements	194,924	414,507
Scholarships	149,739	147,239
Student programs	6,954	178,466
Other	46,806	10,000
Total	<u>\$ 590,687</u>	<u>\$ 932,831</u>

**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, 2016, 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 May 7, 2007, 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, 2016 and 2015**

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

Changes in Endowment Net Assets:

	2016	2015
Endowment net assets, beginning of year	\$ 793,291	\$ 765,085
Investment return		
Investment income	10,939	11,771
Net appreciation	16,709	16,435
Total investment return	27,648	28,206
Contributions	-	-
Appropriation of endowment assets for expenditures	-	-
Endowment net assets, end of year	<u>\$ 820,939</u>	<u>\$ 793,291</u>

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:

	2016	2015
Contributions	\$ 1,083,923	\$ 767,100
Ticket sales	361,078	301,575
Less costs of direct benefits to donors	(127,044)	(133,172)
Net revenues from special events	<u>\$ 1,317,957</u>	<u>\$ 935,503</u>



**MIDTOWN EDUCATIONAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended May 31, 2016 and 2015**

**Note 11 – Subsequent Events**

The Foundation has evaluated subsequent events through August 29, 2016, the date which the financial statements were available to be issued.

## **Supplemental Information**

**MIDTOWN EDUCATIONAL FOUNDATION**  
**SCHEDULE OF EXPENSES**  
**Years Ended May 31, 2016 and 2015**

	2016		2015	
	Amount	Percentage	Amount	Percentage
Program expenses	\$ 2,165,816		\$ 2,128,872	
Estimated volunteer expenses*	445,231		400,697	
Adjusted program expenses	<u>2,611,047</u>	74%	<u>2,529,569</u>	74%
Management and general	471,241	13%	457,548	13%
Fundraising expenses	<u>455,885</u>	<u>13%</u>	<u>442,750</u>	<u>13%</u>
Subtotal	<u>3,538,173</u>	<u>100%</u>	<u>3,429,867</u>	<u>100%</u>
Minus estimated volunteer expenses*	(445,231)		(400,697)	
Other in-kind expenses	43,093		23,656	
Direct costs of rental operations	392,033		448,680	
Direct costs of special events	<u>142,873</u>		<u>131,744</u>	
Total expenses - page 4	<u>\$ 3,670,941</u>		<u>\$ 3,633,250</u>	

\* Note - The Midtown Educational Foundation received 17,696 and 16,216 hours of volunteer services from teachers and advisory staff for the 2016 and 2015 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 \$25.16 and \$24.71 per hour for the 2016 and 2015 calendar years, respectively.