

**The Chicago Scholars Foundation
d/b/a Chicago Scholars**

Financial Statements

Years Ended June 30, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
The Chicago Scholars Foundation
Chicago, Illinois

We have audited the accompanying financial statements of The Chicago Scholars Foundation d/b/a Chicago Scholars, which comprise the statements of financial position as of June 30, 2018 and 2017 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.

Auditors' 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 The Chicago Scholars Foundation d/b/a Chicago Scholars as of June 30, 2018 and 2017, 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.

Mann Weitz & Associates LLC

MANN. WEITZ & ASSOCIATES L.L.C.

Deerfield, Illinois
September 27, 2018

THE CHICAGO SCHOLARS FOUNDATION D/B/A CHICAGO SCHOLARS
 STATEMENT OF FINANCIAL POSITION
 JUNE 30, 2018 and 2017

	2018	2017		2018	2017
ASSETS			LIABILITIES AND NET ASSETS		
Current Assets			Current Liabilities		
Cash and cash equivalents	\$ 1,721,405	\$ 1,866,582	Accounts payable	\$ 24,948	\$ 28,875
Accounts receivable	4,250	750	Accrued expenses	78,099	59,356
Contributions receivable - Note 6	960,689	1,715,422	Deferred revenue	24,170	35,460
Prepaid expenses	76,519	46,163	Deferred rent	58,980	53,290
Accrued interest	662	5,066	Funds held for others - Note 2	102,595	102,816
Total Current Assets	2,763,525	3,633,983	Total Current Liabilities	288,792	279,797
Property and Equipment, net - Note 7	1,185,102	1,335,946	Noncurrent Liabilities		
Other Assets			Deferred rent	204,839	263,819
Restricted cash - Note 2	102,595	102,816	Total Liabilities	493,631	543,616
Investments - Notes 3 and 4	5,091,268	4,270,344	Net Assets		
Contributions receivable - Note 6	1,563,352	221,083	Unrestricted	4,048,582	3,758,119
Security deposit	78,845	128,845	Temporarily restricted - Note 9	3,242,474	2,391,282
Total Other Assets	6,836,060	4,723,088	Permanently restricted - Note 11	3,000,000	3,000,000
Total Assets	\$ 10,784,687	\$ 9,693,017	Total Net Assets	10,291,056	9,149,401
			Total Liabilities and Net Assets	\$ 10,784,687	\$ 9,693,017

The accompanying notes are an integral part of this statement.

THE CHICAGO SCHOLARS FOUNDATION D/B/A CHICAGO SCHOLARS
STATEMENT OF ACTIVITIES
YEARS ENDED JUNE 30, 2018 AND 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support								
Contributions and grants	\$ 2,174,235	\$ 2,494,669	\$ -	\$ 4,668,904	\$ 2,061,915	\$ 2,020,572	\$ -	\$ 4,082,487
Donated goods, facilities and services - Note 13	120,453			120,453	102,137			102,137
Special events:								
Gross revenue	641,849			641,849	723,610			723,610
Less: cost of direct benefit to donors	(195,847)			(195,847)	(240,763)			(240,763)
Program service fees	78,920			78,920	64,007			64,007
Other income	4,324			4,324				
Loss on disposal of equipment	(912)			(912)				
Investment income, net - Note 3	69,786	237,392		307,178	110,697	297,832		408,529
Total Revenues and Gains	2,892,808	2,732,061		5,624,869	2,821,603	2,318,404		5,140,007
Net assets released from restrictions - Note 10	1,880,869	(1,880,869)			1,274,680	(1,274,680)		
Total Revenue, Gains and Other Support	4,773,677	851,192		5,624,869	4,096,283	1,043,724		5,140,007
Expenses								
Program services	3,471,449			3,471,449	3,042,625			3,042,625
Management and general	376,026			376,026	404,688			404,688
Fundraising	635,739			635,739	587,797			587,797
Total Expenses	4,483,214			4,483,214	4,035,110			4,035,110
Change in Net Assets	290,463	851,192		1,141,655	61,173	1,043,724		1,104,897
Net Assets								
Beginning of year	3,758,119	2,391,282	3,000,000	9,149,401	3,696,946	1,347,558	3,000,000	8,044,504
End of year	\$ 4,048,582	\$ 3,242,474	\$ 3,000,000	\$ 10,291,056	\$ 3,758,119	\$ 2,391,282	\$ 3,000,000	\$ 9,149,401

The accompanying notes are an integral part of this statement.

THE CHICAGO SCHOLARS FOUNDATION D/B/A CHICAGO SCHOLARS
STATEMENT OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2018 AND 2017

	2018				2017			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 1,655,478	\$ 234,111	\$ 410,780	\$ 2,300,369	\$ 1,423,317	\$ 245,906	\$ 385,811	\$ 2,055,034
Payroll taxes	124,091	19,371	27,845	171,307	119,041	16,634	27,840	163,515
Employee benefits	158,591	14,931	38,835	212,357	172,331	28,914	45,830	247,075
Occupancy - Note 14	245,586	16,510	21,685	283,781	230,116	16,281	20,466	266,863
Depreciation and amortization - Note 7	232,999	11,271	18,108	262,378	222,236	10,444	13,865	246,545
Information technology	88,017	3,386	6,245	97,648	73,322	2,785	3,820	79,927
Insurance	33,724	1,507	2,981	38,212	21,043	1,684	2,361	25,088
Bank charges and processing fees	28	11,436	9,557	21,021		17,288	3,167	20,455
Equipment and supplies	37,697	3,559	8,321	49,577	30,402	2,709	3,472	36,583
Food and travel	110,931	5,046	25,417	141,394	87,456	3,128	17,040	107,624
Communications	25,771	989	12,687	39,447	35,286	2,890	5,979	44,155
Promotional materials	25,349	154	2,156	27,659	19,263	140	2,704	22,107
Consultants/contractual services	119,555	31,594	51,089	202,238	14,140	28,444	55,347	97,931
Professional fees	20,923	21,861	33	42,817		26,641	95	26,736
Event catering	143,509			143,509	133,328			133,328
Facilities rental	152,541	300		152,841	125,901	800		126,701
College counseling	118,704			118,704	114,385			114,385
Scholarships awarded	177,955			177,955	221,058			221,058
Total Functional Expenses	<u>\$ 3,471,449</u>	<u>\$ 376,026</u>	<u>\$ 635,739</u>	<u>\$ 4,483,214</u>	<u>\$ 3,042,625</u>	<u>\$ 404,688</u>	<u>\$ 587,797</u>	<u>\$ 4,035,110</u>

The accompanying notes are an integral part of this statement.

THE CHICAGO SCHOLARS FOUNDATION D/B/A CHICAGO SCHOLARS
STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 1,141,655	\$ 1,104,897
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	262,378	246,545
Donated securities	(271,042)	(399,942)
Net gain on investments	(245,481)	(354,342)
Loss on disposal of equipment	912	
Net (increase) decrease in assets		
Accounts receivable	(3,500)	
Contributions receivable	(587,536)	(288,872)
Prepaid expenses	(30,356)	31,467
Accrued interest	4,404	(2,268)
Security deposit	50,000	50,000
Net increase (decrease) in liabilities		
Accounts payable	(3,927)	24,803
Accrued expenses	18,743	8,337
Deferred revenue	(11,290)	4,270
Deferred rent	(53,290)	(47,012)
Funds held for others	(221)	24,817
Net Cash Provided by Operating Activities	<u>271,449</u>	<u>402,700</u>
Cash Flows from Investing Activities		
Purchases of investments	(3,192,949)	(2,179,549)
Proceeds from sale of investments	2,888,548	1,517,447
Purchases of property and equipment	(112,446)	(35,954)
Net Cash Used for Investing Activities	<u>(416,847)</u>	<u>(698,056)</u>
Cash Flows from Financing Activities		
(Increase) decrease in restricted cash	221	(24,817)
Net Cash Provided by (Used for) Financing Activities	<u>221</u>	<u>(24,817)</u>
Net Decrease in Cash and Cash Equivalents	<u>(145,177)</u>	<u>(320,173)</u>
Cash and Cash Equivalents		
Beginning of year	<u>1,866,582</u>	<u>2,186,755</u>
End of year	<u>\$ 1,721,405</u>	<u>\$ 1,866,582</u>

The accompanying notes are an integral part of this statement.

**THE CHICAGO SCHOLARS FOUNDATION D/B/A CHICAGO SCHOLARS
NOTES TO FINANCIAL STATEMENTS**

**1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES**

Nature of Activities and Organization

The Chicago Scholars Foundation d/b/a Chicago Scholars (the Organization) is a nonprofit organization formed in 1996 in Chicago, Illinois. The Organization uniquely selects, trains, and mentors academically ambitious students from under-resourced communities to complete college and become the next generation of leaders who will transform their neighborhoods and the city of Chicago. The primary programmatic objectives are to help selected students enroll and matriculate to the most selective colleges that match their talents and fit their abilities, persist through college to graduation, and transition successfully into careers or post-graduate programs. To date, over 3,600 Chicago Scholars are in or have completed the program. 85% of the Class of 2023 are first generation college students representing 103 Chicago High Schools. 95% of the Class of 2022 has indicated where they plan to enroll this fall, historically 94% of scholars matriculate on-time and 95% of scholars persist into their second year of college and 86% earn their degrees within six years. Overall the scholars are active or graduates of over 417 colleges and universities. The Organization's primary sources of revenue are donations from foundations, corporations, individuals and special events.

Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting. Using this method, revenues are recognized when earned and expenses are recognized when incurred.

Basis of Presentation

Information regarding the financial position and activities of the Organization are reported in three classes of net assets: unrestricted, temporarily restricted and permanently restricted. These classes of net assets are based on the existence or absence of externally (donor) imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- Unrestricted net assets - Unrestricted net assets are not subject to donor-imposed stipulations. They include all activities of the Organization, except for those amounts that are temporarily or permanently restricted by external donors.
- Temporarily restricted net assets - Temporarily restricted net assets are subject to donor-imposed stipulations that can be removed through the passage of time (time restrictions) or actions of the Organization (purpose restrictions).
- Permanently restricted net assets - Permanently restricted net assets are subject to the restrictions imposed by donors who require that the principal of these classes of net assets be invested in perpetuity and only the investment income be expended.

The Organization's expenses are presented by function (i.e. by program).

**THE CHICAGO SCHOLARS FOUNDATION D/B/A CHICAGO SCHOLARS
NOTES TO FINANCIAL STATEMENTS**

**1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued**

Cash Equivalents

The Organization considers amounts held in money market accounts and all highly liquid investments with an initial maturity of three months or less, to be cash equivalents.

Investments and Investment Earnings

Investments are carried at fair value. The Organization's investments are valued using quoted market prices as of the last business day of the year. Net investment income is reported in the statement of activities and consists of interest and dividend income, realized and unrealized gain and losses, less investment management and custodial fees.

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using a risk-free interest rate (ranging from 1.87% to 2.63%) applicable to the year in which the contribution is made. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. The Organization provides an allowance for estimated uncollectible contributions.

Property and Equipment

Property and equipment is recorded at historical cost. The Organization's policy is to capitalize any items with a cost in excess of \$1,000 deemed to have a useful life greater than one year. Depreciation and amortization is computed by use of the straight-line method based on estimated useful lives as follows:

<u>Description</u>	<u>Years</u>
Leasehold improvements	Life of lease
Furniture and fixtures	5
Computer and office equipment	5

Maintenance and repairs, which neither materially add to the value of the fixed assets nor appreciably prolong their lives, are charged to expense as incurred. Gains and losses on dispositions of property and equipment are included in the statement of activities.

**THE CHICAGO SCHOLARS FOUNDATION D/B/A CHICAGO SCHOLARS
NOTES TO FINANCIAL STATEMENTS**

**1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES – Continued**

Software Costs

The Organization capitalizes certain internal-use computer software and software development costs in connection with program database development. Software is recorded at cost including the direct cost of external development services during the development stage. Capitalized software costs are included in property and equipment in the statement of financial position and are amortized on a straight-line basis over their estimated useful lives of three years. Net capitalized software costs were \$59,248 and \$101,850 as of June 30, 2018 and 2017, respectively.

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. Support that is not restricted by the donor is reported as an increase in unrestricted net assets. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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 statement of activities as net assets released from restrictions.

Contributions and Donated Goods, Facilities and Services

Contributions of assets other than cash are reflected as contributions at their fair value at the date of donation and are reported as unrestricted support unless explicit donor stipulations specify how donated assets must be used. The Organization recognizes the fair value of donated services received if such services a) create or enhance nonfinancial assets or b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed.

Functional Allocation of Expenses

The costs of providing program and other activities have been summarized on a functional basis on the statement of activities. Expenses which are easily and directly associated with a particular program or supporting service are allocated directly to that functional category. Certain costs are allocated to the various programs or supporting service based on work performed on the functional areas or other appropriate methods determined by management.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code for all business income related to the Organization's tax exempt purposes. The Organization is subject to income taxes on unrelated business income after related expenses. There was no unrelated business income during the years ended June 30, 2018 and 2017.

**THE CHICAGO SCHOLARS FOUNDATION D/B/A CHICAGO SCHOLARS
NOTES TO FINANCIAL STATEMENTS**

**1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued**

Evaluation of Tax Positions

The financial statement effects of a tax position taken or expected to be taken are recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. As of June 30, 2018 and 2017, the Organization had no uncertain income tax positions that qualify for recognition or disclosure in the financial statements.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, gains and expenses during the reported period. Actual results could differ from those estimates.

Financial Instruments and Credit Risk

The Organization manages deposit concentration risk by placing cash and money market accounts with creditworthy financial institutions. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. The Organization has not experienced any losses in such accounts. Credit risk associated with contributions receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from Board members and foundations supportive of the Organization's mission. Although the fair values of investments are subject to fluctuation on a year-to-year basis, they are diversified and managed by an investment manager who is monitored by the Organization and the Investment Committee of the Board of Directors. The Organization and Investment Committee believe that investment policies and guidelines are prudent for the long-term welfare of the Organization.

Effect of Recently Issued Accounting Standards

On August 18, 2016, FASB issued new rules for nonprofit organizations under ASU 2016-14 *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (NFP). This ASU changes the financial reporting format for nonprofit organization financial statements to simplify the way in which NFPs quantify and qualify their financial performance, their liquidity and cash flows, and their classification of net assets. Some of the changes included in ASU 2016-14 include:

- The existing three-class system of classifying net assets as unrestricted, temporarily restricted and permanently restricted will be replaced with a simpler two-class structure. Going forward, NFPs will differentiate net assets solely between those net assets with donor restriction and net assets without donor restrictions. NFPs will still be required to disclose the nature and amounts of donor-imposed restrictions.

**THE CHICAGO SCHOLARS FOUNDATION D/B/A CHICAGO SCHOLARS
NOTES TO FINANCIAL STATEMENTS**

**1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued**

Effect of Recently Issued Accounting Standards - Continued

- NFPs will be required to present an analysis of expenses by both function and natural classification on a separate statement, on the face of the statement of activities, or in the footnotes. Additional disclosures will also be required regarding specific methodologies used to allocate costs among program and support functions.
- The presentation of required disclosure of underwater endowment funds will change. When the fair market value of a donor-restricted endowment is less than the original gift amount or the amount the NFP is required to maintain by the donor or by law, NFPs will be required to also report the amount of the deficiency and their governing boards' policies or decisions to reduce or spend from these funds.
- NFPs will be required to disclose in financial statement notes qualitative information regarding how they will manage available liquid resources to meet cash needs for general expenses for the year following the balance sheet date. In addition, NFPs will be required to provide on the face of financial statements or in disclosure notes detailed quantitative information regarding their availability of financial assets at the balance sheet date to meet cash needs for the next year.

The effective date for ASU 2016-14 will be for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. Early application of the amendments in this ASU is permitted. Management is currently evaluating the impact this change in accounting standards will have on the financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU requires a lessee to recognize a right-of-use asset and a lease liability under most operating leases in its balance sheet. For non-public entities, the standard is effective for fiscal years beginning after December 15, 2019 and interim periods beginning the following year. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients during the period of adoption. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. Management is currently evaluating the impact this change in accounting standards will have on the financial statements and related disclosures.

Subsequent Events

The Organization has evaluated subsequent events for potential recognition and/or disclosures through September 27, 2018, the date the financial statements were available to be issued.

**THE CHICAGO SCHOLARS FOUNDATION D/B/A CHICAGO SCHOLARS
NOTES TO FINANCIAL STATEMENTS**

2. RESTRICTED CASH

Restricted cash represents funds held in trust for others, which result from agency agreements with other charitable organizations.

3. INVESTMENTS

Investments consist of mutual funds, are stated at fair value based on quoted prices in active markets (all Level 1 measurements), and are summarized as follows:

	<u>2018</u>	<u>2017</u>
Cost	\$ 4,772,699	\$ 3,972,348
Fair Value	<u>5,091,268</u>	<u>4,270,344</u>
Unrealized Gain	<u>\$ 318,569</u>	<u>\$ 297,996</u>

Net investment return consists of the following:

	<u>2018</u>	<u>2017</u>
Interest income	\$ 2,270	\$ 971
Dividend income	94,024	78,944
Net realized gain	224,121	23,374
Net unrealized gain	21,360	330,968
Investment expense	<u>(34,597)</u>	<u>(25,728)</u>
Net Investment Income	<u>\$ 307,178</u>	<u>\$ 408,529</u>

**THE CHICAGO SCHOLARS FOUNDATION D/B/A CHICAGO SCHOLARS
NOTES TO FINANCIAL STATEMENTS**

3. FAIR VALUE MEASUREMENTS

The FASB Codification provides a framework for measuring fair value using a hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for the identical, unrestricted assets or liabilities.

Level 2 – Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The estimated fair values of investments measured on a recurring basis are as follows:

		<u>June 30, 2018</u>		
		<u>Fair Value Measurements Using</u>		
<u>Description</u>	<u>Total</u>	<u>Quote Prices in Active Markets For Identical Assets Level 1</u>	<u>Significant Other Observable Inputs Level 2</u>	<u>Significant Unobservable Inputs Level 3</u>
Large cap equity	\$ 1,929,423	\$ 1,929,423	\$ -	\$ -
International equity	1,599,169	1,599,169		
Fixed income	1,083,771	1,083,771		
Hedge funds	478,905	478,905		
Total Mutual Funds	<u>\$ 5,091,268</u>	<u>\$ 5,091,268</u>	<u>\$ -</u>	<u>\$ -</u>

**THE CHICAGO SCHOLARS FOUNDATION D/B/A CHICAGO SCHOLARS
NOTES TO FINANCIAL STATEMENTS**

4. FAIR VALUE MEASUREMENTS – Continued

		<u>June 30, 2017</u>		
		<u>Fair Value Measurements Using</u>		
<u>Description</u>	<u>Total</u>	Quote Prices in Active Markets For Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Large cap equity	\$ 1,490,981	\$ 1,490,981	\$ -	\$ -
International equity	1,340,945	1,340,945		
Fixed income	1,037,844	1,037,844		
Hedge funds	400,574	400,574		
Total Mutual Funds	<u>\$ 4,270,344</u>	<u>\$ 4,270,344</u>	<u>\$ -</u>	<u>\$ -</u>

5. CONDITIONAL GRANTS

The Organization received grants during the years ended June 30, 2018, 2017 and 2016 which were conditional on the Organization achieving certain fundraising and program performance targets. The Organization does not recognize revenues from conditional grants until the conditions are substantially met.

**THE CHICAGO SCHOLARS FOUNDATION D/B/A CHICAGO SCHOLARS
NOTES TO FINANCIAL STATEMENTS**

5. CONDITIONAL GRANTS - Continued

Revenues were recognized when conditions were met as follows:

<u>Grant Awarded</u>	<u>Amount</u>	<u>Revenue Recognized During</u>		
		<u>2018</u>	<u>2017</u>	<u>2016</u>
Year ended June 30, 2018:				
	\$ 775,000	\$ 362,500	\$ -	\$ -
Year ended June 30, 2017:				
	160,000	80,000	80,000	-
Year ended June 30, 2016:				
	3,000,000	766,493	1,483,507	750,000
	500,000		500,000	
	200,000	100,000	20,000	80,000
Totals	<u>\$ 4,635,000</u>	<u>\$ 1,308,993</u>	<u>\$ 2,083,507</u>	<u>\$ 830,000</u>

The conditions for the remainder of the grant awarded during the year ended June 30, 2018 was not met as of June 30, 2018.

6. CONTRIBUTIONS RECEIVABLE

Unconditional promises to give are recorded as receivables and revenue when received. The Organization distinguishes between contributions received for each net asset category in accordance with donor imposed restrictions. Contributions receivable are recorded after being discounted to the anticipated net present value of the future cash flows.

**THE CHICAGO SCHOLARS FOUNDATION D/B/A CHICAGO SCHOLARS
NOTES TO FINANCIAL STATEMENTS**

6. CONTRIBUTIONS RECEIVABLE – Continued

Contributions receivable are estimated to be collected as follows:

	<u>2018</u>	<u>2017</u>
Within one year	\$ 960,689	\$ 1,715,422
Within two to five years	<u>1,693,000</u>	<u>248,000</u>
	2,653,689	1,963,422
Less:		
discount to net present value	109,648	11,917
allowance for uncollectible contributions receivable	<u>20,000</u>	<u>15,000</u>
Net contributions receivable	2,524,041	1,936,505
Less current portion	<u>960,689</u>	<u>1,715,422</u>
Long-term portion	<u>\$ 1,563,352</u>	<u>\$ 221,083</u>

The contributions receivable are comprised of several different categories: from Foundations, Corporation and Individuals; from High 5 Partners; and allocated for Student Funds. The contributions receivable for each category are:

	<u>2018</u>	<u>2017</u>
Foundations	\$ 1,240,000	\$ 1,558,507
Corporations	5,000	
Individuals	1,152,689	14,415
High 5 Partners	156,000	138,000
Student Funds	100,000	235,000
Donated services		<u>17,500</u>
Total Contributions Receivable	<u>\$ 2,653,689</u>	<u>\$ 1,963,422</u>

Two donors accounted for 87% and 72% of total contributions receivable at June 30, 2018 and 2017, respectively. Three donors accounted for 65% and 52% of total revenue, excluding investment income, for the years ended June 30, 2018 and 2017, respectively.

**THE CHICAGO SCHOLARS FOUNDATION D/B/A CHICAGO SCHOLARS
NOTES TO FINANCIAL STATEMENTS**

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2018</u>	<u>2017</u>
Leasehold improvements	\$ 1,345,815	\$ 1,290,307
Furniture and fixtures	247,824	232,812
Computer and office equipment	165,831	160,856
Software	<u>251,607</u>	<u>217,053</u>
	2,011,077	1,901,028
Less: Accumulated depreciation and amortization	<u>825,975</u>	<u>565,082</u>
Net Property and Equipment	<u>\$ 1,185,102</u>	<u>\$ 1,335,946</u>
Depreciation expense	\$ 185,221	\$ 176,725
Amortization expense	<u>77,157</u>	<u>69,820</u>
Total Depreciation and Amortization Expense	<u>\$ 262,378</u>	<u>\$ 246,545</u>

8. LINE OF CREDIT

In September 2015, the Organization approved a \$500,000 revolving line of credit, which expired September 27, 2016. Interest was payable monthly at the LIBOR rate (1.230% at June 30, 2016) plus 2.30%. In May 2017, the Organization renewed the line of credit and increased the balance available to \$1,400,000. The line of credit expires on December 31, 2018 and bears interest at the LIBOR rate (2.09% at June 30, 2018) plus 1.9%. There was no outstanding balance on the line of credit as of June 30, 2018 and 2017 and there were no borrowings during the years ended June 30, 2018 and 2017. The line of credit is collateralized by marketable securities held in the Endowment investment account included in the investments total on the statement of financial position.

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of contributions received for subsequent periods (which are restricted by the passage of time), restricted for purpose, or restricted for both passage of time and purpose.

**THE CHICAGO SCHOLARS FOUNDATION D/B/A CHICAGO SCHOLARS
NOTES TO FINANCIAL STATEMENTS**

9. TEMPORARILY RESTRICTED NET ASSETS – Continued

Temporarily restricted net assets are comprised of the following:

	<u>2018</u>	<u>2017</u>
Passage of time	\$ 2,449,041	\$ 1,694,004
Passage of time and scholarships	100,000	200,000
Scholarships	77,894	106,228
Recruitment and program expansion		66,523
Educational and leadership development		22,195
Emerge fellowship program	75,815	
Hosting scholars on career visits and safety ambassador training	4,500	4,500
Temporarily restricted portion of endowment fund	<u>535,224</u>	<u>297,832</u>
Total Temporarily Restricted Net Assets	<u>\$ 3,242,474</u>	<u>\$ 2,391,282</u>

10. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions through the passage of time and by incurring expenses satisfying restricted purposes as follows:

	<u>2018</u>	<u>2017</u>
Passage of time	\$ 1,554,007	\$ 395,000
Passage of time and scholarships	100,000	100,000
Scholarships	33,959	38,850
Recruitment and program expansion	146,523	663,477
Educational and leadership development	22,195	28,656
College counseling		48,697
Emerge fellowship program	<u>24,185</u>	
Total Net Assets Released From Restrictions	<u>\$ 1,880,869</u>	<u>\$ 1,274,680</u>

**THE CHICAGO SCHOLARS FOUNDATION D/B/A CHICAGO SCHOLARS
NOTES TO FINANCIAL STATEMENTS**

11. PERMANENTLY RESTRICTED NET ASSETS AND ENDOWMENT

The Steven N. Wohl Leadership Chair endowment fund (Endowment) was created in 2013 to provide a permanent source of income to the Chicago Scholars Foundation to fund the cost of the President and Chief Executive Officer's position. The permanently restricted net asset balance of the endowment fund was \$3,000,000 at June 30, 2018 and 2017.

The endowment fund assets are invested in the Organization's investment portfolio absent explicit donor stipulations to the contrary. Net assets associated with the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the Endowment, (b) the original value of subsequent gifts donated to the Endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. The remaining portion of the donor-restricted endowment is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. 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 fund, (2) the purposes of the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect 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.

Return Objectives and Risk Parameters

The Finance Committee, which oversees the investment portfolio of the Organization with the assistance of the Organization's investment manager, operates under investment policies that attempt to protect the corpus and provide a predictable stream of income and investment returns from its endowment assets. The endowment is invested in diversified portfolio, consisting primarily of mutual funds, hedge funds, fixed income funds, cash equivalents, and other investments. The asset allocation emphasizes diversification to lower year-to-year volatility and attempts to achieve the highest expected total return relative to portfolio risk.

Strategies Employed for Achieving Objectives

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 capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity and fixed income mutual funds based investments to achieve its long-term return objectives within prudent risk constraints.

**THE CHICAGO SCHOLARS FOUNDATION D/B/A CHICAGO SCHOLARS
NOTES TO FINANCIAL STATEMENTS**

11. PERMANENTLY RESTRICTED NET ASSETS AND ENDOWMENT – Continued

Investment and Spending Policies

The Finance Committee of the Organization has adopted investment and spending policies for the endowment fund that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the endowment assets.

The overall rate of return objective of the portfolio measured over a full market cycle, shall be to outperform, net of fees, certain chosen indices as determined by the Organization’s investment manager. The risk parameter established is that the portfolio should experience less risk (volatility and variability of return) than that of the chosen index.

The Organization uses an endowment spending-rate formula to determine the maximum amount to spend from the Endowment each year. The approved annual spending rate is 5% of a moving average of the 12 previous quarters of principal as calculated each calendar year. For years in which endowment spending is not necessary to support operations, funds can remain invested as part of the full principal to sustain growth. No funds were appropriated for expenditure during the years ended June 30, 2018 and 2017. Additionally, in extreme circumstances (i.e. bankruptcy consideration or other extreme hardship) where the Organization has exhausted its reserves and is unable to cover annual operating costs, the Organization may draw down on Endowment principal to sustain operations only if the majority of the President and CEO and the Executive Committee approves proposal for such action.

Changes in Endowment net assets are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2016	\$ (23,823)	\$ -	\$ 3,000,000	\$ 2,976,177
Net investment income		321,655		321,655
Reclassification	<u>23,823</u>	<u>(23,823)</u>		
Endowment net assets, June 30, 2017		<u>297,832</u>	<u>3,000,000</u>	<u>3,297,832</u>
Net investment income		<u>237,392</u>		<u>237,392</u>
Endowment net assets, June 30, 2018	<u>\$ -</u>	<u>\$ 535,224</u>	<u>\$ 3,000,000</u>	<u>\$ 3,535,224</u>

**THE CHICAGO SCHOLARS FOUNDATION D/B/A CHICAGO SCHOLARS
NOTES TO FINANCIAL STATEMENTS**

11. PERMANENTLY RESTRICTED NET ASSETS AND ENDOWMENT – Continued

For the year ended December 31, 2015, net investment losses reduced the assets of the donor restricted endowment below the level required by donor stipulation. During the year ended June 30, 2017, the fair value of the endowment assets became fully restored.

12. RELATED PARTY TRANSACTIONS

Contributions from affiliates and companies whose directors are also members of the board of directors or officers of the Organization were \$2,723,497 and \$834,031 for the years ended June 30, 2018 and 2017, respectively. Of the total support of these related parties, one board member contributed 53% and 57% for the years ended June 30, 2018 and 2017, respectively.

Net contributions receivable from members of the board of directors or officers of the Organization and their related companies were \$2,345,541 and \$177,621 at June 30, 2018 and 2017, respectively.

13. DONATED GOODS, FACILITIES AND SERVICES

The Organization received donated goods, facilities and services as follows:

	<u>2018</u>	<u>2017</u>
Goods		
Special events auction and raffle items	\$ 18,815	\$ 24,144
Event catering		7,000
Travel vouchers		30,000
Supplies and equipment	1,500	
Promotional materials		600
Total Donated Goods	<u>20,315</u>	<u>61,744</u>
Facilities	<u>25,548</u>	<u>575</u>
Services		
College counseling services	1,990	4,818
Professional services	<u>72,600</u>	<u>35,000</u>
Total Donated Services	<u>74,590</u>	<u>39,818</u>
Total In-Kind Contributions	<u>\$ 120,453</u>	<u>\$ 102,137</u>

**THE CHICAGO SCHOLARS FOUNDATION D/B/A CHICAGO SCHOLARS
NOTES TO FINANCIAL STATEMENTS**

14. LEASE COMMITMENTS

In December 2014, the Organization entered into a long-term lease for their office facilities. The lease commenced in November 2014, matures in May, 2022 and includes a five-year renewal option. Lease payments commenced at \$22,867 per month with annual escalation of approximately 2% per annum. The lease included seven months of rent abatement.

Future minimum lease payments under this lease are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 291,781
2020	297,481
2021	303,192
2022	<u>283,171</u>
Total	<u>\$ 1,175,625</u>

Rent expense was \$255,365 and \$253,316 for the years ended June 30, 2018 and 2017, respectively, and is included in occupancy on the accompanying statement of functional expenses.

15. 401(K) SAVINGS PLAN

The Organization established a savings plan in 2008 covering substantially all employees which includes an income deferral option that qualifies under Section 401(k) of the Internal Revenue Code. In 2015, the Organization elected to begin an employer matching contribution of up to 2% of each employee's salary for all full time employees. Prior to 2015, the Plan did not require the Organization to match employee deferrals. The employer matching contributions were \$33,886 and \$25,419 for the years ended June 30, 2018 and 2017, respectively. The Plan also allows for discretionary employer contributions. The Organization did not make any discretionary contributions during the years ended June 30, 2018 and 2017.

16. VOLUNTEER SERVICES

A significant amount of volunteer services is contributed to the Organization to support their program and supporting services. These volunteer activities include participating on the Board of Directors and numerous other committees as well as assistance with fundraising events, special projects, as well as the Organization's College Access, College Success, and Career Mentoring programs. The value of these services has not been included in the financial statements.

111 Deer Lake Road, Suite 125, Deerfield, IL 60015
Main:847.267.3400 Fax:847.267.3401 Web:mannweitz.com