

**MIDTOWN EDUCATIONAL  
FOUNDATION**

**FINANCIAL STATEMENTS**

**For the Year Ended May 31, 2023**

**(with summarized comparative  
Information for fiscal year 2022)**

**Midtown Educational  
Foundation**

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# Desmond & Ahern, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

## **Independent Auditors' Report**

Board of Directors  
Midtown Educational Foundation  
Chicago, Illinois

### ***Opinion***

We have audited the accompanying financial statements of Midtown Educational Foundation (a nonprofit organization), which comprise the statement of financial position as of May 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

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

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Responsibilities of Management for the Financial Statements (cont.)***

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

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Midtown Educational Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Midtown Educational Foundation's ability to continue as a going concern for a reasonable period of time.

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

***Report on Summarized Comparative Information***

Midtown Educational Foundation's 2022 financial statements had previously been audited by another firm and expressed an unmodified audit opinion on those audited financial statements in their report dated November 28, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenses 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.

*Desmond & Ahern, Ltd*

November 14, 2023  
Chicago, IL

**MIDTOWN EDUCATIONAL FOUNDATION**  
**STATEMENT OF FINANCIAL POSITION**  
**May 31, 2023 (with comparative totals for 2022)**

<u>Assets</u>	2023	2022
Current Assets		
Cash and equivalents	\$ 251,277	\$ 663,443
Certificates of deposit	242,587	263,446
Investments	3,786,099	2,462,607
Contributions receivable, net	179,780	51,597
Other receivables, net	13,465	118,193
Prepaid expenses	241,529	286,486
Total current assets	<u>4,714,737</u>	<u>3,845,772</u>
Property and Equipment		
Land	690,000	690,000
Building and improvements	5,376,154	5,370,598
Leasehold improvements	2,387,427	2,300,406
Furniture and equipment	677,863	669,867
Gross property and equipment	<u>9,131,444</u>	<u>9,030,871</u>
Less accumulated depreciation and amortization	<u>(7,588,700)</u>	<u>(7,402,871)</u>
Net property and equipment	<u>1,542,744</u>	<u>1,628,000</u>
Other Assets		
Permanently restricted cash - endowment	6,100	6,100
Life insurance policy at present value	116,781	112,833
Total other assets	<u>122,881</u>	<u>118,933</u>
<b>Total Assets</b>	<u>\$ 6,380,362</u>	<u>\$ 5,592,705</u>
<b><u>Liabilities and Net Assets</u></b>		
Current Liabilities		
Accounts payable	\$ 29,846	\$ 17,408
Accrued payroll and related	45,415	68,671
Accrued expenses	5,190	17,132
Tenant security deposits	46,000	46,000
Deferred revenue	112,414	169,473
Total current liabilities	<u>238,865</u>	<u>318,684</u>
<b>Total Liabilities</b>	<u>238,865</u>	<u>318,684</u>
Net Assets		
Without donor restrictions		
Undesignated	1,705,697	3,071,328
Board designated	3,000,000	916,080
With donor restrictions		
Purpose and time	1,429,700	1,280,513
Perpetual in nature	6,100	6,100
Total net assets	<u>6,141,497</u>	<u>5,274,021</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 6,380,362</u>	<u>\$ 5,592,705</u>

See independent auditor's report and notes to financial statements.

**MIDTOWN EDUCATIONAL FOUNDATION**

**STATEMENT OF ACTIVITIES**

**For the Year Ended May 31, 2023 (with summarized comparative totals for 2022)**

	Without Donor Restrictions	With Donor Restrictions	2023 Total	2022 Total
<b>Revenue</b>				
Public Support and Revenue				
Contributions	1,563,509	735,978	2,299,487	1,168,189
Special events, net	1,252,828	-	1,252,828	1,125,903
In-kind donations	2,034	-	2,034	2,613
Total public support and revenue	<u>2,818,371</u>	<u>735,978</u>	<u>3,554,349</u>	<u>2,296,705</u>
Program and Rental Fees				
Program service fees	118,128	-	118,128	93,772
Rental income, net	195,531	-	195,531	310,565
Total program and rental fees	<u>313,659</u>	<u>-</u>	<u>313,659</u>	<u>404,337</u>
Other income				
Investment income (loss), net	(9,816)	-	(9,816)	(60,701)
Interest income	8,729	-	8,729	-
Miscellaneous	43,808	-	43,808	594,647
Total other income	<u>42,721</u>	<u>-</u>	<u>42,721</u>	<u>533,946</u>
Net assets released from restrictions	<u>586,791</u>	<u>(586,791)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>3,761,542</u>	<u>149,187</u>	<u>3,910,729</u>	<u>3,234,988</u>
<b>Expenses</b>				
Program services	1,805,615	-	1,805,615	2,100,783
Management and general	650,959	-	650,959	502,822
Fundraising	586,679	-	586,679	473,718
Total expenses	<u>3,043,253</u>	<u>-</u>	<u>3,043,253</u>	<u>3,077,323</u>
<b>Change in net assets</b>	718,289	149,187	867,476	157,665
<b>Net assets, beginning of year</b>	<u>3,987,408</u>	<u>1,286,613</u>	<u>5,274,021</u>	<u>5,116,356</u>
<b>Net assets, end of year</b>	<u>\$ 4,705,697</u>	<u>\$ 1,435,800</u>	<u>\$ 6,141,497</u>	<u>\$ 5,274,021</u>

See independent auditor's report and notes to financial statements.

**MIDTOWN EDUCATIONAL FOUNDATION**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended May 31, 2023 (with summarized comparative totals for 2022)**

	One-on-One Program	Achievement Program	College Orientation Program	Parenting Program	Total Program	Management and General	Fundraising	2023 Total	2022 Total
<b><u>Functional Expenses</u></b>									
Salaries and wages	\$ 247,209	\$ 356,407	\$ 295,477	\$ 104,075	\$ 1,003,168	\$ 198,649	\$ 356,895	\$ 1,558,712	\$ 1,573,196
Payroll taxes	18,314	26,112	22,035	7,790	74,251	25,319	26,804	126,374	117,782
Fringe benefits	25,722	52,413	25,844	3,969	107,948	33,088	34,437	175,473	149,010
Total salaries, taxes and fringe benefits	291,245	434,932	343,356	115,834	1,185,367	257,056	418,136	1,860,559	1,839,988
Advertising and marketing	2,300	2,216	2,285	2,247	9,048	-	2,340	11,388	15,422
Professional fees	14,067	13,890	13,157	12,907	54,021	174,242	65,210	293,473	243,907
Occupancy	45,763	28,270	25,098	24,573	123,704	40,291	-	163,995	257,481
Event expenses	1,422	1,624	2,024	1,566	6,636	2,033	78,051	86,720	75,284
Scholarships	-	-	110,534	-	110,534	-	-	110,534	146,650
Supplies	10,569	9,559	25,930	8,928	54,986	6,168	219	61,373	67,456
Insurance	15,940	15,940	15,940	15,940	63,760	31,691	-	95,451	69,930
Travel and meetings	6,430	10,032	2,485	1,177	20,124	4,049	7,516	31,689	32,542
Repairs and maintenance	1,864	1,844	1,844	956	6,508	22,338	365	29,211	8,515
Education expense	9,141	44,206	46,111	6,663	106,121	879	-	107,000	77,357
Postage and shipping	178	178	229	161	746	951	497	2,194	-
Printing and copying	154	327	347	314	1,142	770	12,139	14,051	23,770
Telephone and internet	3,531	3,531	3,531	3,545	14,138	5,576	-	19,714	33,470
Dues and subscriptions	4,791	3,814	2,037	1,877	12,519	2,433	1,451	16,403	10,253
Bank and credit card fees	-	-	-	-	-	21,376	330	21,706	10,474
Miscellaneous	8,051	8,690	5,917	1,019	23,677	20,761	425	44,863	9,981
Depreciation	3,146	3,146	3,146	3,146	12,584	52,085	-	64,669	152,659
Bad debt	-	-	-	-	-	8,260	-	8,260	2,184
<b>Total Expenses</b>	<b>\$ 418,592</b>	<b>\$ 582,199</b>	<b>\$ 603,971</b>	<b>\$ 200,853</b>	<b>\$ 1,805,615</b>	<b>\$ 650,959</b>	<b>\$ 586,679</b>	<b>\$ 3,043,253</b>	<b>\$ 3,077,323</b>

See independent auditor's report and notes to financial statements.



**MIDTOWN EDUCATIONAL FOUNDATION**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended May 31, 2023 (with comparative totals for 2022)**

	<u>2023</u>	<u>2022</u>
<b><u>Cash Flows from Operating Activities</u></b>		
Change in net assets	\$ 867,476	\$ 157,665
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	189,003	237,968
Net realized and unrealized loss on investments	35,924	83,825
Forgiveness of SBA PPP loan	-	(304,707)
Change in assets - (increase) decrease		
Contributions receivable	(128,183)	47,192
Other receivables	104,728	(52,648)
Prepaid expenses	44,957	22,960
Change in liabilities - increase (decrease)		
Accounts payable	12,438	(15,928)
Accrued payroll and related	(23,256)	6,913
Accrued expenses	(11,942)	-
Tenant security deposits	-	(25,000)
Deferred revenue	(57,059)	10,430
Net cash provided by operating activities	<u>1,034,086</u>	<u>168,670</u>
<b><u>Cash Flows from Investing Activities</u></b>		
(Purchase) redemption of certificates of deposit	20,859	(1,607)
Purchase of investments	(2,586,519)	(6,444,742)
Sales of investments	1,227,103	6,051,490
Purchase of fixed assets	(103,747)	(54,610)
Disposal of fixed assets	-	29,728
Change in present value of life insurance policy	(3,948)	(3,874)
Net cash used in operating activities	<u>(1,446,252)</u>	<u>(423,615)</u>
<b>Net decrease in cash and equivalents</b>	(412,166)	(254,945)
<b>Cash and equivalents, beginning of year</b>	<u>669,543</u>	<u>924,488</u>
<b>Cash and equivalents, end of year</b>	<u>\$ 257,377</u>	<u>\$ 669,543</u>
<b><u>Reconciliation to Cash and Equivalents</u></b>		
Cash and equivalents	\$ 251,277	\$ 663,443
Permanently restricted cash - endowment	6,100	6,100
<b>Total cash and equivalents</b>	<u>\$ 257,377</u>	<u>\$ 669,543</u>

See independent auditor's report and notes to financial statements.

**MIDTOWN EDUCATIONAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**May 31, 2023**

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

Organization

Midtown Educational Foundation (the “Foundation”) is an Illinois not-for-profit corporation. 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 are both located in the Chicago area and provide after-school and summertime enrichment programs for disadvantaged youth that strengthen the student in both academics and character. The Foundation is funded by program fees, special events, and contributions from foundations, corporations, and individuals.

Programs span grades four through twelve and include the following:

*Walgreens One-on-One* (4th to 6th grade) – Young professional volunteers function 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* (7th 8th 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* (9th to 12th 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 financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities in accordance with the accounting principles generally accepted in the United States of America (“GAAP”).

Basis of Presentation

As required by GAAP, the Foundation is required to report information regarding its financial position and activities according to two classes:

Without donor restrictions – Net assets that are not subject to donor-imposed restrictions. Such gifts include gifts without restrictions, including restricted gifts whose donor-imposed restrictions were met during the year.

**MIDTOWN EDUCATIONAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**May 31, 2023**

**Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)**

Basis of Presentation (cont.)

With donor restrictions – Net assets subject to donor-imposed restrictions which will be met either by actions of the Foundation or the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met in the year of receipt. Restrictions that have been met on net assets with donor restrictions are reported as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the support as without donor restrictions.

Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the Organization, including gifts and pledges wherein donors stipulate that the corpus of the gift is to be held in perpetuity and that only the income be made available for programs.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires 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 year. Actual results could differ from those estimates.

Income Tax Status

The Foundation was granted an exemption from federal income taxes by the Internal Revenue Service pursuant to the provisions of Internal Revenue Code Section 501(c)(3). The Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private organization under Section 509(a)(1).

The tax-exempt purpose of the Foundation and the nature in which it operates is described above. Management believes the Foundation continues to operate in compliance with its tax-exempt purpose. Thus, no provision for income tax has been provided for in the financial statements. The Foundation's Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the IRS, generally for three years after it has been filed. The Foundation has adopted the requirements for accounting for uncertain tax positions and management has determined that the Foundation was not required to record a liability related to uncertain tax positions as of May 31, 2023.

Cash and Equivalents

Cash and equivalents consist of bank deposits in federally insured accounts. At times, balances may be in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance limit. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and equivalents.

**MIDTOWN EDUCATIONAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**May 31, 2023**

**Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)**

Cash and Equivalents (cont.)

For purposes of the statement of cash flows, the Foundation considers all highly liquid debt instruments with an original maturity or anticipated liquidation of three months or less and any certificates of deposit to be cash equivalents. No cash was paid for taxes or interest during the year ended May 31, 2023.

Restricted Cash

At May 31, 2023 the Foundation had a restricted cash balance of \$6,100 related to contributions restricted by donors in perpetuity.

Certificates of Deposit

The Foundation invests in certificates of deposit with terms greater than twelve months. Balances as of May 31, 2023 were \$242,587. Certificates are stated at cost plus accrued interest.

Investments

Investments in equity and debt securities are reported at their fair values in the statement of financial position. Investment income or loss (including realized and unrealized gains and losses, interest, and dividends) are reported net of investment expenses in the statement of activities.

Contributions Receivable

Contributions receivable which represents unconditional promises to give are recognized as support when the promise is received. Contributions receivable expected to be collected in less than one year are reported at net realizable value. Those expected to be collected in more than one year are recorded at fair value at the date of promise. Contributions receivable are stated at the amount management expects to collect from balances outstanding. Management closely monitors outstanding balances throughout the year and writes off all balances that are considered uncollectable. The Foundation believes that all contributions receivable at May 31, 2023 will be fully collected. Accordingly, no allowance for doubtful accounts is required.

Other Receivables

The Foundation's other receivables are related to rental income and services provided to its clients. The Foundation does not accrue interest on past due accounts. Receivables are written off only after all collection attempts have failed and are based on individual credit evaluation and the specific circumstances of the client. An allowance for future fee reductions is provided on the reserve method based on historical experience and management's evaluation of outstanding accounts receivable at the end of each year. Based on this evaluation, management has recorded an allowance of \$10,000 as of May 31, 2023.

Prepaid Expense

The Foundation pays for certain expenses before they are incurred related to insurance, management fees, special event expenses, and other miscellaneous items.

**MIDTOWN EDUCATIONAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**May 31, 2023**

**Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)**

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization on property and equipment over \$1,000 is computed using the straight-line method over the estimated useful lives of the assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is reflected in revenue or expense for the period. Estimated useful lives of depreciable property and equipment are as follows:

Building	10 - 39 years
Leasehold Improvements	3 - 39 years
Furniture and Equipment	3 - 10 years

Depreciation expense for the year ended May 31, 2023 was \$189,003.

Support and Revenue

*Contributions* – The Foundation recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return are not recognized until the conditions on which they depend have been met. 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

*Special Events* – The Foundation recognizes special event income net of direct benefit provided at the date the event is held.

*Program Service Fees* – The Foundation charges program participants client services fees as a single performance obligation. The client fees are recognized when the service is provided to the customers at the Foundation net of discounts. Payment terms on invoiced amounts are typically 30 days. The Foundation has determined that a significant financing component does not exist. The primary purpose of the Foundation’s invoicing terms is to provide customers with simplified and predictable ways of paying for services.

*Rental Income* – The Foundation recognizes rental income from tenants leasing office space straight-line over the life of the lease agreement. Cash payments are expected to be received on a monthly basis. Rental expenses of \$526,847 are netted against rental income in the statement of activities for the year ended May 31, 2023.

**MIDTOWN EDUCATIONAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**May 31, 2023**

**Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)**

Donated Services

Contributions of services are required to be recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Foundation did not receive donated services that met these criteria for the year ended May 31, 2023.

Many individuals have made significant contributions of time to the Foundation's programs and support functions, but the value of this contributed time does not meet the above criteria for recognition of contributed services contained per GAAP.

In-Kind Contributions

In addition to receiving cash contributions, the Foundation may receive in-kind contributions from various contributors. It is the policy of the Foundation to record the estimated fair market value of certain in-kind donations as an expense in its financial statements, and similarly increase donations by a like amount. For the year ended May 31, 2023, the Foundation received \$2,034 of in-kind donations as such.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on salary allocations. Directly identifiable expenses are charged to the specific program or supporting service. Expenses related to more than one function are allocated to program expenses and supporting services as the basis of periodic time and expense reviews made by management.

Concentration of Risk

The Foundation received approximately 28% of its funding from their events held throughout the year ended May 31, 2023. Achievement of comparable revenue amounts in the future may be dependent upon the continued success of these events. Any significant changes in this funding or economic environment in the future may cause disruption of program activities.

Subsequent Events

GAAP includes standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Foundation has evaluated subsequent events through November 14, 2023, which is the date the financial statements were available to be issued. No subsequent events have been identified that are required to be disclosed as of that date.

**MIDTOWN EDUCATIONAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**May 31, 2023**

**Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)**

Adoption of New Accounting Standard

The Foundation has adopted the new lease accounting standard, ASU 842, effective June 1, 2022. The Foundation has determined that its leases are all short-term or immaterial, and as such, has elected to account for them using the practical expedient. The impact of the adoption of ASU 842 on the financial statements was, therefore, not material.

**Note 2 – Financial Assets and Liquidity Resources**

The Foundation regularly monitors the availability of resources required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing activities as well as the conduct of services undertaken to support those activities to be general expenditures.

Financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, were as follows at May 31:

Financial assets at year-end	
Cash and equivalents	\$ 257,377
Certificates of deposit	242,587
Investments	3,786,099
Contributions receivable	179,780
Other receivables	23,465
Total financial assets, at year-end	<u>4,489,308</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions - purpose	(1,160,108)
Allowance for doubtful accounts	(10,000)
Permanently restricted cash - endowment	<u>(6,100)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,313,100</u>
Additional liquidity resources:	
Unused line of credit	<u>\$ 500,000</u>

**MIDTOWN EDUCATIONAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**May 31, 2023**

**Note 2 – Financial Assets and Liquidity Resources (cont.)**

The Foundation manages its liquidity and reserves following three guiding principles: 1) operating within a prudent range of financial soundness and stability; 2) maintaining adequate liquid assets to fund near-term operating needs; and 3) maintaining sufficient reserves to provide reasonable assurance that programming is continued, and obligations will be adequately discharged in the future. In addition to financial assets available to meet general expenditures over the next 12 months, the Foundation anticipates collecting sufficient revenue to cover general expenditures.

**Note 3 – Investments and Fair Value Measurements**

Investment securities are exposed to various risks such as interest rate, market, and credit risks. 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.

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 transaction 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 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 of input that is significant to the fair value measurement.

Generally accepted accounting principles establish three levels of inputs that may be used to measure fair value:

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 dissimilar 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;

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.



**MIDTOWN EDUCATIONAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**May 31, 2023**

**Note 3 – Investments and Fair Value Measurements (cont.)**

Following is a description of the valuation methodologies used for assets measured at fair value.

*Exchange Traded Funds:* Valued at the closing price reported on the active market on which the individual securities are traded are included in the Level 1 fair value hierarchy.

*Mutual Funds:* Valued at daily closing price as reported by the fund. Mutual funds owned by the Foundation are open-ended mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at this price. These mutual funds held by the Foundation are deemed to be actively traded are included in the Level 1 fair value hierarchy.

*Money Markets:* Approximates fair value due to the short maturity of these instruments.

*U.S. Treasury Bonds:* Bonds issued by the U.S. Treasury, the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation, Government National Mortgage Association and the Federal National Mortgage Association. The fair values of U.S. treasury bonds are based on quoted market prices in active markets and are included in the Level 1 fair value hierarchy. The market for U.S. treasury bonds is an actively traded market given the high level of daily trading volume. The fair values of U.S. agency bonds are determined using the spread above the risk-free yield curve. As the yields for the risk-free yield curve and the spreads for these securities are observable market inputs, the fair values of U.S. agency bonds are included in the Level 1 fair value hierarchy.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Investment consists of the following components at fair value as of May 31, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Exchange Trade Funds	\$ 480,736			\$ 480,736
Mutual Funds	436,346			436,346
Money Markets	2,456			2,456
US Treasury Bonds	2,866,561			2,866,561
	<u>\$3,786,099</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,786,099</u>

**MIDTOWN EDUCATIONAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**May 31, 2023**

**Note 3 – Investments and Fair Value Measurements (cont.)**

Investment income (loss), net consisted of the following for the year ended May 31, 2023:

Interest and dividends	\$ 26,108
Realized loss	(17,612)
Unrealized loss	<u>(18,312)</u>
	<u>\$ (9,816)</u>

**Note 4 – 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 \$116,781 at May 31, 2023, based on the joint life expectancy of the donor and his spouse.

**Note 5 – Conditional Promises to Give**

A community trust fund, in which the Foundation has been designated to receive distributions from, for scholarships to be awarded annually at the discretion of the Foundation for 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.

**Note 6 – Line of Credit**

The Foundation has a \$500,000 revolving line of credit agreement with a bank that expires May 13, 2024. Interest is payable monthly at various bank prime rates. The current effective interest rate at May 31, 2023 was 8.25%. There was no outstanding balance due on the line of credit at May 31, 2023. The line of credit is collateralized by the Foundation's rental property and the assignment of all rents associated with the property.

**Note 7 – Special Events**

Net revenue from special events for the year ended May 31, 2023:

Contributions	\$ 1,167,325
Ticket sales	152,910
Less costs of direct benefit to donors	<u>(67,407)</u>
Net revenue from special events	<u>\$ 1,252,828</u>

**MIDTOWN EDUCATIONAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**May 31, 2023**

**Note 8 – Rental Income**

The Foundation leases office space to unrelated third parties under leases with varying terms through 2030.

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

2024	\$ 648,550
2025	495,975
2026	333,462
2027	261,620
2028	266,939
Thereafter	<u>669,681</u>
Total minimum future rentals	<u>\$ 2,676,227</u>

**Note 9 – Operating Lease**

The Foundation leases space at the St. Aloysius Gonzaga Campus for its Midtown program. The lease commenced August 1, 2022 and expires July 31, 2023. Rental payments are \$2,000 per month. The Foundation subsequently signed a lease for additional space at St. Aloysius starting June 13, 2023, through July 29, 2023. Rental payments are \$12,250 each month of the two-month lease. The Foundation also has various month to month leases for program use as needed. Rent expense under the leases for the year ended May 31, 2023 was \$66,173.

Future minimum lease payments for the year ending May 31, 2024, is \$28,500.

**Note 10 – Retirement Plan**

Employees of the Foundation may participate in an Internal Revenue Code section 403(b) retirement savings plan. The plan is funded solely by employee contributions to the plan, pursuant to a salary reduction agreement.

**Note 11 – Board Designated Endowment**

The Foundation has established a Board of Directors' designated endowment fund to fulfill the Foundation's mission to provide inner city youth programs for decades to come. This fund was established through an appropriation of the Foundation's net assets without donor restrictions in the amount of \$3,000,000 as of May 31, 2023. 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, 2023, the Board has not allocated the use of endowment funds.

**MIDTOWN EDUCATIONAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**May 31, 2023**

**Note 11 – Board Designated Endowment (cont.)**

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 of Directors on July 12, 2016, the endowment assets may be invested in 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.

The Foundation expects its board designated 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
Certificate 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 (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 12 – Net Assets with Donor Restrictions**

The Foundation’s net assets with donor restrictions are available for the following purposes as of May 31, 2023:

Scholarships	\$ 825,270
Future Periods	269,592
Chicago Inner-City Youth Development	179,665
Capital Improvements	155,173
	<u>\$ 1,429,700</u>

**MIDTOWN EDUCATIONAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**May 31, 2023**

**Note 13 – Net Assets Restricted Perpetual in Nature**

Net assets perpetually restricted by donors of \$6,100 as of May 31, 2023 include contributions received to set up a permanent endowment. The interpretation of relevant law, as stated below, with respect to the Uniform Prudent Management of Institutional Funds Act (UPMIFA), will apply once the restricted net assets are invested. Furthermore, at that time the Organization will adopt appropriate return objectives and risk parameters and strategies to employ for achieving these objectives along with a spending policy and how the investments objectives relate to the spending policy.

The Foundation accounts for endowment net assets by preserving the fair value of the original donation as of the gift date to the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result, the Organization classifies as endowment net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts donated to the permanent endowment and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the endowment fund. The remaining portion of the donor-restricted endowment fund that is not classified in perpetually restricted net assets is classified as net assets with donor restriction (purpose) until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by Illinois Uniform Prudent Management of Institutional Funds Act (UPMIFA).

The Foundation 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 Foundation and the donor-restricted endowment fund.
3. General economic conditions.
4. The possible effects of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the Foundation.
7. The investment policies of the Foundation.

It is the policy of the Foundation to manage the endowment fund in a manner that will, at a minimum, preserve and maintain the real purchasing power of the principal while allowing for annual distributions to the operating budget. The Foundation's investment policies specify that funds be maintained in U.S. Treasury Bills or an FDIC-insured certificate of deposit, checking or savings account or a money market mutual fund that is registered under the Investment Company Act of 1940. The Board of Directors meets regularly to ensure that the objectives of the investment policy are being met, and that the strategies used to meet the objectives are in accordance with the investment policy.

**MIDTOWN EDUCATIONAL FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
May 31, 2023**

**Note 13 – Net Assets Restricted Perpetual in Nature (cont.)**

The endowment net asset composition by type of fund at May 31, 2023 is as follows:

	<u>Restricted Cash</u>
With donor restrictions - perpetual in nature	<u>\$ 6,100</u>

**SUPPLEMENTARY  
INFORMATION**

**MIDTOWN EDUCATIONAL FOUNDATION**  
**SCHEDULE OF EXPENSES**  
**For the Year Ended May 31, 2023**

	2023		2022	
	Amount	Percentage	Amount	Percentage
Program expenses	\$ 1,805,615		\$ 2,100,783	
Estimated volunteer expenses*	<u>176,860</u>		<u>161,140</u>	
Adjusted program expense	1,982,475	62%	2,261,923	70%
Management and general expenses	650,959	20%	502,822	16%
Fundraising expenses	<u>586,679</u>	18%	<u>433,447</u>	14%
Subtotal	3,220,113		3,198,192	
Less estimated volunteer expenses*	(176,860)		(161,140)	
Other in-kind expenses	-		-	
Direct costs of special events	<u>67,407</u>		<u>40,721</u>	
Total expenses - page 5	<u>\$ 3,110,660</u>		<u>\$ 3,077,773</u>	

\* Note - The Midtown Educational Foundation received 5,658 hours of volunteer services from teachers and advisory staff for the 2023 fiscal year. These estimated expenses are not recognized as in-kind expenditures for financial statement purposes under ASC 958-605. According to the U.S. Department of Labor - Bureau of Statistics the average hourly wage for this class of employee was \$29.18 per hour for the 2023 fiscal year.