

City Colleges of Chicago Foundation

Financial Statements as of and for the
Year Ended June 30, 2019, and Independent Auditor's
Report

CITY COLLEGES OF CHICAGO FOUNDATION

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2019:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6-13



RSM US LLP

Independent Auditor's Report

Board of Directors
City Colleges of Chicago Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of the City Colleges of Chicago Foundation (the Foundation), which comprise the statement of financial position as of June 30, 2019, the related statements of activities and cash flows for the year 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 audit. We conducted our audit 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 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 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 the City Colleges of Chicago Foundation as of June 30, 2019, 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.

Emphasis of Matter

The Foundation adopted Accounting Standards Update 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*, during 2019. The adoption of the standard resulted in the inclusion of functional expenses, additional footnote disclosures and changes to classification of net assets and the disclosures related to net assets. Our opinion is not modified with respect to the matter.

RSM US LLP

Chicago, Illinois
October 17, 2019

CITY COLLEGES OF CHICAGO FOUNDATION

STATEMENT OF FINANCIAL POSITION AS OF JUNE 30, 2019

	<u>2019</u>
ASSETS	
Cash and cash equivalents	\$ 2,063,807
Investments	9,485,458
Contributions receivable	70,491
Prepaid expenses	<u>24,535</u>
TOTAL	<u>\$ 11,644,291</u>
 LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable	<u>\$ 781,477</u>
 NET ASSETS	
Without donor restrictions	1,472,500
With donor restrictions	<u>9,390,314</u>
Total net assets	<u>10,862,814</u>
TOTAL	<u>\$ 11,644,291</u>

See notes to financial statements.

CITY COLLEGES OF CHICAGO FOUNDATION

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT			
Contributions	\$ 436,401	\$ 3,550,886	\$ 3,987,287
Contributed services	323,002	-	323,002
Net assets released from restrictions	3,804,244	(3,804,244)	-
Total revenues and other support	4,563,647	(253,358)	4,310,289
EXPENSES:			
Program services	2,975,011	-	2,975,011
Scholarships awarded	973,719	-	973,719
Management and general	268,357	-	268,357
Fundraising	226,899	-	226,899
Total expenses	4,443,986	-	4,443,986
Increase (decrease) in net assets	119,661	(253,358)	(133,697)
Other changes			
Investment return, net	237,167	421,919	659,086
Change in net assets	356,828	168,561	525,389
Net assets, beginning of year	1,115,672	9,221,753	10,337,425
Net assets, end of year	\$ 1,472,500	\$ 9,390,314	\$ 10,862,814

See notes to financial statements.

CITY COLLEGES OF CHICAGO FOUNDATION

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2019

INDIRECT METHOD

	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 525,389
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Realized gain on sales of investments	(654,263)
Unrealized gain on investments	190,310
Change in contributions receivable	30,647
Change in prepaid expenses	(24,535)
Change in accounts payable	<u>(4,020)</u>
Net cash provided by operating activities	<u>63,528</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of investments	(17,284,269)
Sales of investments	<u>17,117,657</u>
Net cash used in investing activities	<u>(166,612)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(103,084)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>2,166,891</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 2,063,807</u>

See notes to financial statements.

CITY COLLEGES OF CHICAGO FOUNDATION

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2019

1. OPERATIONS

City Colleges of Chicago Foundation (the “Foundation”) is an Illinois not-for-profit, tax-exempt corporation established to pursue financial support from the private sector and to promote the programs of the City Colleges of Chicago, Community College District No. 508 (“City Colleges”). The Foundation receives, administers, and distributes funds to City Colleges for various grants, scholarships, and programs. Substantially all of the Foundation’s revenues and support are for the benefit of City Colleges. The Foundation is supported primarily through donor contributions and grants. The Foundation is considered a component unit of City Colleges and is discretely presented in City Colleges’ financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

Management Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents — As of June 30, 2019, cash and cash equivalents include highly liquid investments with maturities of three months or less at the date of purchase, and are stated at cost, which approximates fair value. The Foundation maintains its cash in commercial bank deposit accounts, which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant credit risk on cash and cash equivalents.

Investments — The Foundation’s investment policy permits the Foundation’s board of directors to oversee the investment of Foundation assets through the use of an internally appointed investment committee and external investment managers and custodians. The policy reflects the objectives and constraints associated with investing the Foundation’s assets. Investments are measured at fair value in the statement of financial position. Net investment return (including realized and unrealized gains and losses on investments, interest, and dividends) is reported as an increase or decrease in net assets without donor restrictions, unless such income or loss is restricted by explicit donor stipulations or by law.

Contributions — Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized as revenue until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Contributed Services — The Foundation receives contributed services consisting of donated accounting services and other operating support from City Colleges. These amounts are included as contributed services revenue in the statement of activities.

CITY COLLEGES OF CHICAGO FOUNDATION

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

Functional allocation of expenses – Expenses are recognized in the period they are incurred. When an expense is identified with a specific program, fundraising, or general and management function, it will be charged directly to that category. In some circumstances, an expense will be allocated between the program services, fundraising, or general and management categories based on the specific transaction. The accounting services received consist of salaries and fringe benefits paid to City Colleges employees who estimate their percentage of time spent on Foundation duties. The other operating support includes occupancy (lease and utilities) cost which is allocated based on square footage, as well as the audit fee. These expenses are charged to the proper functional category and are presented on the statement of functional expenses.

Basis of presentation –The financial statements of City Colleges of Chicago Foundation have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require City Colleges of Chicago Foundation to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of City Colleges of Chicago Foundation's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of City Colleges of Chicago Foundation or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Tax Status — The Foundation is exempt from federal income tax under Internal Revenue Code Section 501(c) (3). Accordingly, no provision for such taxes has been recognized in these financial statements.

The accounting standard on *Accounting for Uncertainty in Income Taxes* addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Foundation may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Foundation and the various positions related to the potential sources of unrelated business income tax. There were no unrecognized tax benefits identified or recorded as liabilities during the year ended June 30, 2019.

The Foundation files Forms 990 in the U.S. federal jurisdiction and the State of Illinois.

CITY COLLEGES OF CHICAGO FOUNDATION

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED*)

Accounting Pronouncement Adopted – The Foundation adopted the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update includes a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation (including a statement of functional expenses) and disclosure (including investment expenses), and new required disclosures communicating information useful for assessing liquidity. The Foundation adopted the standard in fiscal year 2019.

Net assets without donor restrictions at July 1, 2018 of \$1,115,672 was previously reported as unrestricted net assets. Net assets with donor restrictions at July 1, 2018 of \$9,221,753 represents the sum of \$7,261,371 and \$1,960,382 previously reported as temporarily restricted and permanently restricted net assets.

Recent Accounting Pronouncements -- In May 2014, The Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to its customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-04, which defers the effective date of ASU 2014-09 one year making it effective for the year ending June 30, 2020 for the Foundation. The Foundation has not yet selected a transition method and is currently evaluating the effect that the standard will have on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for the Foundation for the year ending June 30, 2021.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The updated standard will be effective for the Foundation in the fiscal year ending June 30, 2020. Early adoption is permitted. The Foundation is currently evaluating the impact of the adoption of this guidance on its financial statements. The adoption of ASU 2018-08 is not expected to have a material impact on the Foundation’s financial statements.

Subsequent Events — The Foundation has evaluated all subsequent events through October 15, 2019, which is the date the financial statements were available to be issued.

CITY COLLEGES OF CHICAGO FOUNDATION

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2019

3. INVESTMENTS

The components of net investment return for the year ended June 30, 2019 are as follows:

	2019
Interest and dividends	\$ 195,133
Net realized gains/(losses)	654,263
Net unrealized gains/(losses)	(190,310)
Total	<u>\$ 659,086</u>

4. FAIR VALUE OF INVESTMENTS

The Fair Value Measurements and Disclosures Topic of the Accounting Standards Codification defines fair value as the price that would be received for an asset or paid to transfer a liability in an orderly transaction among market participants on the measurement date. The accounting guidance establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels:

Level 1 — Quoted prices for identical instruments in active markets.

Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.

Level 3 — Valuations derived from valuation techniques in which one or more significant inputs are not observable.

The Foundation attempts to establish fair value as an exit price in an orderly transaction consistent with normal settlement market conventions. The Foundation is responsible for the valuation process and seeks to obtain quoted market prices for all securities.

For the year ended June 30, 2019, the application of valuation techniques applied to similar assets and liabilities has been consistent. The Foundation's investments are the only assets or liabilities that are measured at fair value on a recurring basis.

The Foundation assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer. For the year ended June 30, 2019, there were no such transfers.

The Foundation invests in money market funds that are valued with a daily net asset value at amortized cost.

CITY COLLEGES OF CHICAGO FOUNDATION

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2019

4. FAIR VALUE OF INVESTMENTS (*CONTINUED*)

The Foundation also invests in domestic and fixed income mutual funds, which are open-ended Securities and Exchange Commission registered investment funds with a daily net asset value (“NAV”). These mutual funds are designed to be liquid and allow investors to sell their interests daily to the fund at the published NAV, with no restrictions on redemptions, no unfunded commitments, and are categorized in Level 1 of the fair value hierarchy.

Assets measured at fair value on a recurring basis as of June 30, 2019 are as follows:

Description	<u>2019</u>
Mutual Funds:	
Fixed income funds	\$ 2,820,161
Equity funds	<u>6,665,296</u>
 Total	 <u>\$ 9,485,458</u>

5. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at June 30, 2019 are restricted to the following purposes:

	<u>2019</u>
Subject to expenditure for specified purpose:	
Scholarships and instructional services	\$ 6,605,125
Goldman Sachs 10,000 Small Businesses Initiative	295,084
Project grants	438,594
Miscellaneous	<u>91,129</u>
	 <u>\$ 7,429,932</u>

	<u>2019</u>
Endowment (corpus):	
Scholarships	\$ 1,959,977
Miscellaneous	<u>405</u>
	 <u>\$ 1,960,382</u>

The above amounts of \$7,429,932 and \$1,960,382, totaling \$9,390,314, are reflected as with donor restrictions on the Statement of Activities.

CITY COLLEGES OF CHICAGO FOUNDATION

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2019

5. NET ASSETS WITH DONOR RESTRICTIONS (*CONTINUED*)

Net assets released from donor restrictions are as follows for the year ended June 30, 2019:

	<u>2019</u>
Scholarships	\$ 973,719
Instructional services and supplies	1,144,304
Goldman Sachs 10,000 Small Businesses Initiative	1,040,663
Project grants	216,558
Miscellaneous	<u>429,000</u>
	<u>\$ 3,804,244</u>

6. ENDOWMENT NET ASSETS

The Foundation has donor-restricted endowment net assets that consist of 15 individual funds established for a variety of donor-restricted purposes. Net assets associated with restrictions are classified and reported based on the existence of donor-imposed restrictions.

The Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift, as of the gift date of the donation, as permanently restricted funds in the absence of explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of the gifts, (b) the original value of subsequent gifts, and (c) accumulations made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted 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 Foundation
7. The investment policies of the Foundation

Funds with Deficiencies — From time to time, the fair value of assets associated with individual donor permanently restricted funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no deficiencies of this nature as of June 30, 2019.

CITY COLLEGES OF CHICAGO FOUNDATION

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2019

6. ENDOWMENT NET ASSETS (*CONTINUED*)

Changes in endowment net assets for the year ended June 30, 2019, are as follows:

	<u>With Donor Restriction</u>
Endowment net assets - beginning of year	\$ 3,847,509
Investment return:	
Investment income	127,385
Net gain (realized and unrealized)	<u>294,534</u>
Total investment return	<u>421,919</u>
Contributions	<u>1,682</u>
Appropriation of endowment assets for expenditures	<u>(31,862)</u>
Endowment net assets — end of year	<u><u>\$ 4,239,248</u></u>

7. RELATED-PARTY TRANSACTIONS

The Foundation receives donated accounting services and other operating support from City Colleges. The Foundation estimates the fair value of these services to be \$323,002. These amounts have been included as contributed services and related expenses in the statement of activities.

CITY COLLEGES OF CHICAGO FOUNDATION

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2019

8. FUNCTIONAL EXPENSES

The Foundation's expenses by function are as follows:

	Program Services	Scholarships Awarded	Management and General	Fundraising	Total
Services	\$ 2,324,393	\$ -	\$ 1,414	\$ -	\$ 2,325,807
Supplies	553,829	-	890	215,413	770,132
Travel	28,638	-	-	-	28,638
Insurance	-	-	4,077	-	4,077
Scholarships	-	973,719	-	-	973,719
Bank fees	-	-	18,611	-	18,611
Contributed Services	68,151	-	243,365	11,486	323,002
	<u>\$ 2,975,011</u>	<u>\$ 973,719</u>	<u>\$ 268,357</u>	<u>\$ 226,899</u>	<u>\$ 4,443,986</u>

9. AVAILABILITY AND LIQUIDITY

Financial assets available for general expenditure, that is, without donor or board restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	2019
Cash	\$ 2,063,807
Investments	1,343,223
	<u>\$ 3,407,030</u>

Certain investments of the Foundation consist of donor-restricted funds that the Foundation must hold in perpetuity or for donor-specific periods. Income from donor-restricted funds is restricted for scholarship and educational purposes. The Board approves the use of funds without donor restrictions for operating expenses.

As part of its liquidity management plan, the Foundation invests excess cash in short-term investments, including money market funds and short-term investments.

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