

**NAPERVILLE EDUCATION
FOUNDATION**

FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

Naperville Education Foundation

Annual Financial Report

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Desmond & Ahern, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditor's Report

To the Board of Trustees
Naperville Education Foundation
Naperville, IL

We have audited the accompanying financial statements of Naperville Education Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements. The prior-year summarized comparative information has been derived from the Organization's 2013 financial statements, and, in our report dated October 4, 2013, we expressed an unqualified opinion on those 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Naperville Education Foundation as of June 30, 2014, 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.

Desmond & Akers, Ltd

October 24, 2014
Chicago, IL

NAPERVILLE EDUCATION FOUNDATION
STATEMENT OF FINANCIAL POSITION
As of June 30, 2014 (with comparative totals for 2013)

	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Cash	\$ 259,563	\$ 257,469
Investments (Note 2)	1,944,329	1,692,844
Accounts receivable - NCUSD 203	<u>12,495</u>	<u>28,122</u>
Total Assets	<u><u>\$ 2,216,387</u></u>	<u><u>\$ 1,978,435</u></u>
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Accounts payable	\$ 70,169	\$ 21,414
Deferred revenue	<u>13,843</u>	<u>10,798</u>
Total current liabilities	<u>84,012</u>	<u>32,212</u>
Net Assets		
Unrestricted		
General operating	52,966	77,438
Board designated - Endowment fund	<u>618,147</u>	<u>529,638</u>
Total unrestricted net assets	<u>671,113</u>	<u>607,076</u>
Temporarily restricted	<u>1,461,262</u>	<u>1,339,147</u>
Total net assets	<u>2,132,375</u>	<u>1,946,223</u>
Total Liabilities and Net Assets	<u><u>\$ 2,216,387</u></u>	<u><u>\$ 1,978,435</u></u>

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

NAPERVILLE EDUCATION FOUNDATION
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014 (with comparative totals for 2013)

	Unrestricted	Temporarily Restricted	Total 2014	Total 2013
<u>Public Support and Revenue</u>				
Contributions	\$ 97,689	\$ 98,712	\$ 196,401	\$ 197,365
Special events				
Ticket sales	71,566	-	71,566	68,580
Contributions	59,870	79,050	138,920	120,278
In-kind catering, facilities, and printing	11,856	-	11,856	4,552
Less costs of in-kind direct benefits to donors	(11,856)	-	(11,856)	(4,552)
Less costs of direct benefits to donors	(29,216)	(23,666)	(52,882)	(46,521)
Net revenues from special events	102,220	55,384	157,604	142,337
Interest and dividend income	35,833	73,016	108,849	70,144
Donated materials	-	-	-	5,730
Donated services	22,000	-	22,000	14,000
Net realized and unrealized gains on investments, net of related fees of \$11,254 and \$10,022, respectively	52,886	112,719	165,605	124,705
Net assets released from restrictions - satisfaction of program restrictions	217,716	(217,716)	-	-
Total Public Support and Revenue	528,344	122,115	650,459	554,281
<u>Expenses</u>				
Program Services				
Grants to NCUSD 203	172,617	-	172,617	191,339
Study Skills Academy NCUSD 203	52,619	-	52,619	48,043
Scholarships	63,664	-	63,664	55,892
Kid Boosters Program	27,374	-	27,374	8,833
Other program expenses	28,886	-	28,886	36,039
Total program services	345,160	-	345,160	340,146
Management and general	78,698	-	78,698	61,074
Fundraising expense	40,449	-	40,449	46,550
Total Expenses	464,307	-	464,307	447,770
Change in Net Assets	64,037	122,115	186,152	106,511
Net assets, beginning of year	607,076	1,339,147	1,946,223	1,839,712
Net assets, end of year	\$ 671,113	\$ 1,461,262	\$ 2,132,375	\$ 1,946,223

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

NAPERVILLE EDUCATION FOUNDATION
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2014 (with comparative totals for 2013)

	<u>2014</u>	<u>2013</u>
<u>Cash Flows from Operating Activities</u>		
Cash received - contributions	\$ 196,401	\$ 215,365
Cash received - special events	160,649	147,385
Cash received - investment income	108,849	70,144
Payments for investment fees	(11,254)	(10,022)
Payments for operating activities	<u>(377,925)</u>	<u>(451,236)</u>
Net cash provided (used) by operating activities	<u>76,720</u>	<u>(28,364)</u>
<u>Cash Flows from Investing Activities</u>		
Proceeds from sale of investments	112,372	85,611
Purchase of investments	<u>(186,998)</u>	<u>(129,000)</u>
Net cash used by investing activities	<u>(74,626)</u>	<u>(43,389)</u>
Net increase (decrease) in cash	2,094	(71,753)
Cash, beginning of year	<u>257,469</u>	<u>329,222</u>
Cash, end of year	<u><u>\$ 259,563</u></u>	<u><u>\$ 257,469</u></u>
<u>Reconciliation of Change in Net Assets to Net Cash</u>		
<u>Provided (Used) by Operating Activities</u>		
Change in net assets	\$ 186,152	\$ 106,511
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Net realized and unrealized gains on investments	(176,859)	(134,727)
Decrease (increase) in		
Contribution receivable	-	18,000
Accounts receivable	15,627	(15,218)
Prepays	-	2,939
Increase (decrease) in		
Accounts payable	48,755	(10,917)
Deferred revenue	3,045	5,048
Net cash provided (used) by operating activities	<u><u>\$ 76,720</u></u>	<u><u>\$ (28,364)</u></u>

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

NAPERVILLE EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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

Organization

Naperville Education Foundation (Foundation) is an Illinois not-for-profit corporation organized to acquire and distribute financial and other resources that are to be used for programs and projects, which enhance or supplement Naperville Community Unit School District 203 (NCUSD 203) educational programs and provide enriched educational opportunities for learners.

Basis of Accounting

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

Basis of Presentation

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets, as required by accounting principles generally accepted in the United States of America (GAAP).

Use of Estimates

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash

Cash consist of bank deposits in federally insured accounts. At June 30, 2014 the Foundation's cash accounts exceeded federally insured limits by approximately \$10,000. The Foundation has not experienced any losses in these accounts and the Board of Directors does not believe that a significant credit risk exists at this time.

Investments

Investments are carried at fair value. Realized and unrealized gains and losses are reflected in the statement of activities.

Accounts Receivable – School District 203

Accounts receivable – NCUSD 203 consists of overpayments of expenses to NCUSD 203.

NAPERVILLE EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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

Support and Revenue

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

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. For the year ended June 30, 2014, this amounted to \$22,000 for donated accounting services.

In-Kind Contributions

In addition to receiving cash contributions, the Foundation receives in-kind contributions from various donors. It is the policy of the Foundation to record the estimated fair market value of certain in-kind donations as an expense in its financial statements, and similarly increase donations by an equal amount. For the year ended June 30, 2014, \$11,856 was received as in-kind contributions, and was included as part of special events, direct benefits to donors.

Tax Exempt 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 and has been classified as an organization that is not a private foundation under Section 509(a)(1). The tax exempt purpose of the Foundation and the nature in which it operates is described in the first paragraph of Note 1. The Foundation continues to operate in compliance with its tax exempt purpose.

The Foundation's annual information and income tax returns are filed annually with the federal and state governments. At June 30, 2014, the returns for tax years ending June 30, 2011 through 2014 remain open.

Deferred Revenue

Ticket revenue for future events is deferred until occurrence of the event.

Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class, which does not provide sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such prior year information should be read in conjunction with the Foundation's audited financial statements for the year ended June 30, 2013, from which the summarized information was derived.

**NAPERVILLE EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

Note 2 – Investments

The Foundation’s investments, recorded at fair value at June 30, 2014 are as follows:

Money market funds	\$ 71,701
Mutual funds - equities and bonds	<u>1,872,628</u>
	<u>\$ 1,944,329</u>

Any long-term decline in investments may have an impact on future operations.

Note 3 – Fair Value Measurements

Generally Accepted Accounting Principles define fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Foundation’s principal or most advantageous market in an orderly transaction between market participants on the measurement date. These standards also establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Valuation derived from valuation techniques, in which one or more significant inputs are unobservable.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

The fair value of the readily marketable money market and mutual funds are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs).

Assets Measured on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized below:

	<u>Fair Value Measurements at June 30, 2014</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money markets and mutual funds	\$ 1,944,329	\$ -	\$ -

**NAPERVILLE EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

Note 4 – Conditional Promises to Give

The Foundation administers the Scherer Scholarship Fund, which stipulates that selected students will be awarded four year scholarships, with subsequent annual awards conditional upon maintaining adequate academic status. For the year ended June 30, 2014, two additional students were awarded scholarships of \$3,500 each per year but the conditions for the distribution of these awards was not met as of June 30, 2014. Eight awardees met the conditions resulting in \$28,000 of expense for the current year. Over the next four years, \$59,500 is payable to the seven remaining students who have received this award, conditional upon annual academic status and the Board of Trustees’ approval.

Note 5 – Board Designated Net Assets

The Foundation has a Board of Directors’ designated endowment fund to fulfill the Foundation’s mission to acquire and distribute resources which will enhance or supplement NCUSD 203 educational programs.

This fund was established through an appropriation of the Foundation’s unrestricted net assets. Endowment funding is subject to board determination and approval. Earnings are available for use by the Foundation for current operating expenses and programs. As of June 30, 2014, the Board has not allocated the use of accumulated endowment funds.

Return Objectives and Risk Parameters

The Foundation has adopted an investment policy for endowment assets that takes into consideration the desire to grow and preserve capital as well as generate income. Under the policy, as approved by the Board on November 9, 1995, the endowment assets may be invested in long term, diversified growth/equity funds.

Changes in Board-designated endowment net assets for the fiscal year ended June 30, 2014:

Endowment net assets, beginning of year	\$ 529,638
Investment return	
Investment income	35,623
Net appreciation - realized and unrealized net of related fees of \$3,555	52,886
Endowment net assets, end of year	<u>\$ 618,147</u>

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

Investment	<u>Benchmark</u>
Money market funds (5-10% for liquidity purposes)	90 day T-bill rate
Mutual funds - equities and bonds	S & P 500 Index

**NAPERVILLE EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

Note 5 – Board Designated Net Assets (cont.)

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 income (interest and dividends).

Note 6 – Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2014 are available for the following purposes:

Naperville School District 203	
Literacy programs	\$ 328,986
Scholarships	1,082,655
Kid Booster Anonymous Fund	2,193
Study Skills	4,677
Other various programs	22,510
Total Naperville School District 203	<u>1,441,021</u>
Special Olympics	8,179
Other Literacy Programs	12,062
	<u><u>\$ 1,461,262</u></u>

Note 7 – Related Party Transactions

The Foundation is organized for the benefit of NCUSD 203. During the year ended June 30, 2014, the Foundation distributed \$291,649 to NCUSD 203 consisting of grant awards and reimbursement for district employee services, of which \$51,617 is included in accounts payable. Also, \$12,495 is included in accounts receivable for overpayments to NCUSD 203. Additionally, the donated services of \$22,000 were provided by a firm represented on the board of trustees.

At June 30, 2014, \$1,441,021 of the Foundation's net assets consist of contributions that are donor restricted to specific NCUSD 203 projects, programs and scholarships.

Note 8 – Subsequent Event

For the fiscal year ended June 30, 2014, the Foundation has evaluated subsequent events through October 24, 2014, which is the date the financial statements were available to be issued. No subsequent events have been identified that are required to be disclosed at that date.