

**NAPERVILLE EDUCATION
FOUNDATION**

FINANCIAL STATEMENTS

For the Year Ended June 30, 2013

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, 2013, 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 2012 financial statements, and, in our report dated September 28, 2012 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, 2013, 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 & Ahern, Ltd

October 4, 2013
Chicago, IL

**NAPERVILLE EDUCATION FOUNDATION
STATEMENT OF FINANCIAL POSITION
As of June 30, 2013 (with comparative totals for 2012)**

	<u>2013</u>	<u>2012</u>
<u>Assets</u>		
Cash	\$ 257,469	\$ 329,222
Investments (Note 2)	1,692,844	1,514,728
Contribution receivable	-	18,000
Accounts receivable - NCUSD 203	28,122	12,904
Prepays	-	2,939
Total Assets	<u><u>\$ 1,978,435</u></u>	<u><u>\$ 1,877,793</u></u>
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Accounts payable	\$ 21,414	\$ 32,331
Deferred revenue	10,798	5,750
Total current liabilities	<u>32,212</u>	<u>38,081</u>
Net Assets		
Unrestricted		
General operating	77,438	139,103
Board designated - Endowment fund	529,638	451,653
Total unrestricted net assets	<u>607,076</u>	<u>590,756</u>
Temporarily restricted	<u>1,339,147</u>	<u>1,248,956</u>
Total net assets	<u>1,946,223</u>	<u>1,839,712</u>
Total Liabilities and Net Assets	<u><u>\$ 1,978,435</u></u>	<u><u>\$ 1,877,793</u></u>

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

NAPERVILLE EDUCATION FOUNDATION
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013 (with comparative totals for 2012)

	Unrestricted	Temporarily Restricted	Total 2013	Total 2012
<u>Public Support and Revenue</u>				
Contributions	\$ 101,118	\$ 96,247	\$ 197,365	\$ 258,163
Special events				
Ticket sales	68,580	-	68,580	67,715
Contributions	48,209	72,069	120,278	84,311
In-kind catering, facilities, and printing	4,552	-	4,552	9,744
Less costs of in-kind direct benefits to donors	(4,552)	-	(4,552)	(9,744)
Less costs of direct benefits to donors	(26,423)	(20,098)	(46,521)	(29,755)
Net revenues from special events	90,366	51,971	142,337	122,271
Interest and dividend income	22,543	47,601	70,144	61,330
Donated materials	5,730	-	5,730	1,795
Donated services	14,000	-	14,000	12,875
Net realized and unrealized gains (losses) on investments, net of related fees of \$2,996 and \$3,534, respectively	47,029	77,676	124,705	(108,477)
Net assets released from restrictions - satisfaction of program restrictions	183,304	(183,304)	-	-
Total Public Support and Revenue	464,090	90,191	554,281	347,957
<u>Expenses</u>				
Program Services				
Grants to NCUSD 203	191,339	-	191,339	151,807
Study Skills Academy NCUSD 203	48,043	-	48,043	41,828
Scholarships	55,892	-	55,892	41,280
Kid Boosters Program	8,833	-	8,833	21,081
Other program expenses	36,039	-	36,039	18,776
Total program services	340,146	-	340,146	274,772
Management and general	61,074	-	61,074	50,260
Fundraising expense	46,550	-	46,550	38,288
Total Expenses	447,770	-	447,770	363,320
Change in Net Assets	16,320	90,191	106,511	(15,363)
Net assets, beginning of year	590,756	1,248,956	1,839,712	1,855,075
Net assets, end of year	\$ 607,076	\$ 1,339,147	\$ 1,946,223	\$ 1,839,712

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

NAPERVILLE EDUCATION FOUNDATION
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2013 (with comparative totals for 2012)

	<u>2013</u>	<u>2012</u>
<u>Cash Flows from Operating Activities</u>		
Cash received - contributions	\$ 215,365	\$ 248,942
Cash received - special events	147,385	123,296
Cash received - investment income	70,144	61,330
Cash received - computer sales, net	-	10,000
Payments for investment fees	(10,022)	(11,000)
Payments for operating activities	<u>(451,236)</u>	<u>(321,986)</u>
Net cash provided (used) by operating activities	<u>(28,364)</u>	<u>110,582</u>
<u>Cash Flows from Investing Activities</u>		
Proceeds from sale of investments	85,611	70,952
Purchase of investments	<u>(129,000)</u>	<u>(163,862)</u>
Net cash used by investing activities	<u>(43,389)</u>	<u>(92,910)</u>
Net increase (decrease) in cash	(71,753)	17,672
Cash, beginning of year	<u>329,222</u>	<u>311,550</u>
Cash, end of year	<u><u>\$ 257,469</u></u>	<u><u>\$ 329,222</u></u>
<u>Reconciliation of Change in Net Assets to Net Cash (Used) Provided by Operating Activities</u>		
Change in net assets	\$ 106,511	\$ (15,363)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Net realized and unrealized (gains) losses on investments	(134,727)	97,477
Decrease (increase) in		
Contribution receivable	18,000	(9,221)
Accounts receivable	(15,218)	(4,979)
Inventory	-	10,000
Prepays	2,939	(639)
Increase (decrease) in		
Accounts payable	(10,917)	32,282
Deferred revenue	5,048	1,025
Net cash provided (used) by operating activities	<u><u>\$ (28,364)</u></u>	<u><u>\$ 110,582</u></u>

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

**NAPERVILLE EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

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, 2013 the Foundation's cash accounts did not exceed federally insured limits. 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.

Contributions Receivable

Contributions receivable are recorded in the year the contribution is unconditionally promised. No allowance is deemed necessary as of June 30, 2013.

NAPERVILLE EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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

Accounts Receivable – School District 203

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

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, 2013, this amounted to \$14,000 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, 2013, \$10,282 was received as in-kind contributions, of which \$4,552 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 filed with the federal and state governments are subject to examination for the statutory period. Generally, the Internal Revenue Service can audit returns filed within the last three years. If a substantial error is identified, the audit could be expanded to include up to six of the preceding years.

Deferred Revenue

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

NAPERVILLE EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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

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, 2012, from which the summarized information was derived.

Note 2 – Investments

The Foundation's investments, recorded at fair value at June 30, 2013 are as follows:

Money market funds	\$ 77,354
Mutual funds	<u>1,615,490</u>
	<u>\$ 1,692,844</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).

**NAPERVILLE EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

Note 3 – Fair Value Measurements (cont.)

Assets Measured on a Recurring Basis

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

	Fair Value Measurements at June 30, 2013		
	Level 1	Level 2	Level 3
Money markets and mutual funds	\$ 1,692,844	\$ -	\$ -

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, 2013, 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, 2013. Eight awardees met the conditions resulting in \$31,372 of expense for the current year. Over the next four years, \$66,500 is payable to the eight 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 consists of 20% of all unrestricted net funds received as well as 100% of Board endowment-specific campaign funds. Earnings are available for use by the Foundation for current operating expenses and programs. As of June 30, 2013, 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.

**NAPERVILLE EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

Note 5 – Board Designated Net Assets (cont.)

Changes in Board-designated endowment net assets for the fiscal year ended June 30, 2013:

Endowment net assets, beginning of year	\$ 451,653
Investment return	
Additions	8,650
Investment income	22,306
Net appreciation - realized and unrealized net of related fees of \$2,996	47,029
Endowment net assets, end of year	<u>\$ 529,638</u>

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

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

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 are available for the following purposes:

NCUSD 203	
Literacy programs	\$ 306,103
Scholarships	962,012
Special Olympics	8,355
Kid Booster Anonymous Fund	18,381
Study Skills	18,115
Other various programs	26,181
	<u>\$ 1,339,147</u>

Note 7 – Related Party Transactions

The Foundation is organized solely for the benefit of NCUSD 203. During the year ended June 30, 2013, the Foundation distributed \$307,382 to NCUSD 203 consisting of grant awards and reimbursement for district employees services, of which \$17,000 is included in accounts payable. Also, \$28,122 is included in accounts receivable for overpayments to NCUSD 203.

**NAPERVILLE EDUCATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

Note 7 – Related Party Transactions

At June 30, 2013, \$1,339,147 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, 2013, the Foundation has evaluated subsequent events through October 4, 2013, 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.