

HFS CHICAGO SCHOLARS  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
HFS Chicago Scholars  
Chicago, Illinois

We have audited the accompanying financial statements of HFS Chicago Scholars (a nonprofit organization), which comprise the statements of financial position as of June 30, 2019, and the related statements of activities, functional expenses 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.

### **Auditors' 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 misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 HFS Chicago Scholars 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.

*De Raimo Abendroth & Associates*

December 17, 2019

HFS CHICAGO SCHOLARS  
STATEMENT OF FINANCIAL POSITION  
As of June 30, 2019

	2019
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 542,550
Certificates of deposit	500,000
Investments - short term	281,306
Contributions and interest receivable	20,726
Prepaid/deposits	2,840
<b>TOTAL CURRENT ASSETS</b>	<b>1,347,422</b>
<b>OTHER ASSETS</b>	
Endowment fund	371,958
<b>TOTAL OTHER ASSETS</b>	<b>371,958</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,719,380</b>
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 8,578
Deferred revenue	20,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>28,578</b>
<b>TOTAL LIABILITIES</b>	<b>28,578</b>
<b>NET ASSETS</b>	
Without donor restrictions	1,318,844
With donor restrictions	371,958
<b>TOTAL NET ASSETS</b>	<b>1,690,802</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,719,380</b>

See Independent Auditor's Report.  
The accompanying notes are an integral part of these financial statements.

HFS CHICAGO SCHOLARS  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE</b>			
Contributions	\$ 210,093	\$ 361,396	\$ 571,489
In kind contributions	4,800	-	4,800
Special events:			
Gross proceeds	818,295	-	818,295
Less direct expenses	(144,892)	-	(144,892)
Special events, net	673,403	-	673,403
Investment Income	33,001	10,562	43,563
<b>TOTAL SUPPORT AND REVENUE</b>	<b>\$ 921,297</b>	<b>\$ 371,958</b>	<b>\$ 1,293,255</b>
 <b>EXPENSES</b>			
Program	\$ 721,827	\$ -	\$ 721,827
Management and general	51,668	-	51,668
Fundraising	109,903	-	109,903
<b>TOTAL EXPENSES</b>	<b>\$ 883,398</b>	<b>\$ -</b>	<b>\$ 883,398</b>
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>	37,899	371,958	409,857
<b>NET ASSETS, BEGINNING OF YEAR</b>	1,280,945	-	1,280,945
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 1,318,844</b>	<b>\$ 371,958</b>	<b>\$ 1,690,802</b>

See Independent Auditor's Report.  
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HFS CHICAGO SCHOLARS  
STATEMENT OF FUNCTIONAL EXPENSES  
For the Year Ended June 30, 2019

EXPENSES	2019			
	Program Services	Management and General	Fundraising	Total
Audit fees	\$ -	\$ 2,050	\$ -	\$ 2,050
Background checks	1,821	-	-	1,821
Banking	-	7,398	-	7,398
Consulting fees	-	37,500	-	37,500
CRM system	-	-	6,047	6,047
Grant writing	-	-	300	300
Filing fees	-	25	-	25
High school scholarships	413,965	-	-	413,965
College scholarships	500	-	-	500
Insurance	-	2,489	-	2,489
Meals and entertainment	1,926	281	4,319	6,526
Mentor Events	1,337	-	-	1,337
Operating salaries	250,515	-	91,996	342,511
Parking and cabs	634	474	401	1,509
Postage	618	120	-	738
Printing and publications	2,705	35	6,782	9,522
Rent	5,800	-	-	5,800
Scholar events	27,249	-	-	27,249
Supplies	6,464	450	58	6,972
Telephone and internet	8,293	846	-	9,139
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 721,827</b>	<b>\$ 51,668</b>	<b>\$ 109,903</b>	<b>\$ 883,398</b>

The accompanying notes are an integral part of these financial statements.  
See Independent Auditor's Report.

HFS CHICAGO SCHOLARS  
STATEMENT OF CASH FLOWS  
For the Year June 30, 2019

	2019
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 409,857
Adjustments to reconcile change in net assets to cash provided by operating activities:	
Net investment gains	(16,868)
Contributions for permanent endowment funds	(361,396)
Decrease in accounts payable	(3,670)
Decrease in deferred revenue	(22,105)
Increase in accounts receivable	(11,508)
Decrease in prepaids	2,640
	(3,050)
NET CASH USED BY OPERATING ACTIVITIES	(3,050)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(636,396)
Purchase of certificates of deposit	(600,000)
Redemption of certificates of deposit	1,200,000
	(36,396)
NET CASH USED BY INVESTING ACTIVITIES	(36,396)
CASH FLOWS FROM FINANCING ACTIVITIES	
Contributions for permanent endowment fund	361,396
	361,396
NET CASH PROVIDED BY FINANCING ACTIVITIES	361,396
NET INCREASE IN CASH AND CASH EQUIVALENTS	321,950
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	220,600
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	\$ 542,550

See Independent Auditor's Report.  
The accompanying notes are an integral part of these financial statements.



HFS CHICAGO SCHOLARS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019

1. ORGANIZATION:

Established in 1993, HFS Chicago Scholars (HFS) is a nonprofit organization committed to providing financial assistance, educational enrichment and mentoring to economically disadvantaged inner-city high school students, who show academic and leadership promise, to help them achieve their educational goals. We work directly with Chicago high school students from Chicago's most blighted neighborhoods. HFS's overarching goal is to turn students into successful scholars and provide them with the long-term life skills needed to effectively compete in the new global economy and confidently contribute and give back to their communities. HFS believes that given active support and educational opportunities, socio-economically disadvantaged inner-city youth can use the power of their intellect and imagination, coupled with hard work, to reach their potential.

HFS focuses on low-income youth in grades 8-12 from public schools throughout the City of Chicago because they are at the greatest disadvantage of full participation in our global economy. All of our student scholars are low-income and our ethnic makeup is 56 percent Latino, 36 percent African American, and eight percent Asian and other. Although the selection process is very competitive and meeting the requirements to receive an HFS scholarship are difficult, the success of our approach has created a demand for our program. This year we received over 300 applications for 50 scholarships.

HFS exists to prepare our scholars for long-term success. The primary objective of the HFS program is to provide approximately 200 scholars, including 50 new scholars during the 2019/2020 school year, with financial assistance and the mentoring needed to be accepted into college and achieve long-term success. At HFS, we walk hand-in-hand with our students to produce drastically different results. We have retained over 95 percent of the scholars that join the program at the end of their 8<sup>th</sup> grade year. Over 90 percent make the honor roll at top private high schools in the city each year. Our students respond to the opportunity by working hard to achieve success and unlock their long-term potential as evidenced by our scholars:

- Becoming school leaders, class officers, team captains and club presidents;
- Giving over 7,000 hours to community service annually; and
- Achieving combined grade point averages of 3.50/4.00.

Since our inception, 100 percent of our graduates have been accepted to colleges and universities. During fiscal year 2019, HFS provided partial high school scholarships to 175 students.

HFS CHICAGO SCHOLARS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation

The accompanying financial statements have been prepared under the accrual basis of accounting in accordance with generally accepted accounting principles. Financial statement presentation follows the Financial Accounting Standards Board Statement (FASB) Accounting Standards Codification (ASC) No. 958 "Not-for-Profit Entities". Under ASC 958, HFS is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions:

*Net Assets Without Donor Restrictions* – Net assets available for general use and not subject to donor restrictions. HFS' policy is to designate donor gifts without restriction at the discretion of the board of directors. At June 30, 2019 HFS had no designated assets without donor restrictions.

*Net Assets With Donor Restrictions* – Net assets that are contributions subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met, either by actions of HFS and/or the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. As of June 30, 2019, HFS had net assets with donor restrictions totaling \$371,958 which are perpetual in nature.

Endowment Fund

HFS' endowments consist of various money market and mutual funds established for purpose of providing scholarships. As of June 30, 2019, its endowments include only donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor imposed restrictions. HFS manages its assets under the direction of the Investment Committee.

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic "Endowments for Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds (FASB ASC 958)," provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006, (UPMIFA). The FASB ASC 958 also improves disclosures about an organization's endowment funds (both donor restricted endowment funds and board designated endowments funds) whether or not the organization is subject to UPMIFA.

HFS CHICAGO SCHOLARS  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Endowment Fund (Continued)

In accordance with UPMIFA, HFS considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of HFS and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of HFS
- The investment policies of HFS

At June 30, 2019, HFS had endowment funds of \$371,958.

Unless otherwise required by a donor, the Board of Directors has the ability to distribute so much of the corpus of any trust or separate gift, devise, bequest, or fund as the board in its sole discretion shall determine. As a result of the ability to distribute corpus, all contributions not classified as net assets with donor restrictions are classified as net assets without donor restrictions for financial statement purposes.

HFS has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. HFS' spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes.

To satisfy its long-term rate-of-return objectives, HFS relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). HFS targets a diversified asset allocation to achieve its long-term objectives within prudent risk parameters.

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Endowment net assets, beginning</b>	\$ -	\$ -	\$ -
Investment return/income:	-	2,621	2,621
Net realized/unrealized depreciation	-	7,941	7,941
Contributions	-	361,396	361,396
<b>Endowment net assets, ending</b>	<u>\$ -</u>	<u>\$ 371,958</u>	<u>\$ 371,958</u>

HFS CHICAGO SCHOLARS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Contributions

HFS accounts for contributions in accordance with FASB's ASC 958-605 "Not-for-Profit Entities-Revenue Recognition". Under ASC 958-605, contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions support depending on the existence or nature of any donor restrictions. Once the related donor restriction is met, such assets are transferred to net assets without donor restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized.

Donated Facilities

The estimated value of the donated facility is included as revenues in the financial statements and the corresponding program expenses for year ended June 30, 2019. The donated facility has an estimated value of \$4,800, for the year ended June 30, 2019.

Cash and Cash Equivalents

HFS considers all highly liquid investments, with an original maturity of three months or less to be cash and cash equivalents. Credit risk for cash is limited in that HFS places its cash and cash equivalents with creditworthy, high-quality, financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. HFS performs an ongoing evaluation of the commercial banks to limit its concentration of credit risk exposure.

Concentrations

From time to time HFS may have amounts on deposit in excess the Federal Deposit Insurance (FDIC) limits. Management believes HFS is not exposed to any significant credit risk on cash and cash equivalents. As of June 30, 2019, HFS had \$0 in excess of the FDIC limits.

Donated Services

No amounts have been reflected in the financial statements for donated services as HFS pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks. Such volunteer time is not reflected in the accompanying financial statements.

HFS CHICAGO SCHOLARS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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. Accordingly, certain costs have been allocated among program, management and fund-raising expense based on the type of cost and approximate use.

The financial statements report expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses are allocated on the basis of estimates of time and effort.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurement

HFS' financial instruments consist primarily of cash, investments, accounts receivable, accounts payable, and deferred revenue. The carrying amounts of cash, investments, accounts receivable, accounts payable and deferred revenue approximate their fair value due to the short-term nature of such instruments.

Certificates of Deposit

HFS considers all certificates of deposit with an original or remaining maturity of less than twelve months to be short term investments. The certificates of deposit are carried at cost on the statement of financial position.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values on the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in net assets without donor restrictions if the restrictions are met (either by passage of time or by use) in the reported period in which the income and gains are recognized.

HFS CHICAGO SCHOLARS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Risks and Uncertainties

HFS invests in various mutual funds and fixed income investments. Investments, in general, are exposed to various risks, such as interest rates, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the value of certain investments will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Accounts Receivable

Accounts receivable are stated in the amount management expects to collect from outstanding balances. Management believes all outstanding accounts receivable are fully collectible; therefore, there is no allowance for uncollectible accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Bad debt expense for the year ended June 30, 2019 was \$0. At June 30, 2019, total accounts receivable was \$12,500, of which \$10,000 was due from a related party.

3. INCOME TAXES:

HFS has been granted tax exempt status as a public charity under Section 501(c)(3) of the Internal Revenue Code. HFS believes that it is designed and operated in a manner that qualifies it for tax exempt status. Accordingly, no taxes have been provided for in the accompanying financial statements. Management does not believe its financial statements include uncertain tax positions. Tax returns filed during the past three years (2016, 2017, and 2018) are subject to examination by taxing authorities. There are no examinations being currently conducted.

4. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>2019</u>
Cash and cash equivalents	\$ 542,550
Certificates of deposit	500,000
Contributions and interest receivable	<u>20,726</u>
	<u>\$ 1,063,276</u>

As part of HFS' liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

HFS CHICAGO SCHOLARS  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2019

5. INVESTMENTS

HFS had the following investments as of June 30, 2019:

Description	Market Value	Cost	Unrealized Gain(Loss)
Money market funds	\$ 2,185	\$ 2,185	\$ -
Mutual funds	651,079	637,930	13,149
	\$ 653,264	\$ 640,115	\$ 13,149

Investment income during the year ended June 30, 2019 consisted of interest and dividend income of \$28,125 and unrealized gains of \$15,438.

6. FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, "Fair Value Measurements," established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels for the fair value hierarchy under ASC 820 are described below:

- **Level 1** – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- **Level 2** – Inputs to the valuation methodology includes quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability either directly or indirectly, for substantially the full term of the financial instrument.
- **Level 3** – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

At June 30, 2019, all of HFS' investments are actively traded and, as such, are considered Level 1. These investments are summarized below:

Market Value Level 1	2019
Money market funds	\$ 2,185
Mutual funds	651,079
	\$ 653,264

HFS CHICAGO SCHOLARS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019

6. FAIR VALUE MEASUREMENTS (CONTINUED)

Investments securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Accordingly, it is reasonably possible that changes in the value of investments will occur in the near term and that such changes could be material in amount in relation to the carrying value of investments.

7. SUBSEQUENT EVENTS:

HFS Chicago Scholars has evaluated subsequent events for potential recognition and/or disclosure through December 17, 2019, the date the financial statements were available to be issued.

8. SPECIAL EVENTS:

HFS held several special events during the year ended June 30, 2019. The gross proceeds, expenses and net income were as follows:

	<u>2019</u>
Event Income	\$ 818,295
Event Expense	<u>(144,892)</u>
Net Special Event Income	<u>\$ 673,403</u>

9. COMPENSATED ABSENCES:

Employees of HFS are entitled to paid other time off depending on job classifications, length of services and other factors. It is impracticable to estimate the amount of compensation for future absences and, accordingly, no liability has been recorded in the accompanying financial statements. HFS' policy is to recognize the costs of compensated absences when paid to employees.

10. ADOPTION OF NEW ACCOUNTING STANDARD

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. HFS has adjusted the presentation of its financial statements accordingly. The new standards change the following aspects of HFS' financial statements:

- The unrestricted net asset class has been renamed *net assets without donor restrictions*.
- The permanently restricted net asset class has been renamed *net assets with donor restrictions*.
- The financial statements include a new disclosure about the liquidity and availability of resources (Note 4).