

**INNER-CITY COMPUTER
STARS FOUNDATION AND
SUBSIDIARY
(I.C. STARS)**

**Report on Audited Consolidated Financial
Statements**

August 31, 2016

**MANNING SILVERMAN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
(847) 459-8850**

**INNER-CITY COMPUTER STARS FOUNDATION
(I.C. STARS)
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AUGUST 31, 2016**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Inner-City Computer Stars Foundation (I.C. Stars)
Chicago, Illinois

We have audited the accompanying consolidated financial statements of Inner-City Computer Stars Foundation (I.C. Stars) and Subsidiary, which are comprised of the consolidated statements of financial position as of August 31, 2016 and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended and the related notes to the consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. These 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 Foundation'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 Foundation'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.

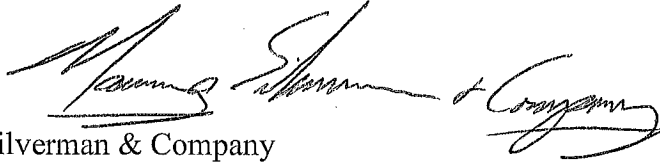
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Inner-City Computer Stars Foundation (I.C. Stars) and Subsidiary as of August 31, 2016 and the results of its activities and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script, appearing to read "Manning Silverman & Company".

Manning Silverman & Company
Lincolnshire, Illinois

May 30, 2017

**INNER-CITY COMPUTER STARS FOUNDATION
(I.C. STARS)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2016**

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 435,721
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$5,000	214,691
Other Current Assets	<u>2,277</u>
Total Current Assets	<u>652,689</u>
Fixed Assets:	
Equipment	55,962
Accumulated Depreciation	<u>(51,603)</u>
Total Fixed Assets	<u>4,359</u>
Other Assets:	
Certificate of Deposit	50,000
Note Receivable	38,336
Security Deposit	<u>26,354</u>
Total Other Assets	<u>114,690</u>
Total Assets	<u>\$ 771,738</u>

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts Payable and Accrued Expenses	\$ 56,314
Deposits	15,000
Fiscal Agent Obligations	<u>27,930</u>
Total Current Liabilities	<u>99,244</u>
Net Assets:	
Unrestricted	537,494
Temporarily Restricted	<u>135,000</u>
Total Net Assets	<u>672,494</u>
Total Liabilities and Net Assets	<u>\$ 771,738</u>

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

**INNER-CITY COMPUTER STARS FOUNDATION
(I.C. STARS)
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED AUGUST 31, 2016**

	Unrestricted	Temporarily Restricted	Total
Revenues:			
Events, Net of Direct Expenses of \$156,067	\$ 456,312	\$ -	\$ 456,312
Contributions	742,746	135,000	877,746
Fees for Services	226,911	-	226,911
Interest Income	603	-	603
Gain on Sale of Assets	38,336	-	38,336
	<u>1,464,908</u>	<u>135,000</u>	<u>1,599,908</u>
Expenses:			
Program	1,255,520	-	1,255,520
General and Administration	227,138	-	227,138
Fundraising	126,938	-	126,938
	<u>1,609,596</u>	<u>-</u>	<u>1,609,596</u>
Changes in Net Assets	(144,688)	135,000	(9,688)
Net Assets, Beginning of Year	<u>682,182</u>	<u>-</u>	<u>682,182</u>
Net Assets, End of Year	<u>\$ 537,494</u>	<u>\$ 135,000</u>	<u>\$ 672,494</u>

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

**INNER-CITY COMPUTER STARS FOUNDATION
(I.C. STARS)
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED AUGUST 31, 2016**

	<u>Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Compensation	\$ 582,369	\$ 155,801	\$ 81,446	\$ 819,616
Benefits	33,279	14,862	11,171	59,312
Payroll Taxes	64,802	15,539	8,123	88,464
Total Compensation Costs	680,450	186,202	100,740	967,392
Program Stipends	141,905	-	-	141,905
Occupancy	117,874	3,352	6,704	127,930
Contracted Services	99,101	10,090	9,220	118,411
Marketing	54,643	4,414	100	59,157
Information Technology	49,517	4,364	665	54,546
Service Charges	35,458	410	5,082	40,950
Conferences and Meetings	24,076	19	956	25,051
Supplies	19,299	2,473	971	22,743
Travel	16,887	197	-	17,084
Telephone	8,343	5,205	1,386	14,934
Insurance	4,313	193	385	4,891
Dues and Subscriptions	2,092	80	111	2,283
Postage and Delivery	1,097	-	333	1,430
Miscellaneous	465	7,894	285	8,644
Depreciation	-	2,245	-	2,245
Total Expenses	\$ 1,255,520	\$ 227,138	\$ 126,938	\$ 1,609,596

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

**INNER-CITY COMPUTER STARS FOUNDATION
(I.C. STARS)
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED AUGUST 31, 2016**

Cash Flows from Operating Activities:	
Change in Net Assets	\$ (9,688)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:	
Depreciation	2,245
Gain on Sale of Assets	(38,336)
Changes in Assets:	
Accounts Receivable	35,414
Investments	(50,000)
Other Current Assets	2,339
Security Deposit	(3,910)
Changes in Liabilities:	
Accounts Payable and Accrued Expenses	(16,213)
Deferred Revenue	(123,291)
Fiscal Agent Obligations	<u>(55,530)</u>
Cash (Used in) Operating Activities and Net (Decrease) in Cash and Cash Equivalents	(256,970)
Cash and Cash Equivalents, Beginning of Year	<u>692,691</u>
Cash and Cash Equivalents, End of Year	<u>\$ 435,721</u>

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

**INNER-CITY COMPUTER STARS FOUNDATION
(I.C. STARS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2016**

1. Organization, Nature of Activities and Principles of Consolidation

Inner-City Computer Stars Foundation, dba i.c.stars (Foundation) was launched in 1999 as an innovative training laboratory to prepare inner-city young adults for high-status Information Technology careers. Through donations from various companies that operate in the Chicagoland area, the Foundation offers intensive computer courses to help train future professionals.

The core mission of the Foundation is to break the generational cycle of poverty that limits the ability of young people to participate in the economic growth of the Illinois community. By bringing the needs of industry to bright, capable inner city residents, i.c.stars hopes to add value to the lives of young adults as well as its industry partners.

On September 2, 2015, the Foundation created a wholly-owned subsidiary limited liability company, I. C. Stars Staffing, LLC, (Staffing) to conduct various operations and programs. The operations, assets and liabilities of this entity are consolidated with those of the Foundation in these financial statements. All significant intercompany transactions and balances have been eliminated in consolidation.

2. Significant Accounting Policies

Basis of Accounting

The accounts of the Foundation and Staffing are maintained on the accrual basis.

Information regarding the financial position and activities of the Foundation are reported in three classes of net assets (as applicable): unrestricted, temporarily restricted and permanently restricted, the latter two of which are based on the existence or absence of externally (donor) imposed restrictions on contributions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

- Unrestricted Net Assets – Unrestricted net assets are not subject to donor-imposed stipulations. They include all activities of the Foundation, except for those that are temporarily or permanently restricted by donors. Board designated amounts are part of unrestricted net assets.
- Temporarily Restricted Net Assets – Temporarily restricted net assets are subject to donor-imposed stipulations that can be removed through the passage of time (time restrictions) or actions of the Foundation (purpose restrictions).

**INNER-CITY COMPUTER STARS FOUNDATION
(I.C. STARS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AUGUST 31, 2016**

- Permanently Restricted Net Assets – Permanently restricted net assets are subject to the restrictions imposed by donors who require that the principal of this class of net assets be retained in perpetuity as an endowment with only the income to be reclassified to unrestricted net assets.

There are no permanently restricted net assets at August 31, 2016.

Cash and Cash Equivalents

Management considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents, excluding those amounts contained in the investment portfolios.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are stated net of an allowance for doubtful accounts. Management estimates the allowance based on its historical experience of the relationship between actual bad debts and net amounts collected.

Property and Equipment

Property and equipment is recorded at historical cost. The Foundation capitalizes fixed asset additions over \$1,000. Depreciation is computed using the straight-line method for all property and equipment. The estimated useful lives in computing depreciation are as follows:

<u>Description</u>	<u>Years</u>
Computer Equipment	3 - 5
Furniture and Office Equipment	5 - 7

Maintenance and repairs, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. Gains or losses on dispositions of property and equipment are included in the statements of activities and changes in net assets.

INNER-CITY COMPUTER STARS FOUNDATION
(I.C. STARS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AUGUST 31, 2016

Contributions, Grants and Contracts

Contracts and grants are recognized as revenue in the periods to which the contracts or grants are applicable, at the face amounts stated therein. All revenues from contracts or grants are considered to be available for unrestricted use unless specifically restricted as to time or purpose by the respective grantors or contracting agencies. Contract and grant revenues for which time or purpose restrictions expire in the period received are considered unrestricted revenues.

A restriction expires when a stipulated time restriction ends, when an unconditional promise with an implied time restriction is collected or when a purpose restriction is accomplished. Upon expiration, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statements of activities and changes in net assets as net assets released from restrictions.

Donations are recognized as revenue upon receipt of donors' commitments. Unconditional promises to give, which do not state a due date or use restriction, are presumed to be unrestricted net assets.

In-Kind Donations

The Foundation receives many in-kind donations towards its mission, including computer hardware and software, from various companies. The estimated values for these donations are reported as both contribution revenue and information technology expense in the financial statements.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Expenses that are easily and directly associated with a particular program or supporting service are allocated directly to that functional category. Certain costs have been allocated among the programs and supporting services benefited based on time devoted to the functional areas and other appropriate methods.

Use of Estimates

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

INNER-CITY COMPUTER STARS FOUNDATION
(I.C. STARS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AUGUST 31, 2016

Fair Value Measurements

Accounting standards generally accepted in the United States of America establish a framework for measuring fair value. That framework provides 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 of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that management has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Income Taxes

The Foundation is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and is not considered to be a private foundation. Staffing is a single member limited liability company and accordingly is deemed to be a disregarded entity, with its operations included in the tax filings of the Foundation. Any income generated by Staffing is not considered subject to unrelated business income tax as its activities further the tax-exempt purpose of the Foundation.

INNER-CITY COMPUTER STARS FOUNDATION
(I.C. STARS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AUGUST 31, 2016

The Foundation is also required to recognize or derecognize in its consolidated financial statements positions taken or expected to be taken in a tax return on a “more likely than not” threshold. The Foundation does not believe its consolidated financial statements include any uncertain tax positions. The Foundation’s income tax filings for the years 2012 and thereafter remain subject to examination by the Internal Revenue Service.

3. Note Receivable and Certificate of Deposit Pledged as Collateral

On September 1, 2015, certain owned and licensed assets and related operations were transferred to a separate, for-profit limited liability company, Source Digital Marketing, LLC (SDM) for total consideration of \$96,000. Payment of this amount is due no later than December 31, 2022; any interim payments are, however, contingent on the profitability of SDM in each of its fiscal years ending on or before that date. No interest is due on any unpaid balance and it may be prepaid at any time.

Because of the long period during which collection of the sales price may be made and the highly contingent nature surrounding the receipt of such payments, management has calculated a valuation allowance in the amount of \$28,800. The revalued balance has been further discounted, at 8%, to account for interest implicit in the face amount of the principal. This additional reduction of the carrying amount of then note was \$28,864, resulting in an adjusted balance of \$38,336, as reflected in the statement of financial position at August 31, 2016.

Pursuant to the agreement with SDM, on November 5, 2015, the Foundation provided a letter of credit in the amount of \$50,000 to SDM’s bank as collateral for its working capital loan to SDM.

Both the note receivable and the letter of credit are considered Level 3 assets under the Fair Value Hierarchy described above.

4. Contingencies Due to Concentrations of Credit Risk and Revenues

Certain financial instruments potentially subject the Foundation to concentrations of credit risk. These financial instruments consist primarily of cash and cash equivalents and receivables. The Foundation maintains its cash in various bank deposit accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts.

During the year ended August 31, 2016, a significant amount of contributed revenue was provided by a small number of grantors. A substantial reduction in the level of this support, if it were to occur, could have a significant effect on the Foundation’s programs and activities.

INNER-CITY COMPUTER STARS FOUNDATION
(I.C. STARS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AUGUST 31, 2016

A combined and concentrated credit risk exists with respect to the note receivable and certificate of deposit pledged as collateral, which are both described in Note 3, above.

5. Temporarily Restricted Net Assets

Temporarily restricted net assets contain donor-imposed restrictions which expire upon the passage of time or once specific purposes have been fulfilled. At August 31, 2016, temporarily restricted net assets were available for the following purposes:

Expansion	\$	80,000
Operating Funds for Fiscal Year 2017		20,000
Workforce Training and Placement		<u>35,000</u>
	\$	<u>135,000</u>

6. Contributions

Contributions have been received from the following sources:

Corporations	\$	373,071
Foundations		454,281
Individuals		<u>50,394</u>
Total	\$	<u>877,746</u>

7. Events

The Foundation hosts many events throughout the year that are designed to bring together top information technology executives and future industry leaders. These events provide unparalleled opportunities for the Foundation's interns to network and learn from industry leaders.

Events Revenue	\$	612,379
Events Direct Expenses		<u>(156,067)</u>
Events Profit	\$	<u>456,312</u>

8. Lease of Real Estate

The Foundation currently leases its office facility through July 31, 2023. The lease calls for monthly base rental payments (that increase annually) plus the Foundation's proportionate share of the increase in the building's operating expenses and real estate taxes. The total rent expense for the year ended August 31, 2016 was \$124,913.

INNER-CITY COMPUTER STARS FOUNDATION
(I.C. STARS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AUGUST 31, 2016

In addition, the Foundation has alternate options to (1) terminate the lease on August 1, 2019 upon payment of certain penalties or (2) extend the lease for an additional term of five years from the originally scheduled termination date.

Annual future minimum rent payments for the years ending August 31 are as follows:

2017	\$	110,905
2018		124,807
2019		139,475
2020		142,284
2021		145,352
Thereafter		<u>288,048</u>
Total	\$	<u>950,871</u>

9. Employment Matters

The Foundation has no employees as that term is regularly understood. Those individuals providing employee services to the Foundation are retained through a contractual relationship with a Professional Employer Organization (PEO). Amounts including salaries, payroll taxes, employee benefits and related costs are reported as compensation costs.

Those PEO employees (of the Foundation) are entitled to paid vacation, sick days, and personal days off, depending on job classification, length of service, and other factors. Additionally, the PEO provides health insurance and a retirement plan, the costs of which are borne by the Foundation.

10. Advertising Costs

Advertising costs, used by the Foundation to promote its programs among the audiences it serves, are expensed as incurred. Advertising expenses for the year ended August 31, 2016 was \$48,833.

11. Subsequent Events

Subsequent events have been evaluated through May 30, 2017, which is the date the financial statements were available to be issued; there are no other subsequent events requiring recognition and/or disclosure in the financial statements.