

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

**Report on Audited Consolidated Financial
Statements**

August 31, 2017 and 2016

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

**INNER-CITY COMPUTER STARS FOUNDATION AND SUBSIDIARY
(I.C. STARS)
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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, 2017 and 2016, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years 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

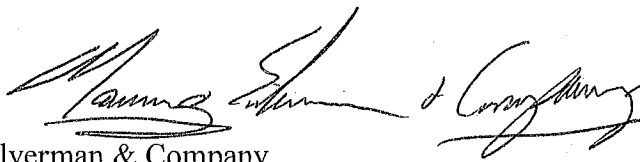
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audits to obtain reasonable 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.

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, 2017 and 2016, and the results of its activities and cash flows for the years 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", is written over a horizontal line.

Manning Silverman & Company
Certified Public Accountants
Lincolnshire, Illinois

May 14, 2018

**INNER-CITY COMPUTER STARS FOUNDATION AND SUBSIDIARY
(I.C. STARS)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2017 AND 2016**

	ASSETS	
	2017	2016
Current Assets:		
Cash and Cash Equivalents	\$ 197,353	\$ 435,721
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$7,000 and \$5,000, respectively	386,756	214,691
Other Current Assets	17,849	2,277
Total Current Assets	601,958	652,689
Fixed Assets:		
Equipment	55,962	55,962
Website	36,000	-
Accumulated Depreciation and Amortization	(58,020)	(51,603)
Total Fixed Assets	33,942	4,359
Other Assets:		
Certificate of Deposit	50,201	50,000
Note Receivable	41,518	38,336
Security Deposits	22,443	26,354
Total Other Assets	114,162	114,690
Total Assets	\$ 750,062	\$ 771,738
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 78,426	\$ 56,314
Deposits	-	15,000
Fiscal Agent Obligations	1,375	27,930
Total Current Liabilities	79,801	99,244
Net Assets:		
Unrestricted	447,761	537,494
Temporarily Restricted	222,500	135,000
Total Net Assets	670,261	672,494
Total Liabilities and Net Assets	\$ 750,062	\$ 771,738

See Independent Auditor's Report.

The accompanying notes are an integral part of these financial statements.

**INNER-CITY COMPUTER STARS FOUNDATION AND SUBSIDIARY
(I.C. STARS)
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED AUGUST 31, 2017 AND 2016**

	2017		2016		Total
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	
Revenues:					
Contributions	\$ 789,328	\$ 222,500	\$ 1,011,828	\$ 135,000	\$ 877,746
Events, Net of Direct Expenses of \$130,656 and \$156,067	440,410	-	440,410	-	456,312
Fees for Services	239,831	-	239,831	-	226,911
Other	30,448	-	30,448	-	-
Interest Income	3,721	-	3,721	-	603
Gain on Sale of Assets	-	-	-	-	38,336
Assets Released from Restrictions	135,000	(135,000)	-	-	-
Total Revenues	1,638,738	87,500	1,726,238	135,000	1,599,908
Expenses:					
Program	1,381,984	-	1,381,984	-	1,255,520
General and Administrative	259,099	-	259,099	-	227,138
Fundraising	87,388	-	87,388	-	126,938
Total Expenses	1,728,471	-	1,728,471	-	1,609,596
Changes in Net Assets	(89,733)	87,500	(2,233)	135,000	(9,688)
Net Assets, Beginning of Year	537,494	135,000	672,494	-	682,182
Net Assets, End of Year	\$ 447,761	\$ 222,500	\$ 670,261	\$ 135,000	\$ 672,494

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

INNER-CITY COMPUTER STARS FOUNDATION AND SUBSIDIARY

(I.C. STARS)

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED AUGUST 31, 2017 AND 2016

	2017			2016				
	Program	General and Administrative	Fundraising	Total	Program	General and Administrative	Fundraising	Total
Compensation	\$ 672,140	\$ 142,428	\$ 51,621	\$ 866,189	\$ 582,369	\$ 155,801	\$ 81,446	\$ 819,616
Benefits	72,363	16,754	11,911	101,028	33,279	14,862	11,171	59,312
Payroll Taxes	66,815	12,654	4,541	84,010	64,802	15,539	8,123	88,464
Total Compensation Costs	811,318	171,836	68,073	1,051,227	680,450	186,202	100,740	967,392
Occupancy	148,600	2,925	8,600	160,125	141,905	-	-	141,905
Program Stipends	133,728	-	-	133,728	99,101	10,090	9,220	118,411
Contracted Services	78,440	50,279	1,200	129,919	117,874	3,352	6,704	127,930
Information Technology	58,111	1,295	1,400	60,806	54,643	4,414	100	59,157
Marketing	49,447	484	1,689	51,620	49,517	4,364	665	54,546
Service Charges	24,767	9,832	2,696	37,295	35,458	410	5,082	40,950
Conferences and Meetings	21,218	1,960	1,332	24,510	24,076	19	956	25,051
Supplies	7,245	8,953	499	16,697	19,299	2,473	971	22,743
Telephone	14,200	254	800	15,254	8,343	5,205	1,386	14,934
Travel	12,237	14	40	12,291	16,887	197	4	17,088
Miscellaneous	10,395	3,548	359	14,302	1,562	7,894	614	10,070
Insurance	2,800	5,739	200	8,739	4,313	193	385	4,891
Dues and Subscriptions	4,184	1,980	500	6,664	2,092	80	111	2,283
Depreciation	5,294	-	-	5,294	-	2,245	-	2,245
Total Expenses	\$ 1,381,984	\$ 259,099	\$ 87,388	\$ 1,728,471	\$ 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 AND SUBSIDIARY
(I.C. STARS)
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ (2,233)	\$ (9,688)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	6,417	2,245
Gain on Sale of Assets	-	(38,336)
In-Kind Contribution of Website Design	(36,000)	-
Amortization of Present Value Discount	(3,182)	-
Changes in Assets:		
Accounts Receivable	(172,065)	35,414
Investments	(201)	(50,000)
Other Current Assets	(15,569)	2,339
Security Deposit	3,910	(3,910)
Changes in Liabilities:		
Accounts Payable and Accrued Expenses	22,110	(16,213)
Deferred Revenue	(15,000)	(123,291)
Fiscal Agent Obligations	<u>(26,555)</u>	<u>(55,530)</u>
Cash (Used in) Operating Activities and Net (Decrease) in Cash and Cash Equivalents	(238,368)	(256,970)
Cash and Cash Equivalents, Beginning of Year	<u>435,721</u>	<u>692,691</u>
Cash and Cash Equivalents, End of Year	<u>\$ 197,353</u>	<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 AND SUBSIDIARY
(I.C. STARS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016**

1. Organization, Nature of Activities and Principles of Consolidation

Inner-City Computer Stars Foundation, dba i.c.stars (the Foundation) was launched in the summer of 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 is able to offer 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, the Foundation 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 within i.c.stars. 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.

In March of 2018, the Foundation established I.C. Stars - Milwaukee, LLC as a single member LLC, extending its mission and programs to the city of Milwaukee, Wisconsin.

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 and Staffing 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 AND SUBSIDIARY
(I.C. STARS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AUGUST 31, 2017 AND 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, 2017 or 2016.

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
Website	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.

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.

**INNER-CITY COMPUTER STARS FOUNDATION AND SUBSIDIARY
(I.C. STARS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AUGUST 31, 2017 AND 2016**

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.

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.

**INNER-CITY COMPUTER STARS FOUNDATION AND SUBSIDIARY
(I.C. STARS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AUGUST 31, 2017 AND 2016**

In-Kind Donations

The Foundation receives many in-kind donations from various companies towards its mission, including computer hardware and software. The estimated value for these donations is reported as contribution revenue, with their respective offsetting expenses posted to website design and information technology accounts in the consolidated 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 statements of activities and change in net assets. 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.

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. It is also required to recognize or derecognize in its 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 financial statements include any uncertain tax positions. The Foundation's income tax filings for the years 2013 and thereafter remain subject to examination by the Internal Revenue Service.

Staffing is a single member limited liability company and accordingly, for income tax reporting purposes, is deemed to be a disregarded entity. Its activities are included in the tax filings of the Foundation. Any income generated by Staffing LLC is not considered subject to unrelated business income tax as its activities further the tax-exempt purpose of the Foundation.

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 periods. Actual results could differ from those estimates.

**INNER-CITY COMPUTER STARS FOUNDATION AND SUBSIDIARY
(I.C. STARS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AUGUST 31, 2017 AND 2016**

3. Concentrations of Credit Risk

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. Concentrations of credit risk with respect to receivables are generally diversified due to the large number of entities and individuals comprising the Foundation's program and donor base. The Foundation performs ongoing credit evaluations and writes off uncollectible amounts as they become known.

4. Note Receivable and Collateralized Certificate of Deposit

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 had calculated a valuation allowance in the amount of \$28,800. The revalued balance had been further discounted, at 8%, to account for the interest implicit in the total. This additional reduction of the carrying amount of the note was \$28,864, resulting in an adjusted balance of \$38,336, as reflected in the statement of financial position at August 31, 2016. During the year ended August 31, 2017, imputed interest income of \$3,182 was reported, resulting in an adjusted balance is \$41,518 at August 31, 2017.

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

5. Fair Value Measurements

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used during the year as compared to previous years.

- Certificates of Deposit: Based upon face value of the certificate.
- Note Receivable: Based upon estimated realizable value, net of present value discount.

**INNER-CITY COMPUTER STARS FOUNDATION AND SUBSIDIARY
(I.C. STARS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AUGUST 31, 2017 AND 2016**

The methods described above could produce fair value calculations that may not be indicative of net realizable values or reflective of future fair values. Furthermore, while management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair values of certain financial instruments could result in different fair value measurements at the reporting date. The following table sets forth, by level within the fair value hierarchy, the Foundation's assets at fair value as of August 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificate of Deposit	\$ 50,201	\$ -	\$ -	\$ 50,201
Note Receivable	-	-	41,518	41,518
Total	<u>\$ 50,201</u>	<u>\$ -</u>	<u>\$ 41,518</u>	<u>\$ 91,719</u>

Following is a reconciliation of changes in the investment that is classified as Level 3 in the fair value hierarchy.

	<u>2017</u>	<u>2016</u>
Balance, Beginning of Year	\$ 38,336	\$ -
Issuance of Note Receivable	-	96,000
Valuation Allowance	-	(28,800)
Present Value Discount/Amortization	3,182	(28,864)
Balance, End of Year	<u>\$ 41,518</u>	<u>\$ 38,336</u>

6. Temporarily Restricted Net Assets

Temporarily restricted net assets contain donor-imposed restrictions that expire upon the passage of time or once specific purposes have been fulfilled. At August 31, 2017 and 2016 temporarily restricted net assets were available for the following purposes:

	<u>2017</u>	<u>2016</u>
Expansion	\$ -	\$ 80,000
Enterprise Next	75,000	-
General Operating for Fiscal Year 2018	97,500	20,000
Workforce Training and Placement	50,000	35,000
Total	<u>\$ 222,500</u>	<u>\$ 135,000</u>

**INNER-CITY COMPUTER STARS FOUNDATION AND SUBSIDIARY
(I.C. STARS)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AUGUST 31, 2017 AND 2016**

7. Contributions

Contributions have been received from the following sources:

	<u>2017</u>	<u>2016</u>
Corporations	\$ 307,534	\$ 373,071
Foundations	616,200	454,281
Individuals	<u>88,094</u>	<u>50,394</u>
Total	<u>\$ 1,011,828</u>	<u>\$ 877,746</u>

8. Grant and Revenue Concentrations

During the years ended August 31, 2017 and 2016, a significant amount of contributed revenue was provided by small numbers 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.

9. Events

The Foundation hosts many events throughout the year 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.

	<u>2017</u>	<u>2016</u>
Events Income	\$ 571,475	\$ 612,379
Events Direct Expenses	<u>(131,065)</u>	<u>(156,067)</u>
Special Events (Net)	<u>\$ 440,410</u>	<u>\$ 456,312</u>

10. Lease of Real Estate

The Foundation 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 respective years ended August 31, 2017 and 2016 was \$154,003 and \$124,913 respectively.

**INNER-CITY COMPUTER STARS FOUNDATION AND SUBSIDIARY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AUGUST 31, 2017 AND 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 after August 31, 2019 assuming the lease is renewed on August 1, 2019), for the years ending August 31 are as follows:

2018	\$	124,807
2019		139,475
2020		142,284
2021		145,352
2022		148,419
Thereafter		<u>151,485</u>
Total		<u>\$ 851,822</u>

11. 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 individuals 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.

12. 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 years ended August 31, 2017 and 2016 were \$51,620 and \$48,833.

13. Subsequent Events

Subsequent events have been evaluated through May 14, 2018, which is the date the financial statements were available to be issued. In March 2018, the Foundation established I.C. Stars – Milwaukee, LLC as a single member LLC, extending its mission and programs to the city of Milwaukee, Wisconsin. There are no other subsequent events requiring recognition and/or disclosure in the financial statements.