

San Miguel Febres Cordero School, Inc.
Audit Report
For the Year Ended July 31, 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Miguel Febres Cordero School, Inc.
Chicago, Illinois

We have audited the accompanying financial statements of **San Miguel Febres Cordero School, Inc.** (an Illinois not-for-profit organization), which comprise the statement of financial position as of July 31, 2015, and the related statements of activities 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.

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 2015 financial statements referred to above present fairly, in all material respects, the financial position of San Miguel Febres Cordero School, Inc. as of July 31, 2015, and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Comparative Summarized Information

We have previously audited San Miguel Febres Cordero School, Inc.'s, 2014 financial statements, and we expressed an unmodified audit opinion on those statements in our report dated October 16, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended July 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Selden Fox, Ltd.

September 25, 2015

San Miguel Febres Cordero School, Inc.
Statement of Financial Position
July 31, 2015
(With Comparative Totals for 2014)

Assets	2015	2014
Cash	\$ 115,957	\$ 24,334
Investments	1,361,512	1,367,794
Accounts receivable:		
Students, less allowance for doubtful accounts of \$1,177 (\$807 in 2014)	2,325	2,122
Other	-	982
Pledges receivable	-	20,000
Prepaid expenses	33,092	20,118
Property and equipment, net	60,843	78,027
Total assets	\$ 1,573,729	\$ 1,513,377
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 32,901	\$ 33,162
Deferred revenues	26,192	4,912
Notes payable	993,362	996,546
Total liabilities	1,052,455	1,034,620
Net assets (deficit):		
Unrestricted	(883,362)	(917,243)
Temporarily restricted	28,636	20,000
Permanently restricted	1,376,000	1,376,000
Total net assets	521,274	478,757
Total liabilities and net assets	\$ 1,573,729	\$ 1,513,377

See independent auditor's report and accompanying notes.

San Miguel Febres Cordero School, Inc.
Statement of Activities
For the Year Ended July 31, 2015
(With Comparative Totals for 2014)

	2015			Total	2014
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues:					
Contributions	\$ 1,015,141	\$ 28,636	\$ -	\$ 1,043,777	\$ 844,691
Special events, net	165,330	-	-	165,330	125,114
Tuition and fees	64,221	-	-	64,221	72,415
E-Rate program	17,051	-	-	17,051	55,298
Investment loss, net	(5,780)	-	-	(5,780)	(35)
Miscellaneous	28,769	-	-	28,769	92
Net assets released from restriction	20,000	(20,000)	-	-	-
Total revenues	1,304,732	8,636	-	1,313,368	1,097,575
Expenses:					
Program services:					
Middle school	521,053	-	-	521,053	662,775
Graduate support	85,757	-	-	85,757	38,978
Family support	40,862	-	-	40,862	74,095
General and administrative:					
Administration	224,811	-	-	224,811	208,032
Occupancy	97,151	-	-	97,151	115,053
Insurance	25,266	-	-	25,266	16,761
Interest	33,296	-	-	33,296	29,566
Depreciation	20,184	-	-	20,184	38,644
Marketing	48,922	-	-	48,922	24,982
Fund-raising and development	173,549	-	-	173,549	130,069
Total expenses	1,270,851	-	-	1,270,851	1,338,955
Change in net assets	33,881	8,636	-	42,517	(241,380)
Net assets (deficit):					
Beginning of the year	(917,243)	20,000	1,376,000	478,757	723,137
End of the year	\$ (883,362)	\$ 28,636	\$ 1,376,000	\$ 521,274	\$ 481,757

See independent auditor's report and accompanying notes.

San Miguel Febres Cordero School, Inc.
Statement of Cash Flows
For the Year Ended July 31, 2015
(With Comparative Totals for 2014)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ 42,517	\$ (241,380)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	20,184	38,644
Dividends reinvested	(7,551)	(2,914)
Loss on investments	13,833	2,586
Bad debts (recovery)	1,177	(759)
Cash provided by (applied to) other operating activities:		
Accounts receivable	19,602	150,166
Prepaid expenses	(12,974)	15,422
Accounts payable and accrued expenses	(261)	(18,932)
Deferred revenue	21,280	(49,171)
Net cash from operating activities	<u>97,807</u>	<u>(106,338)</u>
Cash flows from investing activities - purchase of property and equipment	<u>(3,000)</u>	<u>(25,000)</u>
Cash flows from financing activities:		
Proceeds from notes payable	-	90,000
Repayment of notes payable	(3,184)	(3,414)
Net cash from financing activities	<u>(3,184)</u>	<u>86,586</u>
Net change in cash	<u>91,623</u>	<u>(44,752)</u>
Cash, beginning of the year	<u>24,334</u>	<u>69,086</u>
Cash, end of the year	<u>\$ 115,957</u>	<u>\$ 24,334</u>
Supplemental cash flow information:		
Interest paid	<u>\$ 33,296</u>	<u>\$ 29,566</u>
Non-cash contributions of stock received and subsequently redeemed	<u>\$ 109,672</u>	<u>\$ 21,206</u>

See independent auditor's report and accompanying notes.

San Miguel Febres Cordero School, Inc.
Notes to the Financial Statements

1. Summary of Significant Accounting Policies

General – The San Miguel Febres School, Inc. (School), an Illinois nonprofit corporation, was incorporated on February 16, 2000. The School's mission is to provide a high quality humane and Christian education to young people in the underserved Back of the Yards neighborhood on the city's south side. In addition to a middle school, the School's mission includes a graduate support program for students in high school and a family support program for families living in the neighborhood where the School operates.

The financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the School as a whole to present balances and transactions according to the existence or absence of donor imposed restrictions. This has been accomplished by classification of net assets and transactions into three classes: permanently restricted, temporarily restricted, or unrestricted.

Net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Permanently Restricted Net Assets – Net assets subject to donor imposed stipulations that may be maintained permanently by the School. Generally, the donors of these assets permit the School to use all or part of the income earned on related investments for general or specific purposes.

Temporarily Restricted Net Assets – Net assets subject to donor imposed stipulations that may or will be met by actions of the School or the passage of time.

Unrestricted Net Assets – Net assets not subject to donor imposed stipulations.

Revenues are reported as increases in unrestricted net assets, unless use of the related assets is limited by donor imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments, and other assets or liabilities, are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulation or by law. Expiration of temporary restrictions on net assets (i.e., the donor imposed stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Temporarily restricted contributions whose restrictions are met in the same year are reported as unrestricted.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

San Miguel Febres Cordero School, Inc.
Notes to the Financial Statements (cont'd)

1. Summary of Significant Accounting Policies (cont'd)

General (cont'd)

Income and appreciation (depreciation) on investments of endowment and similar funds are reported as one of the following: (a) increases (decreases) in permanently restricted net assets, if the terms of the gift or the School's Board's interpretation of relevant state law require that they be added to the principal of a permanent endowment fund, (b) as increases (decreases) in temporarily restricted net assets, if the terms of the gift impose restrictions on the use of income, or (c) as increases (decreases) in unrestricted net assets in all other cases.

Temporarily restricted net assets at July 31, 2015 consist of a contribution to either help pay down the School's note payable or be added to the permanently restricted endowment. Temporarily restricted net assets at July 31, 2014 consisted of pledges receivable for the general support of the school in future years. Permanently restricted net assets at July 31, 2015 and 2014 consist of an endowment fund established for middle school scholarships.

Use of Estimates – The preparation of financial statements in accordance 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, liabilities and operations and the related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

Investments – The School's investments are accounted for at fair value with unrealized gains and losses reported in the statement of activities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of a given measurement date. Fair value measurements are based on three-level hierarchy based on the reliability of observable and unobservable inputs as follows:

Level 1 – Valuations are based on quoted prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 – Valuations are based on quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations whose significant inputs are observable.

Level 3 – Valuations are based on unobservable inputs for the asset or liability that reflect the reporting entity's own data and assumptions that market participants would use in pricing the asset or liability.

Pledges Receivable – Pledges receivable are stated at their present value, discounted at 5%. The School considers all pledges receivable to be fully collectible; therefore, an allowance for uncollectible pledges has not been provided for.

San Miguel Febres Cordero School, Inc.
Notes to the Financial Statements (cont'd)

1. Summary of Significant Accounting Policies (cont'd)

Property and Equipment - Property and equipment are stated at cost, or in the case of gifts, at fair value at the date of donation. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, ranging from 3 to 10 years.

Deferred Revenue – Tuition and fees received in advance are accounted for as deferred revenue upon receipt and recognized in the academic year to which they apply. Special event revenue is recognized in the related event occurs.

Income Taxes – The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; thus, no provision for income tax has been provided for in the financial statements. Although the School is not required to file tax returns with federal or state governments, it is subject to examination by these jurisdictions.

Subsequent Events – Subsequent events have been evaluated through September 25, 2015, which is the date the financial statements were available to be issued.

2. Investments

The School's investments at July 31 consist of the following:

	Level 1	Level 2	Level 3	Total
July 31, 2015:				
Money market funds	\$ 847,792	\$ -	\$ -	\$ 847,792
Corporate bonds	438,131	-	-	438,131
Certificates of deposit	-	75,589	-	75,589
	<u>\$ 1,285,923</u>	<u>\$ 75,589</u>	<u>\$ -</u>	<u>\$ 1,361,512</u>
July 31, 2014:				
Money market funds	\$ 1,333,078	\$ -	\$ -	\$ 1,333,078
Government securities	34,716	-	-	34,716
	<u>\$ 1,367,794</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,367,794</u>

The School's investments in money market funds, corporate bonds, and government securities are valued based on quoted market prices and classified in Level 1 of the hierarchy. The School's certificates of deposit are valued based on rates currently offered for deposits of similar remaining maturities and are classified in Level 2 of the hierarchy.

Investment income for the years ended July 31 consisted of the following:

	2015	2014
Interest and dividends	\$ 8,053	\$ 2,551
Gain (loss) on investments	(13,833)	(2,586)
	<u>\$ (5,780)</u>	<u>\$ (35)</u>

San Miguel Febres Cordero School, Inc.
Notes to the Financial Statements (cont'd)

3. Property and Equipment

Property and equipment at July 31 consists of the following:

	2015	2014
Building and improvements	\$ 306,095	\$ 306,095
Furniture and equipment	387,362	384,362
Vehicles	74,079	74,079
	767,536	764,536
Less accumulated depreciation	706,693	686,509
	\$ 60,843	\$ 78,027

4. Notes Payable

In 2012, the School established a \$1,000,000 line of credit facility with a bank. Interest on the line of credit is payable monthly at the 30 day LIBOR rate plus 3% (3.19% and 3.16% at July 31, 2015 and 2014, respectively). The line of credit, with a balance of \$990,756 at July 31, 2015 and 2014, is due on demand and secured by the school's investment account, with a balance of \$1,361,512 and \$1,367,466 at July 31, 2015 and 2014, respectively.

The School also has a \$17,033 retail installment contract for the purchase of a vehicle. The contract, with a balance of \$2,606 and \$5,790 at July 31, 2015 and 2014, respectively, is due in monthly installments of \$290, including interest at 0.90%. The contract is secured by the related vehicle with a net book value of \$0 and \$3,307 at July 31, 2015 and 2014, respectively. The contract is scheduled to be paid in full in April 2016

5. In-Kind Contributions

The statement of activities includes in-kind contributions of \$97,828 and \$154,263 for the years ended July 31, 2015 and 2014, respectively, to support the School's summer camp and special events.

6. Special Events

Gross receipts and related costs for special events for the years ended July 31 are as follows:

	2015	2014
Gross receipts	\$ 330,125	\$ 359,895
Related costs	164,795	234,781
	\$ 165,330	\$ 125,114

San Miguel Febres Cordero School, Inc.
Notes to the Financial Statements (cont'd)

7. Operating Lease

The School rents its facilities under the terms of an operating lease that extends through June 30, 2018. Remaining payments due under the lease for the years ending June 30 are as follows:

2016	\$ 46,404
2017	47,796
2018	<u>45,015</u>
	<u>\$ 139,215</u>

Rent expense totaled \$46,288 and \$44,940 for the years ended July 31, 2015 and 2014, respectively.

8. Employee Benefit Plan

The School maintains a 403(b) defined contribution retirement plan which covers substantially all employees. The School may elect to provide a matching contribution to the plan; however, did not elect to do so in 2015 or 2014.

9. Endowment Fund

The School's endowment fund was established to provide middle school scholarships and is permanently restricted by donors. When a donor expresses clear intent in written documentation, state legislation requires the School to follow the donor's instructions. When a donor's intent is not explicitly expressed, applicable legislation directs the School to spend an amount that is prudent and consistent with the donation's purpose, and considers the donor's intent that the fund continue in perpetuity.

The School targets an asset allocation that places greater emphasis on fixed income investments to achieve long-term return objectives within prudent risk constraints. A spending policy has not been adopted as the School attempts to grow the real base of the assets in the endowment.

There was no activity in the School's endowment fund for the years ended July 31, 2015 or 2014. However, the fair value of the School's investments of \$1,361,512 and \$1,367,794 at July 31, 2015 and 2014, respectively, are less than the \$1,376,000 balance of the endowment fund. The deficiencies are reported in unrestricted net assets at July 31, 2015 and 2014.

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INDEPENDENT AUDITOR'S STATEMENT OF RESPONSIBILITY FOR SUPPLEMENTARY FINANCIAL INFORMATION

Board of Directors
San Miguel Febres Cordero School, Inc.
Chicago, Illinois

Our audit was conducted for the purpose of forming an opinion on the financial statements for the year ended July 31, 2015 as a whole. The supplementary schedule of expenses shown on pages 11 through 12 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information for the year ended July 31, 2015, is fairly stated in all material respects in relation to the financial statements as a whole.

Selden Fox, Ltd.

September 25, 2015

San Miguel Febres Cordero School, Inc.
Schedule of Expenses
For the Year Ended July 31, 2015

	Program Services			
	Middle School	Graduate Support	Family Support	Subtotal
Compensation	\$ 387,619	\$ 80,654	\$ 38,050	\$ 506,323
Professional development	15,451	250	-	15,701
Curriculum supplies	2,565	-	-	2,565
After school and extracurriculars	86,504	3,486	2,469	92,459
Technology and telecommunications	6,748	-	-	6,748
Student services and assistance	17,028	1,200	-	18,228
Professional contracted services	-	-	-	-
Occupancy	1,617	-	-	1,617
Insurance	-	-	-	-
Miscellaneous other	3,521	167	343	4,031
Interest	-	-	-	-
Depreciation	-	-	-	-
Bad debt expense (recovery)	-	-	-	-
	<u>\$ 521,053</u>	<u>\$ 85,757</u>	<u>\$ 40,862</u>	<u>\$ 647,672</u>

	General and Administrative	Marketing	Fundraising and Development	Total
	\$ 133,427	\$ 42,591	\$ 94,773	\$ 777,114
	1,239	-	1,511	18,451
	-	-	32	2,597
	-	-	107	92,566
	44,080	1,627	2,631	55,086
	-	-	-	18,228
	43,494	630	54,413	98,537
	97,151	-	11,500	110,268
	25,266	-	-	25,266
	1,394	4,074	8,582	18,081
	33,296	-	-	33,296
	20,184	-	-	20,184
	1,177	-	-	1,177
	<u>\$ 400,708</u>	<u>\$ 48,922</u>	<u>\$ 173,549</u>	<u>\$ 1,270,851</u>

See independent auditor's statement of responsibility for supplementary financial information.