

Marwen Foundation, Inc.

*Financial Statements as of and for the Years Ended
December 31, 2016 and 2015, and
Independent Auditors' Report*

MARWEN FOUNDATION, INC.

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1-2
Financial Statements:	
Statements of Financial Position as of December 31, 2016 and 2015	3
Statement of Activities for the Year Ended December 31, 2016	4
Statement of Activities for the Year Ended December 31, 2015	5
Statements of Cash Flows for the Years Ended December 31, 2016 and 2015	6
Statement of Functional Expenses for the Year Ended December 31, 2016	7
Statement of Functional Expenses for the Year Ended December 31, 2015	8
Notes to Financial Statements as of and for the Years Ended December 31, 2016 and 2015	9-20



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Independent Auditors' Report

To the Board of Directors of
Marwen Foundation, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Marwen Foundation, Inc. (Marwen), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, cash flows, and functional expenses for the years 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 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 Marwen'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 Marwen'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 Marwen Foundation, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in dark ink that reads "Benford Brown & Associates, LLC". The signature is written in a cursive, flowing style.

Benford Brown & Associates, LLC
Chicago, IL
April 30, 2017

MARWEN FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2016 AND 2015

	2016	2015
Assets:		
Cash	\$ 1,380,343	\$ 925,060
Accounts receivable	50,202	20,150
Prepaid expenses	40,997	27,513
Contributions receivable, net	1,507,507	2,912,125
Investments	8,086,803	7,257,119
Property and equipment, net	9,213,769	9,297,457
Total assets	\$ 20,279,621	\$ 20,439,424
Liabilities and net assets:		
Liabilities:		
Accounts payable and accrued expenses	\$ 97,232	\$ 125,646
Bonds payable, net	4,924,722	4,879,221
Total liabilities	5,021,954	5,004,867
Net assets:		
Unrestricted	12,410,464	11,854,711
Temporarily restricted	2,847,203	3,579,846
Total net assets	15,257,667	15,434,557
Total liabilities and net assets	\$ 20,279,621	\$ 20,439,424

See notes to financial statements.

MARWEN FOUNDATION, INC.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2016

	Unrestricted Funds	Temporarily Restricted Funds	Total
Operating support and revenue:			
Contributions, net	\$ 1,729,318	\$ 398,959	\$ 2,128,277
Earned revenue	115,373	-	115,373
Net assets released from restrictions	1,131,602	(1,131,602)	-
Total operating support and revenue	<u>2,976,293</u>	<u>(732,643)</u>	<u>2,243,650</u>
Expenses:			
Program services	2,117,156	-	2,117,156
Management and general	193,532	-	193,532
Fundraising	665,605	-	665,605
Total expenses	<u>2,976,293</u>	<u>-</u>	<u>2,976,293</u>
Change in net assets from operations	-	(732,643)	(732,643)
Nonoperating changes:			
Investment return, net	<u>555,753</u>	<u>-</u>	<u>555,753</u>
Change in net assets	555,753	(732,643)	(176,890)
Net assets at the beginning of year	<u>11,854,711</u>	<u>3,579,846</u>	<u>15,434,557</u>
Net assets at the end of year	<u>\$ 12,410,464</u>	<u>\$ 2,847,203</u>	<u>\$ 15,257,667</u>

See notes to financial statements.

MARWEN FOUNDATION, INC.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2015

	Unrestricted Funds	Temporarily Restricted Funds	Total
Operating support and revenue:			
Contributions, net	\$ 1,421,862	\$ 1,776,301	\$ 3,198,163
Investment return designated for current operations	276,764	-	276,764
Earned revenue	118,110	-	118,110
Net assets released from restrictions	1,042,756	(1,042,756)	-
	<u>2,859,492</u>	<u>733,545</u>	<u>3,593,037</u>
Expenses:			
Program services	1,719,074	-	1,719,074
Management and general	287,363	-	287,363
Fundraising	853,055	-	853,055
Total expenses	<u>2,859,492</u>	<u>-</u>	<u>2,859,492</u>
Change in net assets from operations	-	733,545	733,545
Nonoperating changes:			
Marwen Arts Campus project:			
Contributions, net	1,028,455		1,028,455
Temporary office relocation expense	(139,559)		(139,559)
Net assets released to fund construction	4,037,772	(4,037,772)	-
Investment return less than amount designated for current operations, net	(334,009)	-	(334,009)
Change in net assets	4,592,659	(3,304,227)	1,288,432
Net assets at the beginning of year	<u>7,262,052</u>	<u>6,884,073</u>	<u>14,146,125</u>
Net assets at the end of year	<u>\$ 11,854,711</u>	<u>\$ 3,579,846</u>	<u>\$ 15,434,557</u>

See notes to financial statements.

MARWEN FOUNDATION, INC.

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ (176,890)	\$ 1,288,432
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	377,905	322,733
Contributed securities	(161,722)	(61,179)
Securities received in payment of contributions receivable	(112,209)	(19,753)
Realized and unrealized losses (gains) on investments, net	(398,699)	203,148
Loss on disposals	6,315	973
Changes in assets and liabilities:		
Accounts receivable	(30,052)	693,389
Prepaid expenses	(13,484)	10,074
Contributions, net	1,404,618	(2,598)
Accounts payable and accrued expenses	(28,414)	(24,270)
Net cash provided by operating activities	<u>867,368</u>	<u>2,410,949</u>
Cash flows from investing activities:		
Proceeds from sales of equipment	6,108	-
Purchases of property and equipment	(261,139)	(4,912,878)
Proceeds from sales of investments	896,461	4,610,389
Purchase of investments	(950,162)	(1,795,614)
Activity in money market accounts, net	(103,353)	(10,661)
Net cash used in investing activities	<u>(412,085)</u>	<u>(2,108,764)</u>
Cash flows from financing activities:		
Cash provided by bond disbursement fund	<u>-</u>	<u>179,146</u>
Net increase in cash	455,283	481,331
Cash at the beginning of year	<u>925,060</u>	<u>443,729</u>
Cash at the end of year	<u>\$ 1,380,343</u>	<u>\$ 925,060</u>
Supplemental data: Interest and other costs of debt paid	<u><u>\$ 74,661</u></u>	<u><u>\$ 51,692</u></u>

See notes to financial statements.

MARWEN FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2016

	Program Services				Management and General	Fundraising	Total
	Art Studio and Lab	College, Career, and Alumni	Evaluation and Development	Total			
Expenses							
Salaries and wages	\$ 564,213	\$ 247,349	\$ 106,504	\$ 918,066	\$ 123,112	\$ 357,761	\$ 1,398,939
Employee benefits and payroll taxes	92,428	40,581	17,473	150,482	20,199	58,611	229,292
Contracted services	249,610	43,082	30,807	323,499	20,459	176,684	520,642
Publications and printing	6,412	22,959	124	29,495	-	25,657	55,152
Supplies and subscriptions	36,723	4,288	1,380	42,391	410	10,047	52,848
Travel, meals, and meetings	26,134	4,844	3,037	34,015	5,877	5,355	45,247
Information technology	23,014	6,436	2,900	32,350	1,352	5,052	38,754
Phone, copy, and postage	13,233	5,628	2,031	20,892	1,729	11,015	33,636
Maintenance and repairs	33,700	6,620	3,679	43,999	1,117	1,117	46,233
Utilities and security	27,047	5,336	2,953	35,336	930	930	37,196
Insurance	22,324	4,404	2,437	29,165	3,771	767	33,703
Interest and other costs of debt (includes amortization)	92,520	18,252	10,100	120,872	3,181	3,181	127,234
Depreciation	241,714	47,684	26,386	315,784	8,310	8,310	332,404
Other	14,975	3,146	2,689	20,810	3,085	1,118	25,013
Total expenses	\$ 1,444,047	\$ 460,609	\$ 212,500	\$ 2,117,156	\$ 193,532	\$ 665,605	\$ 2,976,293

See notes to financial statements.

MARWEN FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2015

	Program Services				Management and General	Fundraising	Total
	Art Studio and Lab	College, Career, and Alumni	Evaluation and Development	Total			
Expenses							
Salaries and wages	\$ 422,636	\$ 283,318	\$ 122,127	\$ 828,081	\$ 158,211	\$ 417,637	\$ 1,403,929
Employee benefits and payroll taxes	69,271	48,026	14,150	131,447	20,772	66,715	218,934
Contracted services	160,515	45,822	26,384	232,721	28,134	256,949	517,804
Publications and printing	1,736	12,053	311	14,100	-	45,093	59,193
Supplies and subscriptions	23,320	11,371	1,615	36,306	819	11,624	48,749
Travel, meals, and meetings	14,717	6,165	3,022	23,904	8,333	6,612	38,849
Information technology	12,461	7,390	2,744	22,595	1,499	5,757	29,851
Phone, copy, and postage	11,672	7,367	2,570	21,609	2,743	14,582	38,934
Maintenance and repairs	23,550	13,449	5,186	42,185	5,957	1,880	50,022
Utilities and security	10,641	6,077	2,343	19,061	2,716	857	22,634
Insurance	13,158	7,515	2,898	23,571	6,146	1,060	30,777
Interest and other costs of debt (includes amortization)	49,809	28,447	10,968	89,224	12,713	4,012	105,949
Depreciation	130,333	74,435	28,700	233,468	33,266	10,497	277,231
Other	329	251	222	802	6,054	9,780	16,636
Total expenses	\$ 944,148	\$ 551,686	\$ 223,240	\$ 1,719,074	\$ 287,363	\$ 853,055	\$ 2,859,492

See notes to financial statements.

MARWEN FOUNDATION, INC.

Notes to Financial Statements

As of and for the Years Ended December 31, 2016 and 2015

1. NATURE OF OPERATIONS

Marwen Foundation, Inc. (Marwen) is an Illinois nonprofit corporation formed in 1987 to provide free high quality visual arts education, college planning, and career development programs for under-served Chicago youth in grades six through twelve. More than 900 students, filling more than 2,700 enrollments, travel to Marwen each year from virtually every neighborhood in Chicago. Marwen houses eight fully equipped studios for fine arts programs in its single location near downtown Chicago. It offers after-school, weekend, and summertime courses, workshops, exhibitions, employment opportunities, and college and career counseling. Courses are taught by professional artists, architects, designers, and experts in technology, and range in subjects from oil painting and figure drawing to documentary photography and cartoon animation.

At Marwen, students move through a series of progressively challenging programs, developing sophisticated communication, critical thinking, and interpretive skills, as well as the self-confidence to pursue and achieve their goals. Nearly every student participating in Marwen's college planning program makes the transition from high school to college with scholarships or financial aid in hand, and with the knowledge that their experiences at Marwen have helped them build a solid and impressive foundation from which to launch their futures.

Unfortunately, inequities in access to the arts have grown even more acute since Marwen's founding, and as a result demand for Marwen's programming has only increased. In response, in 2012 Marwen's board of trustees (the "Board") approved the campaign for the Marwen Arts Campus with a target of \$10 million. Funds generated from this campaign were used to fund the construction costs of the project and also have been and continue to be used to support Marwen's operations in order to achieve its strategic growth plan of a 30% increase in student program enrollment by 2018 (compared to 2013 enrollment figures).

Completed in the fall of 2015, Marwen's renovated and expanded facility features redesigned 2D and 3D studios, a fashion and fiber studio, a portfolio documentation space, and new media center studios dedicated to special effects, film, and digital photography. With this additional space and enhancements to existing space, Marwen has been able to increase the number of courses offered per term and move closer to the goal of serving 30% more young people.

Programs for students are always offered free of charge; Marwen is primarily funded from donations and grants from individuals, corporations, foundations and government entities. As a result, fundraising is a critically important function and supporting service at Marwen.

MARWEN FOUNDATION, INC.

Notes to Financial Statements

As of and for the Years Ended December 31, 2016 and 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). A summary of Marwen's significant accounting policies is set forth below:

Estimates – The preparation of financial statements in conformity with US GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value – Marwen follows Financial Accounting Standards Board Accounting Standard Codification ("ASC") ASC 820, *Fair Value Measurements and Disclosures*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. Inputs are broadly defined under ASC 820 as assumptions market participants would use in pricing an asset or liability.

The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1 – Unadjusted quoted prices at the measurement date in active markets for identical assets or liabilities that the reporting entity has the ability to access. Investments which are generally included in Level 1 are money market funds, mutual funds, and listed equities.

Level 2 – Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly. Investments which are generally included in this category are corporate bonds and institutional commingled funds.

Level 3 – Inputs are unobservable for the asset or liability and include situation where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value may require significant management judgment or estimation.

Classification of net assets – Resources are classified for accounting and reporting purposes into three categories of net assets – unrestricted, temporarily restricted, or permanently restricted – according to external donor-imposed restrictions and consistent with relevant law.

Unrestricted net assets include all resources that are not subject to donor-imposed restrictions of a more specific nature than those that only obligate Marwen to utilize funds in furtherance of its mission. Revenues received and expenses incurred in conducting the programs and services of Marwen are presented in the financial statements as unrestricted operating funds that increase or decrease unrestricted net assets.

MARWEN FOUNDATION, INC.

Notes to Financial Statements

As of and for the Years Ended December 31, 2016 and 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

Temporarily restricted net assets carry specific donor-imposed restrictions on the expenditure or other use of contributed funds. Temporary restrictions may expire either because of the passage of time or because Marwen has fulfilled the restrictions. Restricted amounts received in the same period in which the restrictions are satisfied are recorded in the unrestricted net asset class. Transfers of temporarily restricted net assets associated with current expenditures for which the restrictions have been satisfied are reported as net assets released from restrictions.

Permanently restricted net assets are those that are subject to donor-imposed restrictions that will never lapse.

Cash – Marwen maintains its cash balance in a noninterest-bearing transaction account, which, at times, may exceed Federal Deposit Insurance Corporation limits. Management believes it is not exposed to any significant credit risk on its cash balance.

Account receivable and prepaid expenses – The carrying amount approximates fair value because of the short-term maturity of these instruments.

Contributions receivable, net – The receipt of unconditional promises to give with payments due in future periods is reported as temporarily or permanently restricted support, unless explicit donor stipulations or circumstances surrounding the receipt of the promise make clear that the donor intended it to be used to support activities of the current period.

Unconditional promises to give are reported at fair value based upon discounted estimated future cash flows, net of the allowance for uncollectible contributions. The discount rate used is a risk-free interest rate based on the yield curve for United States Treasury securities. Amortization of the discount is recorded as additional contribution revenue. The allowance for uncollectible contributions is increased by charges to income and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on Marwen's past collection experience, adverse situations that may affect the contributor's ability to pay, and current economic conditions. Contributions receivable are charged off when management deems them to be uncollectible.

Investments – Marwen invests in various marketable securities. All investments are stated at their fair value based upon readily available pricing sources for market transactions involving identical assets. Securities that Marwen intends to hold long-term (the “Portfolio”) comprise the majority of Marwen’s investments. Long-term investing is governed by Marwen’s investment policy. The investment policy attempts to provide a predictable stream of funding, while seeking to maintain the purchasing power of the assets. Marwen has various controls in place related to the purchase and sales of its investment securities. The Investment Committee of the Board is responsible for oversight of all investments and compliance with policies.

MARWEN FOUNDATION, INC.

Notes to Financial Statements

As of and for the Years Ended December 31, 2016 and 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to these risks, it is possible that changes in the values of investment securities will occur in the near future and that such changes could materially affect the amounts reported in the financial statements.

Property and equipment – Property and equipment are stated at cost or for donated assets at fair value at the time of receipt, both net of depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. These lives range from 3 to 7 years for furniture and equipment and 40 years for building and improvements. Additions and improvements to existing property and equipment over \$5,000 during the year are capitalized, while general maintenance and repairs are charged to expense.

Accounts payable and accrued expenses – The carrying amount approximates fair value because of the short-term maturity of these instruments.

Bonds payable, net – The variable rate demand revenue bonds are reported at principal amount less the remaining unamortized debt issuance costs at the reporting date. Amortization is computed using the straight-line method over the term of the bonds and term of the collateralization instrument tied to the bonds.

Contributions, net – Contributions primarily include donations from individuals and grants from corporations, foundations, and government entities.

Marwen also records various types of in-kind support, including contributed furniture and equipment, services, and other property. In-kind support is recorded as contributions at their estimated fair values on the date of receipt. The amounts reflected in the accompanying financial statements as in-kind support, excluding contributed auction items (see earned revenue policy on page 13), are offset by like amount included in expenses or assets.

Marwen also receives donated services from many volunteers that assist Marwen with their programs, administration, and fundraising events. These donated services are not reflected in the financial statements because they do not meet the requirements for inclusion. Contributions of services are recognized only if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. In either scenario, Marwen only recognizes contributions of services whose value is subject to reasonable estimation.

MARWEN FOUNDATION, INC.

Notes to Financial Statements

As of and for the Years Ended December 31, 2016 and 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

Investment return, net – Investment income and expenses, realized gains and losses, and change in unrealized gains and losses are reported as a net amount in the statements of activities. Purchases and sales of investments are recorded on trade dates and gains and losses are determined on the basis of average cost of securities.

Management may designate up to 4% of the average value of the Portfolio over the previous 3 years (calculated based on the average portfolio value at the end of each of the 12 quarters) to support current operations. The investment return designated in support of current operations (if applicable), in combination with nonoperating net investment return represents the total return the year.

Earned revenue – Earned revenue primarily includes fundraising event sales, gross sales generated from career programs, and Board dues. The costs of gifts in-kind that are auctioned at fundraising events are netted against the associated sales amounts within earned revenue.

Expenses – Expenses directly related to a program area or supporting service are charged to that program or supporting service. Other expenses related to more than one program or supporting activity, or to a combination of programs and supporting services, are allocated among the functions based on allocation percentages developed by management. The allocations depend on the type of expense and are based on full-time equivalents of personnel, weeks of service by program area, or occupancy percentages.

Income taxes – Marwen, an Illinois nonprofit corporation, is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law, except for taxes pertaining to unrelated business income. Marwen adheres to ASC 740, *Income Taxes*, which prescribes a comprehensive model for how an organization should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the organization has taken or expects to take on a tax return.

Recently adopted accounting pronouncement – In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (“ASU”) No. 2015-03, *Interest – Imputation of Interest* (“ASU No. 2015-03”), which requires that deferred debt issuance costs be presented with debt liabilities, rather than reported as an asset in the financial statements. This ASU became effective for fiscal years beginning after December 15, 2015. Accordingly, fiscal year 2015 financial statement presentation and disclosures have been restated to reflect the implementation of the new guidance retrospectively. See Note 6 for further detail.

MARWEN FOUNDATION, INC.

Notes to Financial Statements

As of and for the Years Ended December 31, 2016 and 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

Upcoming accounting pronouncement not yet adopted – In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (“ASU No. 2016-14”). This standard simplifies and improves how a not-for-profit organization classifies its net assets as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The provisions of this standard are effective for fiscal years beginning after December 15, 2017 and early adoption is permitted. Management is currently evaluating the impact of adopting this standard.

3. CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable are expected to be realized as follows as of December 31, 2016 and 2015:

	2016	2015
Collectible during the following time frames:		
Within one year	\$ 1,034,829	\$ 1,798,524
Between one and four years	505,934	1,201,108
In five years and thereafter	45,000	77,500
Gross contributions receivable	1,585,763	3,077,132
Fair value adjustment	(16,226)	(25,007)
Allowance for uncollectible contributions	(62,030)	(140,000)
Contributions receivable, net	<u>\$ 1,507,507</u>	<u>\$ 2,912,125</u>

The discount rates ranged from 0.85% to 1.93% and 0.32% to 1.71% for the years ending December 31, 2016 and 2015, respectively. Contributions receivable are classified as Level 2 within the fair value hierarchy. In determining the classification within the fair value hierarchy, Marwen considered historical and projected cash flow rates. The fair value calculations may not be indicative of net realizable values or reflective of future values.

MARWEN FOUNDATION, INC.

Notes to Financial Statements

As of and for the Years Ended December 31, 2016 and 2015

4. INVESTMENTS

Investments consisted of the following as of December 31, 2016 and 2015:

	2016			
	Portfolio	Non Portfolio Investments	Total Fair Value	Historical Cost
Cash equivalents	\$ 355,568	\$ 643,542	\$ 999,110	\$ 999,092
Fixed income securities	1,730,057	-	1,730,057	1,699,613
Equity securities	5,357,636	-	5,357,636	3,665,250
Total investments	<u>\$ 7,443,261</u>	<u>\$ 643,542</u>	<u>\$ 8,086,803</u>	<u>\$ 6,363,955</u>

	2015			
	Portfolio	Non Portfolio Investments	Total Fair Value	Historical Cost
Cash equivalents	\$ 359,211	\$ 361,716	\$ 720,927	\$ 720,927
Fixed income securities	1,844,649	-	1,844,649	1,803,251
Equity securities	4,682,588	8,955	4,691,543	3,343,493
Total investments	<u>\$ 6,886,448</u>	<u>\$ 370,671</u>	<u>\$ 7,257,119</u>	<u>\$ 5,867,671</u>

Cash equivalents may consist of bank certificates of deposit and/or money market funds. Equity and fixed-income securities consist of marketable securities invested indirectly via exchange-traded funds. All investments are classified as Level 1 within the fair value hierarchy as each investment has readily available pricing or net asset values in active exchange markets at December 31, 2016 and 2015.

MARWEN FOUNDATION, INC.

Notes to Financial Statements

As of and for the Years Ended December 31, 2016 and 2015

5. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following as of December 31, 2016 and 2015:

	2016	2015
Land	\$ 1,335,613	\$ 1,335,613
Buildings and improvements	8,882,949	8,805,539
Furniture and equipment	776,644	842,021
Total property and equipment	10,995,206	10,983,173
Accumulated depreciation	(1,781,437)	(1,685,716)
Property and equipment, net	<u>\$ 9,213,769</u>	<u>\$ 9,297,457</u>

Included above is \$4,971,829 of property and equipment attributable to the Marwen Arts Campus project completed in 2015.

6. BONDS PAYABLE, NET

In 2008, Marwen issued \$5,080,000 of Variable Rate Demand Revenue Bonds, Series 2008, through the Illinois Finance Authority. These bonds were issued to provide funds to Marwen to be used to (i) finance the cost of acquiring the third and fourth floors, one-half of the basement, and one-half of the parking lot at 833 North Orleans, Chicago, Illinois; (ii) construct, renovate, install, equip, and furnish staff office and conference room facilities; (iii) refinance the \$2,200,000 of the Illinois Educational Facilities Authority ACI/Cultural Pooled Financing Program Series 1999 Bonds; (iv) pay a portion of the interest on these bonds for approximately 6 months; and (v) pay certain costs of issuance of these bonds and the refinancing. The weekly auction rate bonds are due May 1, 2043. Interest is payable monthly at a rate set by the remarketing agent. The interest rate as of December 31, 2016 and 2015 was 0.80% and 0.05%, respectively, with rates ranging from 0.04% to 0.94% and 0.02% to 0.17% throughout 2016 and 2015, respectively. The bonds are secured by a mortgage on the real estate owned by Marwen.

Payment of principal and interest on the Series 2008 bond issue is secured by an irrevocable direct letter of credit (maximum amount of approximately \$5,127,000), which expires on August 5, 2017. Marwen pays an annual fee of 0.90% of the maximum amount of the letter of credit. The letter of credit requires Marwen's compliance with certain covenants, including maintaining a ratio of unrestricted cash and investments to debt of at least 1 to 1, and income available for debt service to debt service requirements of at least 1.15 to 1. Marwen was in compliance with all financial covenants as of December 31, 2016 and 2015.

MARWEN FOUNDATION, INC.

Notes to Financial Statements

As of and for the Years Ended December 31, 2016 and 2015

6. BONDS PAYABLE, NET (continued)

As discussed in Note 2, Marwen adopted the provisions of ASU No. 2015-03, *Interest – Imputation of Interest* in 2016 with retrospective application to 2015 presentation and disclosures. The unamortized debt issuance costs (including letter of credit financing fees), reported as a direct deduction of the principal amount of the bonds payable in the financial statements, was \$155,278 and \$200,779 as of December 31, 2016 and 2015, respectively.

7. RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following as of December 31, 2016 and 2015:

	2016	2015
Cash	\$ 329,583	\$ 410,834
Contributions receivable, net	1,467,352	2,859,625
Investments	1,050,268	309,387
Temporarily restricted net assets	<u>\$ 2,847,203</u>	<u>\$ 3,579,846</u>

Net assets were temporarily restricted for the following purposes as of December 31, 2016 and 2015:

	2016	2015
General operating support (time restricted)	\$ 2,434,703	\$ 3,185,679
Art studio and lab program services	270,000	287,500
College and career program services	67,500	86,667
Evaluation and development program services	75,000	20,000
Temporarily restricted net assets	<u>\$ 2,847,203</u>	<u>\$ 3,579,846</u>

MARWEN FOUNDATION, INC.

Notes to Financial Statements

As of and for the Years Ended December 31, 2016 and 2015

7. RESTRICTED NET ASSETS

(continued)

Temporarily restricted net assets are restricted for current (within one year from reporting date) and long-term purposes (greater than one year from reporting date). Temporarily restricted net assets restricted for long-term purposes consist of the following as of December 31, 2016 and 2015:

	2016	2015
Contributions receivable, net	\$ 1,292,352	\$ 2,448,244
Investments	194,247	-
Long-term restricted net assets	<u>\$ 1,486,599</u>	<u>\$ 2,448,244</u>

Net assets were temporarily restricted for the following long-term purposes as of December 31, 2016 and 2015:

	2016	2015
General operating support (time restricted)	\$ 1,356,599	\$ 2,328,244
Art studio and lab program services	105,000	120,000
Evaluation and development program services	25,000	-
Long-term restricted net assets	<u>\$ 1,486,599</u>	<u>\$ 2,448,244</u>

Marwen did not have any permanently restricted net assets as of December 31, 2016 and 2015.

8. CONTRIBUTED SERVICES RECEIVED

Included in 2015 nonoperating contributions, Marwen recognized \$461,391 of architectural and construction services in connection to the Marwen Arts Campus project. Marwen did not receive recognizable contributed services in 2016.

MARWEN FOUNDATION, INC.

Notes to Financial Statements

As of and for the Years Ended December 31, 2016 and 2015

9. INVESTMENT RETURN, NET

Net combined operating and nonoperating investment return for the years ended December 31, 2016 and 2015 is as follows:

	2016	2015
Dividends and interest	\$ 157,345	\$ 145,903
Realized and unrealized gains (losses), net	398,408	(203,148)
Investment return, net	<u>\$ 555,753</u>	<u>\$ (57,245)</u>

Marwen incurs investment expenses from its exchange traded funds. These expenses constitute the funds' annual operating fees, which the funds assess internally. Consequently the fees are captured within Marwen's net realized and unrealized gain or loss. The fees varied by fund with stated net expense ratios ranging from 0.04% to 0.11% and 0.05% to 0.13% as of December 31, 2016 and 2015, respectively.

10. RETIREMENT BENEFITS

Marwen sponsors a section 403(b) tax sheltered annuity plan whereby participating employees are allowed to contribute a portion of their salary to the plan. Marwen matches 50% of contributions the employee makes, up to 5% of their salary. Matching contributions were made to the plan in the amount of \$21,186 and \$20,466 for the plan years of 2016 and 2015, respectively.

11. INCOME TAXES

For federal purposes, Marwen has reported federal net operating losses ("NOLs") totaling \$75,872 arising from previous years rental activities. These NOLs will expire, if not utilized, between the years 2021 and 2022. Marwen has not recorded a tax benefit for these NOLs for the years ended December 31, 2016 and 2015, because it is unlikely that Marwen will be able to realize the benefit.

12. RELATED PARTY TRANSACTIONS

In 2015, Marwen received \$99,750 of contributed services in connection to the Marwen Arts Campus project from a professional contractor related to a member of management. No related party transactions occurred in 2016.

MARWEN FOUNDATION, INC.

Notes to Financial Statements

As of and for the Years Ended December 31, 2016 and 2015

13. RECLASSIFICATIONS

Certain 2015 amounts have been reclassified to conform to the current-year presentation without affecting previously reported net assets or changes in net assets.

14. SUBSEQUENT EVENTS

Marwen has evaluated subsequent events for potential recognition and/or disclosure through April 30, 2017, the date the financial statements were available to be issued.