

# ***Marwen Foundation, Inc.***

*Financial Statements as of and for the Years Ended  
December 31, 2017 and 2016, and  
Independent Auditors' Report*

# **MARWEN FOUNDATION, INC.**

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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, 2017 and 2016, 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**

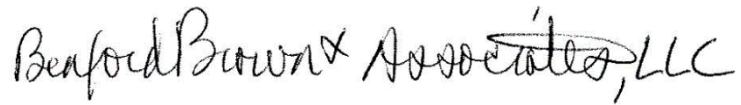
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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, 2017 and 2016, 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 black ink that reads "Benford Brown & Associates, LLC". The signature is written in a cursive, flowing style.

Benford Brown & Associates, LLC  
Chicago, IL  
April 27, 2018

# MARWEN FOUNDATION, INC.

## STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2017 AND 2016

|   | <b>2017</b>          | <b>2016</b>          |
|---|----------------------|----------------------|
| <b>Assets:</b>                          |                      |                      |
| Cash                                    | \$ 938,400           | \$ 1,380,343         |
| Accounts receivable                     | 103,771              | 50,202               |
| Prepaid expenses                        | 26,075               | 40,997               |
| Contributions receivable, net           | 1,081,028            | 1,507,507            |
| Investments                             | 8,857,009            | 8,086,803            |
| Other assets                            | 156,717              | -                    |
| Property and equipment, net             | 9,392,589            | 9,213,769            |
| <b>Total assets</b>                     | <b>\$ 20,555,589</b> | <b>\$ 20,279,621</b> |
| <b>Liabilities and net assets:</b>      |                      |                      |
| <b>Liabilities:</b>                     |                      |                      |
| Accounts payable and other liabilities  | \$ 460,441           | \$ 97,232            |
| Bonds payable                           | 3,683,321            | 4,924,722            |
| <b>Total liabilities</b>                | <b>4,143,762</b>     | <b>5,021,954</b>     |
| <b>Net assets:</b>                      |                      |                      |
| Unrestricted                            | 13,761,118           | 12,410,464           |
| Temporarily restricted                  | 2,650,709            | 2,847,203            |
| <b>Total net assets</b>                 | <b>16,411,827</b>    | <b>15,257,667</b>    |
| <b>Total liabilities and net assets</b> | <b>\$ 20,555,589</b> | <b>\$ 20,279,621</b> |

See notes to financial statements.

# MARWEN FOUNDATION, INC.

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2017

|   | Unrestricted<br>Funds       | Temporarily<br>Restricted<br>Funds | Total                       |
|---|-----------------------------|------------------------------------|-----------------------------|
| <b>Operating support and revenue:</b>       |                             |                                    |                             |
| Contributions, net                          | \$ 1,882,854                | \$ 699,629                         | \$ 2,582,483                |
| Earned revenue                              | 111,257                     | -                                  | 111,257                     |
| Net assets released from restrictions       | 896,123                     | (896,123)                          | -                           |
| Total operating support and revenue         | <u>2,890,234</u>            | <u>(196,494)</u>                   | <u>2,693,740</u>            |
| <b>Expenses:</b>                            |                             |                                    |                             |
| Program services                            | 2,151,990                   | -                                  | 2,151,990                   |
| Management and general                      | 139,251                     | -                                  | 139,251                     |
| Fundraising                                 | 598,993                     | -                                  | 598,993                     |
| Total expenses                              | <u>2,890,234</u>            | <u>-</u>                           | <u>2,890,234</u>            |
| <b>Change in net assets from operations</b> | <b>-</b>                    | <b>(196,494)</b>                   | <b>(196,494)</b>            |
| <b>Nonoperating changes:</b>                |                             |                                    |                             |
| Investment return, net                      | 1,300,704                   | -                                  | 1,300,704                   |
| Other                                       | 49,950                      | -                                  | 49,950                      |
| <b>Change in net assets</b>                 | <b>1,350,654</b>            | <b>(196,494)</b>                   | <b>1,154,160</b>            |
| Net assets at the beginning of the year     | <u>12,410,464</u>           | <u>2,847,203</u>                   | <u>15,257,667</u>           |
| <b>Net assets at the end of the year</b>    | <b><u>\$ 13,761,118</u></b> | <b><u>\$ 2,650,709</u></b>         | <b><u>\$ 16,411,827</u></b> |

See notes to financial statements.

# MARWEN FOUNDATION, INC.

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2016

|   | Unrestricted<br>Funds       | Temporarily<br>Restricted<br>Funds | Total                       |
|---|-----------------------------|------------------------------------|-----------------------------|
| <b>Operating support and revenue:</b>       |                             |                                    |                             |
| 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)                        | -                           |
|   | <u>2,976,293</u>            | <u>(732,643)</u>                   | <u>2,243,650</u>            |
| <b>Expenses:</b>                            |                             |                                    |                             |
| 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>            |
| <b>Change in net assets from operations</b> | <b>-</b>                    | <b>(732,643)</b>                   | <b>(732,643)</b>            |
| <b>Nonoperating changes:</b>                |                             |                                    |                             |
| Investment return, net                      | <u>555,753</u>              | <u>-</u>                           | <u>555,753</u>              |
| <b>Change in net assets</b>                 | <b>555,753</b>              | <b>(732,643)</b>                   | <b>(176,890)</b>            |
| Net assets at the beginning of the year     | <u>11,854,711</u>           | <u>3,579,846</u>                   | <u>15,434,557</u>           |
| <b>Net assets at the end of the year</b>    | <b><u>\$ 12,410,464</u></b> | <b><u>\$ 2,847,203</u></b>         | <b><u>\$ 15,257,667</u></b> |

See notes to financial statements.

# MARWEN FOUNDATION, INC.

## STATEMENTS OF CASH FLOWS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2017 AND 2016

|   | <u>2017</u>               | <u>2016</u>                |
|---|---------------------------|----------------------------|
| <b>Cash flows from operating activities:</b>  |                           |                            |
| Change in net assets  | \$ 1,154,160              | \$ (176,890)               |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                           |                            |
| Depreciation and amortization   | 357,667                   | 377,905                    |
| Contributed securities  | (24,909)                  | (161,722)                  |
| Securities received in payment of contributions receivable                                  | (124,788)                 | (112,209)                  |
| Realized and unrealized losses (gains) on investments, net                                  | (1,300,704)               | (398,699)                  |
| Loss on disposals   | 33,519                    | 6,315                      |
| Changes in assets and liabilities:  |                           |                            |
| Accounts receivable   | (53,569)                  | (30,052)                   |
| Prepaid expenses  | 14,922                    | (13,484)                   |
| Contributions, net  | 426,479                   | 1,404,618                  |
| Accounts payable and other liabilities  | 363,209                   | (28,414)                   |
| <b>Net cash provided by operating activities</b>  | <u><b>845,986</b></u>     | <u><b>867,368</b></u>      |
| <b>Cash flows from investing activities:</b>  |                           |                            |
| Proceeds from sales of equipment  | 10,752                    | 6,108                      |
| Purchases of property and equipment   | (502,159)                 | (154,639)                  |
| Contributed property, equipment, and professional services                                  | (99,450)                  | (106,500)                  |
| Payment for capitalized professional services   | (107,267)                 | -                          |
| Proceeds from sales of investments  | 3,898,554                 | 896,461                    |
| Purchases of investments  | (3,498,767)               | (950,162)                  |
| Activity in money market accounts, net  | 280,408                   | (103,353)                  |
| <b>Net cash used in investing activities</b>  | <u><b>(17,929)</b></u>    | <u><b>(412,085)</b></u>    |
| <b>Cash flows from financing activities:</b>  |                           |                            |
| Redemption of bonds payable   | <u><b>(1,270,000)</b></u> | <u>-</u>                   |
| <b>Net (decrease) increase in cash</b>  | <b>(441,943)</b>          | <b>455,283</b>             |
| Cash at the beginning of year   | 1,380,343                 | 925,060                    |
| <b>Cash at the end of year</b>  | <u><b>\$ 938,400</b></u>  | <u><b>\$ 1,380,343</b></u> |
| Supplemental data: Interest and other costs of debt paid                                    | <u><u>\$ 106,130</u></u>  | <u><u>\$ 82,571</u></u>    |

See notes to financial statements.



# MARWEN FOUNDATION, INC.

## STATEMENT OF FUNCTIONAL EXPENSES FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2017

|  | Program Services      |                                   |                                  |                     | Management<br>and General | Fundraising       | Total               |
|--|-----------------------|-----------------------------------|----------------------------------|---------------------|---------------------------|-------------------|---------------------|
|  | Art Studio<br>and Lab | College,<br>Career, and<br>Alumni | Evaluation<br>and<br>Development | Total               |                           |                   |                     |
| <b>Expenses</b>  |                       |                                   |                                  |                     |                           |                   |                     |
| Salaries and wages                                       | \$ 558,051            | \$ 261,331                        | \$ 109,929                       | \$ 929,311          | \$ 80,811                 | \$ 304,903        | \$ 1,315,025        |
| Employee benefits and payroll taxes                      | 95,606                | 44,811                            | 18,857                           | 159,274             | 14,184                    | 52,278            | 225,736             |
| Contracted services                                      | 263,145               | 43,450                            | 31,801                           | 338,396             | 9,500                     | 188,694           | 536,590             |
| Publications and printing                                | 3,451                 | 9,275                             | 137                              | 12,863              | -                         | 9,595             | 22,458              |
| Supplies and subscriptions                               | 34,031                | 5,206                             | 1,939                            | 41,176              | 211                       | 8,666             | 50,053              |
| Travel, meals, and meetings                              | 23,932                | 7,113                             | 5,206                            | 36,251              | 4,629                     | 5,434             | 46,314              |
| Information technology                                   | 23,835                | 7,690                             | 5,949                            | 37,474              | 1,376                     | 4,277             | 43,127              |
| Phone, copy, and postage                                 | 10,021                | 4,673                             | 1,746                            | 16,440              | 1,497                     | 9,469             | 27,406              |
| Maintenance and repairs                                  | 34,512                | 7,195                             | 6,045                            | 47,752              | 1,233                     | 1,233             | 50,218              |
| Utilities and security                                   | 22,516                | 4,699                             | 3,931                            | 31,146              | 820                       | 820               | 32,786              |
| Insurance  | 17,409                | 3,633                             | 3,039                            | 24,081              | 3,644                     | 634               | 28,359              |
| Interest and other costs of debt (includes amortization) | 93,578                | 19,528                            | 16,337                           | 129,443             | 3,406                     | 3,406             | 136,255             |
| Depreciation   | 225,998               | 47,161                            | 39,456                           | 312,615             | 8,227                     | 8,227             | 329,069             |
| Other  | 24,497                | 6,520                             | 4,751                            | 35,768              | 9,713                     | 1,357             | 46,838              |
| <b>Total expenses</b>                                    | <b>\$ 1,430,582</b>   | <b>\$ 472,285</b>                 | <b>\$ 249,123</b>                | <b>\$ 2,151,990</b> | <b>\$ 139,251</b>         | <b>\$ 598,993</b> | <b>\$ 2,890,234</b> |

See notes to financial statements.

# MARWEN FOUNDATION, INC.

## STATEMENT OF FUNCTIONAL EXPENSES FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016

|  | Program Services      |                                   |                                  |                     | Management<br>and General | Fundraising       | Total              |
|--|-----------------------|-----------------------------------|----------------------------------|---------------------|---------------------------|-------------------|--------------------|
|  | Art Studio<br>and Lab | College,<br>Career, and<br>Alumni | Evaluation<br>and<br>Development | Total               |                           |                   |                    |
| <b>Expenses</b>  |                       |                                   |                                  |                     |                           |                   |                    |
| 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             |
| <b>Total expenses</b>                                    | <b>\$ 1,444,047</b>   | <b>\$ 460,609</b>                 | <b>\$ 212,500</b>                | <b>\$ 2,117,156</b> | <b>\$ 193,532</b>         | <b>\$ 665,605</b> | <b>\$2,976,293</b> |

See notes to financial statements.

## MARWEN FOUNDATION, INC.

### Notes to Financial Statements

As of and for the Years Ended December 31, 2017 and 2016

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#### 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 Chicago youth in grades six through twelve from under-resourced communities and schools. Approximately 900 students, complete nearly 2,900 enrollments, travelling to Marwen each year from virtually every neighborhood in Chicago. Marwen houses eight fully equipped studios for visual arts programs in its single location near downtown Chicago. It offers after-school, weekend, and summer courses, workshops, exhibitions, commissioned opportunities, and college and career counseling. Courses are taught by practicing artists, professional designers, and experts in technology as well as range of subjects from oil painting and figure drawing to documentary photography and cartoon animation.

At Marwen, students develop sophisticated communication, critical thinking, and interpretive skills, as well as the 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, and the knowledge that their experiences at Marwen 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 since Marwen's founding, and as a result demand for Marwen's programming 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 continue to support Marwen's operations in order to achieve its strategic growth plan of a 30% increase in student 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 digital art forms, including film, photography, and animation. 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 free of charge. Marwen is primarily funded by 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, 2017 and 2016

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## 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, 2017 and 2016

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## 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, 2017 and 2016

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## 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.

**Other assets** – Other assets are stated at cost and consist of capitalized professional service fees in connection with a lease transaction. Amortization is computed using the straight-line method over the term of the lease agreement.

**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, 2017 and 2016

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## 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. Marwen has adopted ASU No. 2015-03 effective in fiscal year 2016, and the impact was not material to the financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230) - Restricted Cash* (“ASU No. 2016-18”). This standard requires that a statement of cash flows explain the change during the period in the total of cash and amounts generally described as restricted cash. Marwen has adopted ASU No. 2016-18 effective in fiscal year 2016, by including restricted cash with cash in the financial statements.

## MARWEN FOUNDATION, INC.

### Notes to Financial Statements

As of and for the Years Ended December 31, 2017 and 2016

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

**Upcoming accounting pronouncement not yet adopted** – In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance requires a lessee to recognize a liability to make lease payments and an asset representing its right to use the underlying asset for the lease term in the statement of financial position for both operating and capital leases. The guidance will be effective for fiscal years beginning after December 15, 2018, and early adoption is permitted. Management is currently evaluating the impact of adopting this standard.

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. 2017-14”). 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, 2017 and 2016:

|   | 2017                | 2016                |
|---|---------------------|---------------------|
| Collectible during the following time frames: |                     |                     |
| Within one year                               | \$ 608,509          | \$ 307,155          |
| Between one and four years                    | 505,934             | 1,201,108           |
| In five years and thereafter                  | 45,000              | 77,500              |
| Gross contributions receivable                | 1,159,443           | 1,585,763           |
| Fair value adjustment                         | (16,226)            | (25,007)            |
| Allowance for uncollectible contributions     | (62,189)            | (53,249)            |
| Contributions receivable, net                 | <u>\$ 1,081,028</u> | <u>\$ 1,507,507</u> |

The discount rates ranged from 1.76% to 2.20% and 0.85% to 1.93% for the years ending December 31, 2017 and 2016, 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, 2017 and 2016

**4. INVESTMENTS**

Investments consisted of the following as of December 31, 2017 and 2016:

|                         | 2017                |                                      |                             |                            |
|-------------------------|---------------------|--------------------------------------|-----------------------------|----------------------------|
|                         | <u>Portfolio</u>    | <u>Non Portfolio<br/>Investments</u> | <u>Total<br/>Fair Value</u> | <u>Historical<br/>Cost</u> |
| Cash equivalents        | \$ 227,682          | \$ 249,837                           | \$ 477,519                  | \$ 477,712                 |
| Fixed income securities | 1,791,520           | -                                    | 1,791,520                   | 1,740,670                  |
| Equity securities       | 6,587,970           | -                                    | 6,587,970                   | 4,373,993                  |
| Total investments       | <u>\$ 8,607,172</u> | <u>\$ 249,837</u>                    | <u>\$ 8,857,009</u>         | <u>\$ 6,592,375</u>        |

|                         | 2016                |                                      |                             |                            |
|-------------------------|---------------------|--------------------------------------|-----------------------------|----------------------------|
|                         | <u>Portfolio</u>    | <u>Non Portfolio<br/>Investments</u> | <u>Total<br/>Fair Value</u> | <u>Historical<br/>Cost</u> |
| 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>        |

Cash equivalents consists 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, 2017 and 2016.

## MARWEN FOUNDATION, INC.

### Notes to Financial Statements

As of and for the Years Ended December 31, 2017 and 2016

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#### 5. OTHER ASSETS

In 2017, Marwen entered into a lease agreement with a third party to rent office space at its facility. The lease commencement date is January 1, 2018 concluding on December 31, 2027. In connection with the lease transaction, Marwen capitalized \$156,717 in professional services fees. The assets will be amortized beginning in 2018 with the start of the lease.

#### 6. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following as of December 31, 2017 and 2016:

|                              | 2017                | 2016                |
|------------------------------|---------------------|---------------------|
| Land                         | \$ 1,335,613        | \$ 1,335,613        |
| Buildings and improvements   | 8,867,187           | 8,882,949           |
| Construction in progress     | 493,957             | -                   |
| Furniture and equipment      | 654,031             | 776,644             |
| Total property and equipment | 11,350,788          | 10,995,206          |
| Accumulated depreciation     | (1,958,199)         | (1,781,437)         |
| Property and equipment, net  | <u>\$ 9,392,589</u> | <u>\$ 9,213,769</u> |

#### 7. BONDS PAYABLE

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 with installment payments beginning in 2034. Interest is payable monthly at a rate set by the remarketing agent. The interest rate as of December 31, 2017 and 2016 was 1.81% and 0.80%, respectively, with rates ranging from 0.69% to 1.81% and 0.04% to 0.94% throughout 2017 and 2016, respectively. The bonds are secured by a mortgage on the real estate owned by Marwen.

## MARWEN FOUNDATION, INC.

### Notes to Financial Statements

As of and for the Years Ended December 31, 2017 and 2016

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#### 7. BONDS PAYABLE

(continued)

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). In August 2017, Marwen renewed its letter of credit agreement for five years, expiring August 5, 2022. Marwen pays an annual fee of 1.15% (0.90% in previous agreement) of the maximum amount of the letter of credit. In November 2017, Marwen redeemed \$1,270,000 of the bonds payable (reducing the maximum amount of the letter of credit to approximately \$3,845,000). 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, 2017 and 2016.

As discussed in Note 2, Marwen adopted the provisions of ASU No. 2015-03, *Interest – Imputation of Interest* in 2016. 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, were \$126,679 and \$155,278 as of December 31, 2017 and 2016, respectively.

#### 8. RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following as of December 31, 2017 and 2016:

|                                   | 2017                | 2016                |
|-----------------------------------|---------------------|---------------------|
| Cash                              | \$ 256,249          | \$ 329,583          |
| Contributions receivable, net     | 1,027,968           | 1,467,352           |
| Investments                       | 1,366,492           | 1,050,268           |
| Temporarily restricted net assets | <u>\$ 2,650,709</u> | <u>\$ 2,847,203</u> |

## MARWEN FOUNDATION, INC.

### Notes to Financial Statements

As of and for the Years Ended December 31, 2017 and 2016

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#### 8. RESTRICTED NET ASSETS

(continued)

Net assets were temporarily restricted for the following purposes as of December 31, 2017 and 2016:

|   | 2017                | 2016                |
|---|---------------------|---------------------|
| General operating support (time restricted) | \$ 2,281,543        | \$ 2,434,703        |
| Art studio and lab program services         | 272,500             | 270,000             |
| College and career program services         | 71,666              | 67,500              |
| Evaluation and development program services | 25,000              | 75,000              |
|   | <u>2,650,709</u>    | <u>2,847,203</u>    |
| Temporarily restricted net assets           | <u>\$ 2,650,709</u> | <u>\$ 2,847,203</u> |

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, 2017 and 2016:

|                                 | 2017                | 2016                |
|---------------------------------|---------------------|---------------------|
| Contributions receivable, net   | \$ 695,928          | \$ 1,292,352        |
| Investments                     | 598,758             | 658,728             |
|                                 | <u>1,294,686</u>    | <u>1,951,080</u>    |
| Long-term restricted net assets | <u>\$ 1,294,686</u> | <u>\$ 1,951,080</u> |

Net assets were temporarily restricted for the following long-term purposes as of December 31, 2017 and 2016:

|   | 2017                | 2016                |
|---|---------------------|---------------------|
| General operating support (time restricted) | \$ 1,237,186        | \$ 1,821,080        |
| Art studio and lab program services         | 37,500              | 105,000             |
| Evaluation and development program services | -                   | 25,000              |
| College and career program services         | 20,000              | -                   |
|   | <u>1,294,686</u>    | <u>1,951,080</u>    |
| Long-term restricted net assets             | <u>\$ 1,294,686</u> | <u>\$ 1,951,080</u> |

Marwen did not have any permanently restricted net assets as of December 31, 2017 and 2016.

## MARWEN FOUNDATION, INC.

### Notes to Financial Statements

As of and for the Years Ended December 31, 2017 and 2016

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#### 9. CONTRIBUTED SERVICES RECEIVED

Included in 2017 nonoperating contributions, Marwen recognized \$49,450 of legal services in connection to the lease transaction (see Note 5). Marwen did not receive recognizable contributed services in 2016.

#### 10. INVESTMENT RETURN, NET

Net combined operating and nonoperating investment return for the years ended December 31, 2017 and 2016 is as follows:

|   | 2017                | 2016              |
|---|---------------------|-------------------|
| Dividends and interest                      | \$ 184,858          | \$ 157,345        |
| Realized and unrealized gains (losses), net | 1,115,846           | 398,408           |
| Investment return, net                      | <u>\$ 1,300,704</u> | <u>\$ 555,753</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% for both years 2017 and 2016.

#### 11. 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 \$21,874 and \$21,186 for the plan years of 2017 and 2016, respectively.

#### 12. 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, 2017 and 2016, because it is unlikely that Marwen will be able to realize the benefit.

## **MARWEN FOUNDATION, INC.**

Notes to Financial Statements

As of and for the Years Ended December 31, 2017 and 2016

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### **13. RECLASSIFICATIONS**

Certain 2016 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 27, 2018, the date the financial statements were available to be issued.