

Marwen Foundation, Inc.

*Financial Statements as of and for the Years Ended
December 31, 2018 and 2017, 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, 2018 and 2017	3
Statement of Activities for the Year Ended December 31, 2018	4
Statement of Activities for the Year Ended December 31, 2017	5
Statements of Cash Flows for the Years Ended December 31, 2018 and 2017	6
Statement of Functional Expenses for the Year Ended December 31, 2018	7
Statement of Functional Expenses for the Year Ended December 31, 2017	8
Notes to Financial Statements as of and for the Years Ended December 31, 2018 and 2017	9-20

MARWEN FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Assets:		
Cash and cash equivalents	\$ 970,879	\$ 1,415,919
Accounts receivable	5,479	103,771
Prepaid expenses	30,203	26,075
Contributions receivable, net	603,521	1,081,028
Investments	8,065,184	8,379,490
Other assets, net	141,046	156,717
Property and equipment, net	9,051,639	9,392,589
Total assets	<u>\$ 18,867,951</u>	<u>\$ 20,555,589</u>
Liabilities and net assets:		
Liabilities:		
Accounts payable	\$ 45,730	\$ 203,841
Other liabilities, net	102,967	256,600
Bonds payable	3,688,257	3,683,321
Total liabilities	<u>3,836,954</u>	<u>4,143,762</u>
Net assets:		
Without donor restrictions	13,202,808	13,761,118
With donor restrictions	1,828,189	2,650,709
Total net assets	<u>15,030,997</u>	<u>16,411,827</u>
Total liabilities and net assets	<u>\$ 18,867,951</u>	<u>\$ 20,555,589</u>

See notes to financial statements.

MARWEN FOUNDATION, INC.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Funds Without Donor Restrictions</u>	<u>Funds With Donor Restrictions</u>	<u>Total</u>
Operating support and revenue:			
Contributions	\$ 1,440,722	\$ 465,556	\$ 1,906,278
Earned revenue, net	113,451	-	113,451
Net assets released from restrictions	1,288,076	(1,288,076)	-
Total operating support and revenue	<u>2,842,249</u>	<u>(822,520)</u>	<u>2,019,729</u>
Expenses:			
Program services	2,035,527	-	2,035,527
Management and general	199,563	-	199,563
Fundraising	607,159	-	607,159
Total expenses	<u>2,842,249</u>	<u>-</u>	<u>2,842,249</u>
Change in net assets from operations	-	(822,520)	(822,520)
Nonoperating changes:			
Investment loss	(548,819)	-	(548,819)
Rental activities, net	(9,491)	-	(9,491)
Change in net assets	(558,310)	(822,520)	(1,380,830)
Net assets at the beginning of the year	<u>13,761,118</u>	<u>2,650,709</u>	<u>16,411,827</u>
Net assets at the end of the year	<u>\$ 13,202,808</u>	<u>\$ 1,828,189</u>	<u>\$ 15,030,997</u>

See notes to financial statements.

MARWEN FOUNDATION, INC.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2017

	Funds Without Donor Restrictions	Funds With Donor Restrictions	Total
Operating support and revenue:			
Contributions	\$ 1,882,854	\$ 699,629	\$ 2,582,483
Earned revenue, net	111,257	-	111,257
Net assets released from restrictions	896,123	(896,123)	-
	2,890,234	(196,494)	2,693,740
Expenses:			
Program services	2,151,990	-	2,151,990
Management and general	139,251	-	139,251
Fundraising	598,993	-	598,993
Total expenses	2,890,234	-	2,890,234
Change in net assets from operations	-	(196,494)	(196,494)
Nonoperating changes:			
Investment return	1,300,704	-	1,300,704
Other	49,950	-	49,950
	1,350,654	(196,494)	1,154,160
Change in net assets			
Net assets at the beginning of the year	12,410,464	2,847,203	15,257,667
Net assets at the end of the year	\$ 13,761,118	\$ 2,650,709	\$ 16,411,827

See notes to financial statements.

MARWEN FOUNDATION, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (1,380,830)	\$ 1,154,160
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	398,818	357,667
Net realized and unrealized losses (gains) on investments	757,946	(1,114,368)
Loss on disposals	-	33,519
Changes in assets and liabilities:		
Accounts receivable	98,292	(53,569)
Prepaid expenses	(4,128)	14,922
Contributions	477,507	426,479
Accounts payable	(158,111)	363,209
Other liabilities, net	(153,633)	
Net cash provided by operating activities	35,861	1,182,019
Cash flows from investing activities:		
Proceeds from sales of equipment	-	10,752
Purchases of property and equipment	(37,260)	(502,159)
Contributed property, equipment, and professional services	-	(99,450)
Payment for capitalized professional services	-	(107,267)
Proceeds from sales of investments	2,864,751	2,498,767
Purchase of investments	(3,308,391)	(2,676,196)
Net cash used in investing activities	(480,900)	(875,553)
Cash flows from financing activities:		
Redemption of bonds payable	-	(1,270,000)
Net decrease in cash and cash equivalents	(445,039)	(963,534)
Cash and cash equivalents at the beginning of year	1,415,919	2,379,453
Cash and cash equivalents at the end of year	\$ 970,880	\$ 1,415,919
Supplemental data: Interest and other costs of debt paid	\$ 115,705	\$ 106,130

See notes to financial statements.

MARWEN FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services			Total	Management and General	Fundraising	Total
	Art Studio and Lab	College, Career, and Alumni	Evaluation and Development				
Expenses							
Salaries and wages	\$ 506,135	\$ 301,796	\$ 102,941	\$ 910,872	\$ 92,843	\$ 324,000	\$1,327,715
Employee benefits and payroll taxes	86,569	51,535	17,614	155,718	15,858	55,452	227,028
Contracted services	260,550	59,613	37,047	357,210	60,614	174,249	592,073
Publications and printing	9,222	10,465	104	19,791	-	10,538	30,329
Supplies and subscriptions	44,831	4,229	1,626	50,686	256	11,583	62,525
Travel, meals, and meetings	17,632	7,808	3,809	29,249	6,220	3,032	38,501
Information technology	23,403	7,167	3,284	33,854	1,041	3,872	38,767
Phone, copy, and postage	9,558	4,984	1,602	16,144	1,418	11,080	28,642
Maintenance and repairs	32,106	7,955	4,131	44,192	1,076	1,076	46,344
Utilities and security	19,506	4,886	2,510	26,902	708	708	28,318
Insurance	12,290	3,079	1,581	16,950	3,496	446	20,892
Interest and other costs of debt (includes amortization)	82,876	20,761	10,664	114,301	3,008	3,008	120,317
Depreciation	187,690	47,018	24,152	258,860	6,812	6,812	272,484
Other	142	637	19	798	6,213	1,303	8,314
Total expenses	\$ 1,292,510	\$ 531,933	\$ 211,084	\$ 2,035,527	\$ 199,563	\$ 607,159	\$2,842,249

See notes to financial statements.

MARWEN FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2017

	Program Services				Management and General	Fundraising	Total
	Art Studio and Lab	College, Career, and Alumni	Evaluation and Development	Total			
Expenses							
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	39,455	312,614	8,227	8,227	329,068
Other	24,497	6,520	4,752	35,769	9,713	1,357	46,839
Total expenses	\$ 1,430,582	\$ 472,285	\$ 249,123	\$ 2,151,990	\$ 139,251	\$ 598,993	\$ 2,890,234

See notes to financial statements.

MARWEN FOUNDATION, INC.

Notes to Financial Statements

As of and for the Years Ended December 31, 2018 and 2017

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

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 to youth in grades six through twelve that are from Chicago’s under-resourced communities and schools. Approximately 900 students travel 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. Course subject matters are wide ranging 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.

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.

Cash and cash equivalents – Cash includes currency on hand, as well as demand deposits with a bank. 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. Cash equivalents are stated at cost and consist of institutional money market funds and short-term certificates of deposit. Marwen has a policy to structure its cash and cash equivalents, as well as other financial assets, to be available as its general expenditures, liabilities, and other obligations come due (see Note 2).

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

MARWEN FOUNDATION, INC.

Notes to Financial Statements

As of and for the Years Ended December 31, 2018 and 2017

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

(continued)

Contributions receivable, net – The receipt of unconditional promises to give with payments due in future periods is reported as support with donor restrictions, 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 (see Note 3). 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.

Investments – Marwen invests in various marketable securities (see Note 4). All investments are stated at their fair value based upon readily available pricing sources for market transactions involving identical assets. Marwen’s 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 sale of its investment securities. Contributed securities and securities received in payment of contributions receivable, which are classified as Level 1 within the fair value hierarchy (see Note 4), are liquidated upon receipt. Transactions involving these securities are treated as cash equivalents activity for purposes of the statements of cash flows. The Investment Committee of the Board is responsible for oversight of all investments and compliance with policies.

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.

Other assets, net – Other assets are stated at cost, net of amortization, and consist of capitalized professional service fees in connection with Marwen’s lease of office space to a third party (see Note 5). Amortization is computed using the straight-line method over the term of the lease agreement (see Note 12).

Property and equipment, net – Property and equipment are stated at cost or for donated assets at fair value at the time of receipt, both net of depreciation (see Note 6). Depreciation is computed using the straight-line method over the estimated useful lives of the related assets (see Note 6 and Note 12). 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 \$1,000 during the year are capitalized, while general maintenance and repairs are charged to expense.

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

MARWEN FOUNDATION, INC.

Notes to Financial Statements

As of and for the Years Ended December 31, 2018 and 2017

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

(continued)

Other liabilities, net – Other liabilities consist of accrued operating expenses, deposits, accrued capitalized costs, and accrued rental expenses net of accrued rental revenue (see Note 7). The carrying amount approximates fair value because of the short-term maturity of these instruments.

Bonds payable – The variable rate demand revenue bonds are reported as the aggregate of the principal balance of the bonds and the associated unamortized portion of the debt issuance costs at the reporting date (see Note 8). Amortization is computed using the straight-line method over the term of the bonds and term of the collateralization instrument tied to the bonds (see Note 8).

Classification of net assets – Resources are classified for accounting and reporting purposes into two categories of net assets – funds without donor restrictions and funds with donor restrictions – consistent with relevant law (see Note 9).

Funds without donor restrictions 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 operating funds without donor restrictions that increase or decrease net assets without donor restrictions.

Funds with donor restrictions carry specific donor-imposed restrictions on the expenditure or other use of contributed funds. The restrictions may expire either because of the passage of time or because Marwen has fulfilled the use restrictions. Restricted amounts received in the same period in which the restrictions are satisfied are recorded in the net assets without donor restrictions class. Transfers of net assets with donor restrictions associated with current expenditures for which the restrictions have been satisfied are reported as net assets released from restrictions.

Contributions – 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 page 12), are offset by like amount included in expenses or assets.

Marwen receives a significant amount of volunteer time that does not meet the criteria for recognition as a contribution. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements.

MARWEN FOUNDATION, INC.

Notes to Financial Statements

As of and for the Years Ended December 31, 2018 and 2017

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

(continued)

Earned revenue, net – Earned revenue primarily includes fundraising event sales, programming event revenue, and gross sales generated from career programs. The costs of gifts in-kind that are auctioned at fundraising events are netted against the associated sales amounts within earned revenue (see Note 10).

Expenses – The costs of providing program and other activities have been summarized on a functional basis in the statements of activities and detailed in the statements of functional 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.

The expenses that are allocated or partially allocated amongst functional categories, include the following:

<u>Expense</u>	<u>Method of allocation</u>
Salaries and wages	Time and effort
Employee benefits and payroll taxes	Time and effort
Supplies and subscriptions	Full-time equivalent
Information technology	Full-time equivalent
Phone, copy, and postage	Full-time equivalent
Maintenance and repairs	Square footage
Utilities and security	Square footage
Insurance	Square footage
Interest and other costs of debt	Square footage
Depreciation	Square footage

Employee benefits include employer contributions to a retirement plan (see Note 11).

Investment loss/return– Investment income and expenses, realized gains and losses, and change in unrealized gains and losses are reported as an aggregate loss or return 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 investments 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.

MARWEN FOUNDATION, INC.

Notes to Financial Statements

As of and for the Years Ended December 31, 2018 and 2017

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

(continued)

Rental activities, net – Rental revenue from lease of office space at Marwen’s facility is recognized on a straight-line basis over the term of the lease. Rental revenue is reflected net of expenses in the statements of activities (See Note 12).

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 Accounting Standards Codification (“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 (see Note 13).

Recently adopted accounting pronouncements – In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Updated (“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. Marwen has adopted ASU No. 2016-02 effective in fiscal year 2018 and retroactive to 2017, and the impact was not material to the financial statements.

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*. 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. Marwen has adopted ASU No. 2016-14 effective in fiscal year 2018 and retroactive to 2017, by updating the presentation of financial statements accordingly and including the additional disclosures.

Reclassifications – Certain 2017 amounts have been reclassified to conform to the current-year presentation without affecting previously reported net assets or changes in net assets.

Subsequent events – Marwen has evaluated subsequent events for potential recognition and/or disclosure through May 15, 2019, the date the financial statements were available to be issued.

MARWEN FOUNDATION, INC.

Notes to Financial Statements

As of and for the Years Ended December 31, 2018 and 2017

2. AVAILABILITY AND LIQUIDITY

Marwen's financial assets available within one year of the statement of financial position for general expenditure are as follows as of December 31:

	2018	2017
Cash and cash equivalents	\$ 842,963	\$ 1,329,253
Accounts receivable	5,479	103,771
Contributions receivable	323,283	445,193
Investments appropriated for current use	320,171	297,809
	<u>320,171</u>	<u>297,809</u>
Financial assets available within one year	<u>\$ 1,491,896</u>	<u>\$ 2,176,026</u>

As part of Marwen's liquidity management, management has a goal to maintain financial assets on hand to meet at least 60 days of normal operating expenditures, which have been on average, approximately \$400,000. In addition, Marwen invests cash in excess of immediate requirements in money market funds and short-term certificates of deposit. To help manage unanticipated liquidity needs, Marwen can draw upon its investments. Although Marwen does not intend to spend from its investments other than amounts appropriated for general expenditure as part of its spending policy (see Note 1), additional amounts from its investments could be made available if necessary.

3. CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable are expected to be realized as follows as of December 31:

	2018	2017
Collectible during the following time frames:		
Within one year	\$ 333,283	\$ 608,509
Between one and four years	299,167	550,934
Gross contributions receivable	632,450	1,159,443
Present value discount	(17,411)	(16,226)
Allowance for uncollectible contributions	(11,518)	(62,189)
	<u>(11,518)</u>	<u>(62,189)</u>
Contributions receivable, net	<u>\$ 603,521</u>	<u>\$ 1,081,028</u>

The discount rates ranged from 2.46% to 2.63% and 1.76% to 2.20% for the years ending December 31, 2018 and 2017, respectively.

MARWEN FOUNDATION, INC.

Notes to Financial Statements

As of and for the Years Ended December 31, 2018 and 2017

4. INVESTMENTS

Investments consisted of the following as of December 31:

	2018		2017	
	Fair Value	Historical Cost	Fair Value	Historical Cost
Fixed income exchange-traded funds	\$ 1,043,467	\$ 1,078,328	\$ 1,791,520	\$ 1,740,670
Bond mutual funds	1,727,379	1,751,498	-	-
Equity exchange-traded funds	4,967,933	3,956,132	6,587,970	4,373,993
Real estate exchange-traded funds	326,405	360,127	-	-
Total investments	<u>\$ 8,065,184</u>	<u>\$ 7,146,085</u>	<u>\$ 8,379,490</u>	<u>\$ 6,114,663</u>

Marwen follows 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.

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, 2018 and 2017.

MARWEN FOUNDATION, INC.

Notes to Financial Statements

As of and for the Years Ended December 31, 2018 and 2017

5. OTHER ASSETS, NET

In 2018, Marwen entered into a lease agreement with a third party to rent office space at its facility. The lease commenced on January 1, 2018 and concludes on December 31, 2027. In connection with the lease transaction, Marwen capitalized \$156,717 in professional services fees, including \$49,950 in contributed legal services recognized as other nonoperating revenue on the statement of activities for the year ended December 31, 2017.

6. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following as of December 31:

	<u>2018</u>	<u>2017</u>
Land	\$ 1,335,613	\$ 1,335,613
Buildings and improvements	9,359,122	8,867,187
Construction in progress	-	493,957
Furniture and equipment	<u>679,584</u>	<u>654,031</u>
Total property and equipment	11,374,319	11,350,788
Accumulated depreciation	<u>(2,322,680)</u>	<u>(1,958,199)</u>
Property and equipment, net	<u>\$ 9,051,639</u>	<u>\$ 9,392,589</u>

Depreciation expense (including the portion attributable to nonoperating rental activities, see Note 12) amounted to \$378,210 and \$329,068 for the years ended December 31, 2018 and 2017, respectively.

MARWEN FOUNDATION, INC.

Notes to Financial Statements

As of and for the Years Ended December 31, 2018 and 2017

7. OTHER LIABILITIES, NET

Other liabilities consisted of the following as of December 31:

	<u>2018</u>	<u>2017</u>
Accrued salaries and benefits	\$ 23,862	\$ 25,636
Accrued interest expense	9,113	9,437
Accrued other operating expenses	29,745	416
Accrued construction costs	-	186,005
Accrued professional fees	-	19,219
Accrued rental expense, net	39,047	-
Deposits	<u>1,200</u>	<u>15,887</u>
Other accrued liabilities, net	<u>\$ 102,967</u>	<u>\$ 256,600</u>

Accrued rental expense is shown above as net of accrued rental revenue of \$22,933 as of December 31, 2018.

8. 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, 2018 and 2017 was 1.82% and 1.81% respectively, with rates ranging from 1.02% to 1.89% and 0.69% to 1.81% throughout 2018 and 2017, respectively. The bonds are secured by a mortgage on the real estate owned by Marwen.

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 \$121,743 and \$126,679 as of December 31, 2018 and 2017, respectively. Amortization expense related to the debt issuance costs amounted to \$4,936 and \$28,599 for the years ended December 31, 2018 and 2017, respectively.

MARWEN FOUNDATION, INC.

Notes to Financial Statements

As of and for the Years Ended December 31, 2018 and 2017

8. 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, 2018 and 2017.

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following as of December 31:

	2018	2017
Cash and cash equivalents	\$ 347,916	\$ 256,249
Contributions receivable, net	528,475	990,225
Investments	951,798	1,404,235
Net assets with donor restrictions	<u>\$ 1,828,189</u>	<u>\$ 2,650,709</u>

Net assets with donor restrictions were restricted for the following purposes as of December 31:

	2018	2017
General operating support (time restricted)	\$ 1,680,273	\$ 2,281,543
Art studio and lab program services	67,500	272,500
College and career program services	61,666	71,666
Evaluation and development program services	18,750	25,000
Net assets with donor restrictions	<u>\$ 1,828,189</u>	<u>\$ 2,650,709</u>

MARWEN FOUNDATION, INC.

Notes to Financial Statements

As of and for the Years Ended December 31, 2018 and 2017

9. NET ASSETS WITH DONOR RESTRICTIONS

(continued)

Net assets with donor restrictions are restricted for current (within one year from reporting date) and long-term purposes (greater than one year from reporting date). Net assets with donor restrictions restricted for long-term purposes consist of the following as of December 31:

	<u>2018</u>	<u>2017</u>
Contributions receivable, net	\$ 270,238	\$ 410,835
Investments	<u>207,955</u>	<u>951,798</u>
Net assets with long-term donor restrictions	<u>\$ 478,193</u>	<u>\$ 1,362,633</u>

Net assets with donor restrictions were restricted for the following long-term purposes as of December 31:

	<u>2018</u>	<u>2017</u>
General operating support (time restricted)	\$ 468,193	\$ 1,305,133
Art studio and lab program services	-	37,500
College and career program services	<u>10,000</u>	<u>20,000</u>
Net assets with long-term donor restrictions	<u>\$ 478,193</u>	<u>\$ 1,362,633</u>

Marwen did not have any net assets with permanently imposed donor restrictions as of December 31, 2018 and 2017.

10. EARNED REVENUE, NET

Marwen's earned revenue and expenses (costs of gifts in-kind that are auctioned at fundraising events) amounted to \$171,211 and \$57,767, respectively, for the year ended December 31, 2018 and \$153,331 and \$42,074, respectively, for the year ended December 31, 2017.

MARWEN FOUNDATION, INC.

Notes to Financial Statements

As of and for the Years Ended December 31, 2018 and 2017

11. RETIREMENT BENEFITS

Marwen sponsors a section 403(b) tax sheltered retirement plan whereby participating employees are allowed to contribute a portion of their salary to the plan. Marwen matches 50% of contributions the employee makes, contributing up to 2.50% of their salary. Matching contributions were made to the plan in the amount of \$20,892 and \$21,874 for the plan years of 2018 and 2017, respectively.

12. RENTAL ACTIVITIES, NET

Marwen's rental income and expenses amounted to \$251,014 and \$260,505, respectively, for the year ended December 31, 2018. Included in rental expenses was depreciation amounting to \$105,726 and amortization amounting to \$15,672 (amortization of the capitalized professional services fees in connection with the lease transaction, see Note 5). There was no rental activity in 2017.

13. 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, 2018 and 2017, because it is unlikely that Marwen will be able to realize the benefit.