

**ASSOCIATED COLLEGES OF
ILLINOIS, INC.**

FINANCIAL STATEMENTS

**For the Year Ended
May 31, 2016**

ASSOCIATED COLLEGES OF ILLINOIS, INC.

Annual Financial Report

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Desmond & Ahern, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditor's Report

Board of Trustees
Associated Colleges of Illinois, Inc.
Chicago, Illinois

We have audited the accompanying financial statements of Associated Colleges of Illinois, Inc. (a nonprofit organization), which comprise the statement of financial position as of May 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Associated Colleges of Illinois, Inc. as of May 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Desmond & Akers, Ltd

August 19, 2016
Chicago, IL

ASSOCIATED COLLEGES OF ILLINOIS, INC.
STATEMENT OF FINANCIAL POSITION
May 31, 2016

Assets

Cash and cash equivalents	\$ 685,538
Investments	903,534
Accounts receivable	3,395
Prepaid expenses	14,040
Total current assets	<u>1,606,507</u>
Property and equipment	8,633
Permanently restricted investments	200,000
Total Assets	<u><u>\$ 1,815,140</u></u>

Liabilities and Net Assets

Accounts payable	\$ 7,877
Deferred revenue	5,000
Scholarships and distributions payable	451,125
Total current liabilities	<u>464,002</u>
Net Assets	
Unrestricted	765,583
Temporarily restricted	385,555
Permanently restricted	200,000
Total net assets	<u>1,351,138</u>
Total Liabilities and Net Assets	<u><u>\$ 1,815,140</u></u>

See independent auditor's report and notes to financial statements.

ASSOCIATED COLLEGES OF ILLINOIS, INC.
STATEMENT OF ACTIVITIES
For the Year Ended May 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Public Support and Revenue</u>				
Contributions	\$ 167,045	\$ 373,675	\$ -	\$ 540,720
Member and college assessments	561,100	-	-	561,100
Corporate partnerships	45,558	2,000	-	47,558
Investment income, net of broker fees \$6,094	14,078	8,461	-	22,539
Special events, net of direct benefit of \$8,329	12,900	-	-	12,900
Net unrealized and realized investment loss	(34,753)	(18,841)	-	(53,594)
Bond fees	-	6,000	-	6,000
Miscellaneous income	3,400	-	-	3,400
Net assets released from restrictions - satisfaction of scholarship restrictions	570,784	(570,784)	-	-
Total public support and revenue	<u>1,340,112</u>	<u>(199,489)</u>	<u>-</u>	<u>1,140,623</u>
<u>Expenses</u>				
Program Services				
Grants and services to member colleges and universities	821,247	-	-	821,247
Peer Mentoring Program	139,478	-	-	139,478
College to Career Program	62,153	-	-	62,153
Total program services	<u>1,022,878</u>	<u>-</u>	<u>-</u>	<u>1,022,878</u>
Management and general	172,632	-	-	172,632
Fundraising	261,012	-	-	261,012
Total expenses	<u>1,456,522</u>	<u>-</u>	<u>-</u>	<u>1,456,522</u>
Change in net assets	(116,410)	(199,489)	-	(315,899)
Net assets, beginning of year	<u>881,993</u>	<u>585,044</u>	<u>200,000</u>	<u>1,667,037</u>
Net assets, end of year	<u>\$ 765,583</u>	<u>\$ 385,555</u>	<u>\$ 200,000</u>	<u>\$ 1,351,138</u>

See independent auditor's report and notes to financial statements.

ASSOCIATED COLLEGES OF ILLINOIS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended May 31, 2016

	Program Services			Total	Management and General	Fundraising	Total
	Grants and Services to Member Colleges and Universities	Peer Mentoring Program	College to Career Program				
Functional Expenses							
Salaries and benefits	\$ 135,773	\$ -	\$ -	\$ 135,773	\$ 65,026	\$ 132,325	\$ 333,124
Total salaries, taxes and fringe benefits	135,773	-	-	135,773	65,026	132,325	333,124
Consultant and professional fees	21,790	44,400	11,500	77,690	80,270	93,361	251,321
Grants to colleges	576,748	47,500	-	624,248	-	-	624,248
Student payments	-	-	50,400	50,400	-	-	50,400
Supplies	9,150	47,500	-	56,650	2,192	3,548	62,390
Occupancy	9,621	-	-	9,621	4,618	9,377	23,616
Membership dues and subscriptions	17,716	-	-	17,716	1,818	4,133	23,667
Insurance	3,081	-	-	3,081	5,128	3,003	11,212
Conference and meetings	7,830	-	253	8,083	970	3,807	12,860
Repairs and maintenance	5,936	-	-	5,936	2,518	5,496	13,950
Travel and lodging	3,726	78	-	3,804	295	2,144	6,243
Bond fees paid	7,000	-	-	7,000	-	-	7,000
Telephone	2,827	-	-	2,827	1,358	2,755	6,940
Postage and delivery	201	-	-	201	191	536	928
Miscellaneous	2,848	-	-	2,848	3,800	527	7,175
Bad debt expense	-	-	-	-	2,458	-	2,458
	668,474	139,478	62,153	870,105	105,616	128,687	1,104,408
Total expenses before depreciation	804,247	139,478	62,153	1,005,878	170,642	261,012	1,437,532
Depreciation	17,000	-	-	17,000	1,990	-	18,990
Total Expenses	\$ 821,247	\$ 139,478	\$ 62,153	\$ 1,022,878	\$ 172,632	\$ 261,012	\$ 1,456,522

See independent auditor's report and notes to financial statements.

ASSOCIATED COLLEGES OF ILLINOIS, INC.
STATEMENT OF CASH FLOWS
For the Year Ended May 31, 2016

Cash Flows from Operating Activities

Change in net assets	\$ (315,899)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation	18,990
Bad debt expense	2,458
Net unrealized and realized investment loss	53,594
(Increase) decrease in assets	
Accounts receivable	30,563
Prepaid expenses	(778)
Increase (decrease) in liabilities	
Accounts payable	5,976
Deferred revenue	(7,500)
Scholarships and distributions payable	(4,451)
Net cash used in operating activities	<u>(217,047)</u>

Cash Flows from Investing Activities

Purchases of investments	(896,887)
Sales of investments	872,938
Net cash used in investing activities	<u>(23,949)</u>

Net decrease in cash and equivalents	(240,996)
Cash and cash equivalents, beginning of year	926,534
Cash and cash equivalents, end of year	<u><u>\$ 685,538</u></u>

See independent auditor's report and notes to financial statements.

ASSOCIATED COLLEGES OF ILLINOIS, INC.
NOTES TO FINANCIAL STATEMENTS
May 31, 2016

Note 1 – Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Associated Colleges of Illinois, Inc. (Association) is a not-for-profit consortium of twenty-three independent colleges and universities in the State of Illinois. The Association was incorporated in 1952. The purpose of the Association is to work with business, government and community leaders to enhance the strength of member institutions through collective action, help solve some of society's most pressing educational problems, and increase public understanding of the value and role of the Association's colleges and universities.

Basis of Accounting

The accounts and financial statements are maintained on the accrual basis of accounting and accordingly, reflect all significant accounts receivable, accounts payable, and other liabilities.

Basis of Presentation

The Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents and Risk Concentration

Cash and cash equivalents consist of bank deposits in federally insured accounts. At times, balances may be in excess of the Federal Deposit Insurance Corporation (FDIC) limit.

For purposes of the statement of cash flows, all highly liquid debt instruments, if any, purchased with an original maturity of three months or less are considered to be cash equivalents.

Investments

Investments are carried at fair value. Realized and unrealized gains and losses are reflected in the Statement of Activities as increases or decreases in unrestricted net assets except for investments in the Willmott Fund, which are reported as increases or decreases in temporarily restricted net assets.

ASSOCIATED COLLEGES OF ILLINOIS, INC.
NOTES TO FINANCIAL STATEMENTS
May 31, 2016

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Office equipment	5 years
Technology assets	3 years

Donations of any property and equipment are recorded at their estimated fair value as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Association reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Scholarships and Distributions to Member Colleges

The Statement of Activities reflects these distributions as grants and services to member colleges for the fiscal year in which the contributions were intended by the donor. Final distributions of contributions for fiscal year ending May 31, 2016 are made to the member colleges no later than the subsequent month.

Support and Revenue

The Association reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets.

Concentration of Revenue Risk

During the fiscal year ending May 31, 2016, the Association received approximately 49% of its revenue from member assessments. Any negative change in the economy may have a significant effect on future member contributions and fundraising efforts.

Donated Services

Contributions of services are required to be recognized if the services received (a) create or enhance non-financial 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. For the year ending May 31, 2016, the Association did not receive any donated services meeting the above criteria.

ASSOCIATED COLLEGES OF ILLINOIS, INC.
NOTES TO FINANCIAL STATEMENTS
May 31, 2016

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

In-Kind Contributions

In addition to receiving cash contributions, the Association may receive in-kind contributions from various donors. It is the policy of the Association to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase donation revenue by a like amount. For the year ended May 31, 2016 the Association did not receive any in-kind contributions.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Association was granted an exemption from federal income taxes by the Internal Revenue Service pursuant to the provisions of Internal Revenue Code Section 501(c)(3). The Association qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private Foundation under Section 509(a)(1). The tax exempt purpose of the Association and the nature in which it operates is described in the first paragraph of Note 1. The Association continues to operate in compliance with its tax exempt purpose. The Association's annual information returns filed with the federal and state governments are subject to examination generally for three years after they have been filed.

Subsequent Events

Accounting principles generally accepted in the United States of America establish general standards of accounting for, and disclosure of, events that occur after the date the financial statements were available to be issued. The Association has evaluated subsequent events through August 19, 2016, which is the date the statements were available to be issued. No subsequent events have been identified that are required to be disclosed.

Note 2 – Fair Value Measurements

Generally Accepted Accounting Principles defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Association's principal or most advantageous market in an orderly transaction between market participants on the measurement date.

Generally Accepted Accounting Principles establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

ASSOCIATED COLLEGES OF ILLINOIS, INC.
NOTES TO FINANCIAL STATEMENTS
May 31, 2016

Note 2 – Fair Value Measurements (cont.)

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

The fair value of debt and equity investments that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or by quoted market prices of similar securities with similar due dates or matrix pricing. This is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on securities' relationship to other benchmark quoted securities (Level 2 inputs).

At May 31, 2016, the Association had investments with Fair Value measurements as follows:

	<u>Fair Value Measurements at May 31, 2016</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Bond funds	\$ 56,052	\$ -	\$ -
Mutual funds	710,595	-	-
Exchange traded funds	336,887	-	-
	<u>\$ 1,103,534</u>	<u>\$ -</u>	<u>\$ -</u>

Note 3 – Investments

The Association's cost and fair value of its investments at May 31, 2016:

	<u>Cost</u>	<u>Fair Value</u>
Bond funds	\$ 58,218	\$ 56,052
Mutual funds	756,610	710,595
Exchange traded funds	337,218	336,887
	<u>\$ 1,152,046</u>	<u>\$ 1,103,534</u>

ASSOCIATED COLLEGES OF ILLINOIS, INC.
NOTES TO FINANCIAL STATEMENTS
May 31, 2016

Note 3 – Investments (cont.)

As of May 31, 2016, investment income is composed as follows:

Interest	\$ 501
Dividends	28,132
Bank and investment fees	(6,094)
	<u>\$ 22,539</u>

Note 4 – Property and Equipment

As of May 31, 2016, property and equipment consist of the following:

Technology assets	\$ 74,138
Less accumulated depreciation	(65,505)
Property and equipment, net	<u>\$ 8,633</u>

Note 5 – Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following as of May 31, 2016:

Center for Success	\$ 31,280
Peer Mentoring	97,361
College to Career	78,905
Scholarships	47,707
Willmott Endowment	130,302
	<u>\$ 385,555</u>

Note 6 – Donor Restricted Endowments

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Donor - restricted endowment net assets	<u>\$ 130,302</u>	<u>\$ 200,000</u>

ASSOCIATED COLLEGES OF ILLINOIS, INC.
NOTES TO FINANCIAL STATEMENTS
May 31, 2016

Note 6 – Donor Restricted Endowments (cont.)

Changes in donor-restricted endowment net assets for the year ended May 31, 2016 is as follows:

	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	\$ 145,682	\$ 200,000
Amounts appropriated for expenditure	(5,000)	-
Investment income	8,461	-
Realized and unrealized loss on investments	(18,841)	-
Endowment net assets, end of year	<u>\$ 130,302</u>	<u>\$ 200,000</u>

In accordance with ASC 958, *"Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds"*, the following disclosures are made in these financial statements.

Permanently restricted net assets are exclusively comprised of donor-restricted endowment funds representing investments in perpetuity. The permanently restricted amount has been stipulated by the donor and is subject to change from time to time. This Fund's investment income is expendable to support minority leadership through scholarships under the Illinois Partnership for Minority Achievement Program. Contributions received from the donor, over and above the permanently restricted amount are also recorded as temporarily restricted until expended towards scholarship payments.

The Association has adopted an investment policy that maximizes the total return consistent with an acceptable level of risk. The investment returns are monitored from time to time by the Board and the invested assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk. Donor-restricted endowment net assets are invested in a well diversified asset mix, which includes money market accounts, certificates of deposit and equity investments held by a broker.

The Board of Trustees of the Association has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts donated to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance

ASSOCIATED COLLEGES OF ILLINOIS, INC.
NOTES TO FINANCIAL STATEMENTS
May 31, 2016

Note 6 – Donor Restricted Endowments (cont.)

with UPMIFA, the Association considers the following factors in making a determination of the amount to appropriate for current operations:

1. The duration and preservation of the Fund
2. The purposes of the Association and the donor-restricted endowment Fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and appreciation of investments
6. Other resources of the Association
7. The investment policies of the Association

Note 7 – Retirement Plan

The Association's employees with at least one year of employment may participate in a college retirement equity fund. This fund is administered by the Teachers Insurance and Annuity Association. The fund allows for discretionary contributions from the Association based on a fixed percentage of an employee's salary. For the year ended May 31, 2016, no discretionary contribution was made by the Association to the fund.

Note 8 – Lease Commitments

The Association leases office space and equipment under non-cancellable operating arrangements. These leases expire at various dates through August 2018. The future minimum lease payment under these leases are as follows for the years ending May 31:

2017	\$	34,965
2018		35,556
2019		6,826
2020		-
	\$	<u>77,347</u>

Rental expense for these leases included in the statement of activities for the year ended May 31, 2016 was \$22,447.