CHICAGO ARTS PARTNERSHIPS IN EDUCATION

FINANCIAL STATEMENTS AS OF JUNE 30, 2016 AND 2015

TOGETHER WITH AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Chicago Arts Partnerships in Education:

We have audited the accompanying financial statements of Chicago Arts Partnerships in Education (a nonprofit organization) which comprise the statement of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 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 Chicago Arts Partnerships in Education as of June 30, 2016 and 2015, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on Schedule 1 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Dugan & Lopatka
DUGAN & LOPATKA

Wheaton, Illinois
November 9, 2016

CHICAGO ARTS PARTNERSHIPS IN EDUCATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents - Unrestricted	$ 190,608	$ 149,761
- Temporarily restricted	75,000	135,000
Cash held for others	146	3,146
Grants receivable - Unrestricted	69,164	249,816
- Temporarily restricted	115,000	257,500
Pledges receivable - Temporarily restricted	35,892	22,370
Investments	290,815	188,523
Prepaid expense	10,340	12,093
Total current assets	786,965	1,018,209
FURNITURE AND EQUIPMENT:		
Computer equipment	12,524	78,906
Furniture and fixtures	20,331	20,330
Leasehold improvements	6,334	6,334
	39,189	105,570
Less - Accumulated depreciation	(28,854)	(100,076)
Net property and equipment	10,335	5,494
OTHER ASSETS:		
Pledges receivable - Temporarily restricted	73,559	61,200
Total assets	$ 870,859	$ 1,084,903
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 25,136	$ 29,914
Funds held for others	146	3,146
Total current liabilities	25,282	33,060
COMMITMENTS		
NET ASSETS:		
Unrestricted - Undesignated	195,915	225,662
- Board-designated reserve	350,111	350,111
Temporarily restricted	299,551	476,070
Total net assets	845,577	1,051,843
	$ 870,859	$ 1,084,903

The accompanying notes are an integral part of this statement.

EXHIBIT 2

CHICAGO ARTS PARTNERSHIPS IN EDUCATION
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:						
Program revenues	$ 270,228	$ -	$ 270,228	$ 214,979	$ -	$ 214,979
Contributed income -						
Government grants	643,712	75,000	718,712	460,587	65,000	525,587
Corporate	9,000	-	9,000	126,500	80,000	206,500
Foundations	162,250	40,000	202,250	144,500	247,500	392,000
Individuals	23,679	75,100	98,779	53,473	83,570	137,043
In-kind donations	111,301	-	111,301	56,577	-	56,577
Special events	9,786	-	9,786	6,263	-	6,263
Unrealized gain on investments	3,308	-	3,308	2,931	-	2,931
Interest and dividend income	2,576	-	2,576	1,308	-	1,308
Total support and revenue	1,235,840	190,100	1,425,940	1,067,118	476,070	1,543,188
Net assets released from restrictions - Satisfaction of program restrictions	366,619	(366,619)	-	295,000	(295,000)	-
Net support and revenue	1,602,459	(176,519)	1,425,940	1,362,118	181,070	1,543,188
EXPENSES:						
Program	1,064,641	-	1,064,641	926,013	-	926,013
Management and general	391,551	-	391,551	307,809	-	307,809
Fundraising	176,014	-	176,014	89,855	-	89,855
Total expenses	1,632,206	-	1,632,206	1,323,677	-	1,323,677
CHANGE IN NET ASSETS	(29,747)	(176,519)	(206,266)	38,441	181,070	219,511
NET ASSETS, Beginning of year	575,773	476,070	1,051,843	537,332	295,000	832,332
NET ASSETS, End of year	$ 546,026	$ 299,551	$ 845,577	$ 575,773	$ 476,070	$ 1,051,843

The accompanying notes are an integral part of this statement.

CHICAGO ARTS PARTNERSHIPS IN EDUCATION
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in total net assets	$ (206,266)	$ 219,511
Adjustments to reconcile change in total net assets to net cash provided by operating activities:		
Depreciation	2,659	2,726
Unrealized (gain) on investments	(3,308)	(2,931)
Changes in assets and liabilities:		
(Increase) decrease in grants receivables	323,152	(132,213)
(Increase) in pledge receivables	(25,881)	(83,570)
(Increase) decrease in prepaid expenses	1,753	(4,665)
Increase (decrease) in accounts payable	(7,778)	22,259
Net cash provided by operating activities	84,331	21,117
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(7,500)	(2,617)
Proceeds from sale of fixed assets	-	848
Proceeds from sales of investments	128,307	150,095
Purchase of investments	(227,291)	(51,264)
Net cash provided by (used in) investing activities	(106,484)	97,062
NET CHANGE IN CASH AND CASH EQUIVALENTS	(22,153)	118,179
CASH AND CASH EQUIVALENTS, Beginning of year	287,907	169,728
CASH AND CASH EQUIVALENTS, End of year	$ 265,754	$ 287,907

The accompanying notes are an integral part of this statement.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES:

Chicago Arts Partnerships in Education (CAPE) was incorporated as a not-for-profit organization in 1993 under the laws of the State of Illinois. CAPE's mission is to make quality arts education a central part of the daily learning experiences of students in Chicago Public Schools, to fully integrate the arts with the overall education programs of schools, to coordinate the funding of neighborhood-based partnerships between schools, art and community organizations, and to provide technical assistance to support those partnerships.

The financial statements were available to be issued on November 9, 2016, with subsequent events being evaluated through this date.

The following summarizes the significant accounting policies and practices reflected in the accompanying financial statements:

Basis of Accounting -

The accounting records of CAPE are maintained on the accrual basis which recognizes revenue as it is earned and expenses as they are incurred.

Cash and Cash Equivalents -

For purposes of the statement of cash flows, CAPE considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents.

Concentrations of Credit Risk -

Financial instruments which potentially subject CAPE to concentrations of credit risk consist principally of cash. CAPE places its cash and deposits with high credit quality financial institutions; however, deposits may exceed the federally insured limits in various banks from time to time.

Receivables -

Receivables consist of grants and amounts due from program services which are due within one year. CAPE made an analysis of historical collection experience and a review of the current status of grants and other receivables and determined no allowance is considered necessary.

Pledges Receivable -

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES: (Continued)

Investments -

Investments are carried at fair value. Realized and unrealized gains and losses are reflected in the statement of activities.

Furniture and Equipment -

CAPE follows the practice of capitalizing all expenditures and property and equipment having a useful life in excess of one year. Property and equipment are recorded at cost or, if donated, at the estimated fair market value at the date of donation and are depreciated over their estimated useful lives, which range from 3 to 5 years, using the straight-line method.

Basis of Presentation -

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

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. The Board has designated $350,111 as a contingency reserve as of June 30, 2016 and 2015.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that will be met, either by actions of CAPE and/or the passage of time.

Temporarily restricted net assets are comprised of the following:

	2016	2015
National Endowment for the Arts	$ 75,000	$ 55,000
Fry Foundation	30,000	-
Mansfield Foundation	10,000	10,000
City Arts	-	10,000
Boeing Co	-	30,000
Crown Family	-	62,500
Bloomberg Family Foundation	75,000	150,000
Young Audiences, Inc.	-	25,000
Target	-	50,000
Various individuals	109,551	83,570
Total	$ 299,551	$ 476,070

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by CAPE. Generally, the donors of these assets permit CAPE to use all or part of the income earned on any related investments for general or specific purposes. There are no permanently restricted net assets as of June 30, 2016 and 2015.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES: (Continued)

Restricted and Unrestricted Revenue and Support -

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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 and reported in the statement of activities as net assets released from restrictions.

Use of Estimates -

CAPE prepares its financial statements according to generally accepted accounting principles which require the use of estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

Allocation of Expenses -

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

(2) INCOME TAXES:

CAPE is a non-profit Illinois corporation organized for charitable purposes, exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. CAPE is a public charity and, thus, contributions by the public are deductible for income tax purposes.

CAPE files income tax returns in the U.S. federal jurisdiction and Illinois. With few exceptions, CAPE is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2012. CAPE does not expect a material net change in unrecognized tax benefits in the next twelve months.

(3) PLEDGES RECEIVABLE:

Included in pledges receivable are the following unconditional promises to give:

	2016	2015
Promises to give	$ 114,027	$ 87,575
Less - Unamortized discounts	4,576	4,005
Net unconditional promises to give	$ 109,451	$ 83,570
Amounts due in:		
Less than one year	$ 35,892	$ 22,370
One to five years	73,559	61,200
	$ 109,451	$ 83,570

(4) INVESTMENTS:

Investments as of June 30, 2016 and 2015 are as follows:

	2016	2015
Mutual funds	$ 290,815	$ 60,217
Money market funds	-	100,138
Certificates of deposit	-	28,168
Total investments	$ 290,815	$ 188,523

(5) FAIR VALUE MEASUREMENTS:

CAPE adopted Accounting Standards Codification (ASC), *Fair Value Measurements*. The ASC establishes a single definition of fair value and a framework for measuring fair value, sets out a fair value hierarchy to be used to classify the source of information used in fair value measurement and expands disclosures about fair value measurements required under other accounting pronouncements. It does not change existing guidance as to whether or not an instrument is carried at fair value.

The ASC established market and observable inputs as the preferred source of values, followed by assumptions based on hypothetical transactions in the absence of market inputs.

The valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect CAPE's market assumptions. These two types of inputs create the following fair value hierarchy.

Level 1:

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2:

Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3:

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

(5) FAIR VALUE MEASUREMENTS: (Continued)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016 and 2015.

Mutual Funds: Valued at the closing price (net asset value) reported on the active market on which the individual securities are traded.

Money Market: Valued at amortized cost which approximates fair value.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although CAPE believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, CAPE's assets at fair value:

	Assets at Fair Value as of June 30, 2016			
Description	Level 1	Level 2	Level 3	Total
Mutual funds -				
Index funds	$ 290,815	$ -	$ -	$ 290,815
Money market funds	-	-	-	-
Total assets at fair value	$ 290,815	$ -	$ -	290,815
Certificates of deposit				-
Total investments				$ 290,815

	Assets at Fair Value as of June 30, 2015			
Description	Level 1	Level 2	Level 3	Total
Mutual funds –				
Index funds	$ 60,217	$ -	$ -	$ 60,217
Money market funds	100,138	-	-	100,138
Total assets at fair value	$ 160,355	$ -	$ -	160,355
Certificates of deposit				28,168
Total investments				$ 188,523

(6) LEASE COMMITMENTS:

CAPE leases its office under an operating lease that expires in May, 2021. In addition, CAPE has an operating lease agreement for rental of a copier expiring in March, 2020. Rent expense under these operating leases, which includes common area maintenance charges and applicable taxes, was $79,466 and $69,192 in 2016 and 2015, respectively.

The future minimum lease payments are as follows:

2017	$	86,300
2018		88,650
2019		91,000
2020		91,799
2021		81,858

(7) RETIREMENT PLAN:

CAPE has a qualified defined contribution plan 401(k) plan for all qualified employees. The employees may make voluntary pretax contributions to the plan, up to the maximum amount permitted under the Internal Revenue Code. CAPE makes matching contributions of 50% of each employee's contribution, up to 6% of eligible wages. Employer contributions for the years ended June 30, 2016 and 2015 were $14,970 and $14,170, respectively.

(8) CONCENTRATION OF GRANTS:

For the years ended June 30, 2016 and 2015, approximately 45% and 29%, respectively, of CAPE's support and revenues was provided by a pass-through grant from the Illinois State Board of Education's 21st Century Community Learning Centers Program funded by the U.S. Department of Education.

(9) FUNDS HELD FOR OTHERS:

CAPE is acting as an agent for various individuals. CAPE holds the funds and disburses them as needed within required limits and purpose.

The following shows the transactions that have occurred during the years ended June 30, 2016 and 2015:

	2016		2015	
Beginning balance	$	3,146	$	2,521
Receipts		-		3,000
Disbursements		(3,000)		(2,375)
Ending balance	$	146	$	3,146

Schedule 1

CHICAGO ARTS PARTNERSHIPS IN EDUCATION
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016				2015			
	Program Services	General and Administrative	Fundraising	Total Expenses	Program Services	General and Administrative	Fundraising	Total Expenses
Salaries, taxes and benefits	$ 333,120	$ 102,659	$ 129,797	$ 565,576	$ 326,216	$ 87,562	$ 72,137	$ 485,915
Artist fees	322,958	-	820	323,778	243,643	-	475	244,118
Teacher stipends and other personnel	217,939	-	200	218,139	151,521	-	413	151,934
Non-teaching personnel and presenters	45,489	-	100	45,589	41,877	-	277	42,154
Supplies and materials	52,264	5,065	11,322	68,651	54,001	8,115	9,691	71,807
Research and development	55,102	-	-	55,102	66,331	-	-	66,331
Conference fees and travel	16,678	9,368	3,662	29,708	18,145	10,503	1,133	29,781
Brochures and postage	2,366	3,945	788	7,099	740	5,556	2,071	8,367
Website	249	2,063	-	2,312	8,629	1,836	-	10,465
Designers and consultants	3,126	114,000	25,000	142,126	1,200	55,000	875	57,075
Photography	300	-	-	300	-	-	-	-
Rent, utilities, and moving	1,558	85,268	55	86,881	488	81,992	134	82,614
Accounting	11,316	21,764	642	33,722	11,286	22,858	7	34,151
Office expenses	-	12,051	2,390	14,441	1,651	5,325	2,427	9,403
Insurance	12	15,044	-	15,056	-	9,302	-	9,302
Resource materials	1,829	908	1	2,738	-	110	-	110
Depreciation	-	2,659	-	2,659	-	2,726	-	2,726
Dues and subscriptions	290	15,999	1,237	17,526	285	16,299	-	16,584
Temporary services	45	560	-	605	-	465	215	680
Miscellaneous	-	198	-	198	-	160	-	160
Total functional expenses	$ 1,064,641	$ 391,551	$ 176,014	$ 1,632,206	$ 926,013	$ 307,809	$ 89,855	$ 1,323,677