

**EDWINS LEADERSHIP AND RESTAURANT INSTITUTE,
EDWINS SECOND CHANCE LIFE SKILLS CENTER AND
EDWINS FOUNDATION**

CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2016 AND 2015

**EDWINS LEADERSHIP AND RESTAURANT INSTITUTE, EDWINS SECOND CHANCE
LIFE SKILLS CENTER AND EDWINS FOUNDATION**

CONTENTS

Page No.

Independent Auditor’s Report	1-2
Consolidated Financial Statements:	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4-5
Consolidated Statements of Functional Expenses	6-9
Consolidated Statements of Cash Flows.....	10
Notes to Consolidated Financial Statements	11-17
Independent Auditor’s Report on Consolidating Information	18
Consolidating Financial Statements:	
Consolidating Statements of Financial Position.....	19-20
Consolidating Statements of Unrestricted and Temporarily Restricted Activities.....	21-25

INDEPENDENT AUDITOR'S REPORT

Board of Directors

EDWINS Leadership and Restaurant Institute, EDWINS Second Chance Life Skills Center and EDWINS Foundation

Cleveland, Ohio

We have audited the accompanying consolidated financial statements of **EDWINS Leadership and Restaurant Institute, EDWINS Second Chance Life Skills Center and EDWINS Foundation** (nonprofit organizations) which comprise the consolidated statements of financial position as of July 31, 2016 and 2015, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of **EDWINS Leadership and Restaurant Institute, EDWINS Second Chance Life Skills Center and EDWINS Foundation** as of July 31, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Zinner & Co. LLP

Beachwood, Ohio

May 15, 2017

**EDWINS LEADERSHIP AND RESTAURANT INSTITUTE, EDWINS SECOND CHANCE
LIFE SKILLS CENTER AND EDWINS FOUNDATION**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JULY 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Assets		
Cash and cash equivalents	\$ 179,164	\$ 647,949
Certificates of deposit	0	12,505
Unconditional promises to give - Unrestricted	40,000	50,000
Contract and accounts receivable	13,801	5,064
Investments	83,964	497,590
Inventory	71,005	59,500
Prepaid expenses	0	14,251
Liquor license	30,000	30,000
Deposits	2,671	7,671
Smallwares	12,792	12,792
Property and equipment		
Property held for development	259,478	134,748
Leasehold improvements	948,585	89,841
Furniture and equipment	84,235	69,188
Vehicles	8,267	8,267
Accumulated depreciation	<u>(106,043)</u>	<u>(41,952)</u>
Total Assets	<u>\$ 1,627,919</u>	<u>\$ 1,597,414</u>
Liabilities		
Accounts payable	\$ 71,499	\$ 4,389
Accrued expenses	69,921	52,549
Deferred lease liability	<u>20,375</u>	<u>25,522</u>
Total Liabilities	<u>161,795</u>	<u>82,460</u>
Net Assets		
Unrestricted		
Undesignated	1,456,124	672,799
Board designated for Second Chances	0	839,700
	<u>1,456,124</u>	<u>1,512,499</u>
Temporarily restricted	<u>10,000</u>	<u>2,455</u>
Total Net Assets	<u>1,466,124</u>	<u>1,514,954</u>
Total Liabilities and Net Assets	<u>\$ 1,627,919</u>	<u>\$ 1,597,414</u>

The accompanying notes are an integral part of these consolidated financial statements.

**EDWINS LEADERSHIP AND RESTAURANT INSTITUTE, EDWINS SECOND CHANCE LIFE
SKILLS CENTER AND EDWINS FOUNDATION**

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JULY 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support			
Contributions			
Individual	\$ 192,092	\$ 0	\$ 192,092
Corporate	299,502	0	299,502
Foundations	186,240	10,000	196,240
Restaurant	234,075	0	234,075
Special events			
Gross revenue	86,468	0	86,468
Less: Direct expenses	(27,313)	0	(27,313)
Miscellaneous fees and income	29,951	0	29,951
Interest and dividend income	27,906	0	27,906
Investment gains and (losses)	<u>(40,592)</u>	<u>0</u>	<u>(40,592)</u>
Total Support	988,329	10,000	998,329
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>2,455</u>	<u>(2,455)</u>	<u>0</u>
Total Reclassifications	<u>2,455</u>	<u>(2,455)</u>	<u>0</u>
Revenue			
Restaurant operations	1,274,855	0	1,274,855
Cost of goods sold	<u>(442,500)</u>	<u>0</u>	<u>(442,500)</u>
Net Revenue	<u>832,355</u>	<u>0</u>	<u>832,355</u>
Total Support and Revenue	1,823,139	7,545	1,830,684
Expenses			
Program expenses	784,241	0	784,241
Restaurant expenses	441,262	0	441,262
Management and general	574,791	0	574,791
Fundraising	<u>79,220</u>	<u>0</u>	<u>79,220</u>
Total Expenses	<u>1,879,514</u>	<u>0</u>	<u>1,879,514</u>
Change in Net Assets	(56,375)	7,545	(48,830)
Net Assets at Beginning of Year	<u>1,512,499</u>	<u>2,455</u>	<u>1,514,954</u>
Net Assets at End of Year	<u><u>\$ 1,456,124</u></u>	<u><u>\$ 10,000</u></u>	<u><u>\$ 1,466,124</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

**EDWINS LEADERSHIP AND RESTAURANT INSTITUTE, EDWINS SECOND CHANCE LIFE SKILLS
CENTER AND EDWINS FOUNDATION**

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JULY 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support			
Contributions			
Individual	\$ 1,164,318	\$ 2,455	\$ 1,166,773
Corporate	16,660	0	16,660
Foundations	313,700	0	313,700
Restaurant	221,547	0	221,547
Direct public support - Other	250	0	250
Indirect public support	7,500	0	7,500
Special events			
Gross revenue	65,980	0	65,980
Less: Direct expenses	(14,280)	0	(14,280)
Miscellaneous fees and income	5,410	0	5,410
Interest and dividend income	1,179	0	1,179
Investment gains and (losses)	<u>(2,410)</u>	<u>0</u>	<u>(2,410)</u>
Total Support	1,779,854	2,455	1,782,309
Revenue			
Restaurant operations	1,176,111	0	1,176,111
Cost of goods sold	<u>(402,670)</u>	<u>0</u>	<u>(402,670)</u>
Net Revenue	<u>773,441</u>	<u>0</u>	<u>773,441</u>
Total Support and Revenue	2,553,295	2,455	2,555,750
Expenses			
Program expenses	461,773	0	461,773
Restaurant expenses	422,210	0	422,210
Management and general	421,206	0	421,206
Fundraising	<u>52,565</u>	<u>0</u>	<u>52,565</u>
Total Expenses	<u>1,357,755</u>	<u>0</u>	<u>1,357,755</u>
Change in Net Assets	1,195,540	2,455	1,197,995
Net Assets at Beginning of Year	<u>316,959</u>	<u>0</u>	<u>316,959</u>
Net Assets at End of Year	<u>\$ 1,512,499</u>	<u>\$ 2,455</u>	<u>\$ 1,514,954</u>

The accompanying notes are an integral part of these consolidated financial statements.

**EDWINS LEADERSHIP AND RESTAURANT INSTITUTE, EDWINS SECOND CHANCE LIFE SKILLS
CENTER AND EDWINS FOUNDATION**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JULY 31, 2016

	<u>Program Expenses</u>	<u>Restaurant Expenses</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and Related Expenses					
Salaries and wages	\$ 470,447	\$ 207,581	\$ 233,227	\$ 46,645	\$ 957,900
Payroll taxes	29,627	23,124	17,707	3,541	73,999
Total Salaries and Related Expenses	500,073	230,706	250,933	50,187	1,031,899
Contract Services					
Professional fees	1,551	1,235	132,390	4,181	139,357
Bank fees	0	730	34,728	1,097	36,555
Other services	984	133	33,851	1,069	36,037
Total Contract Services	2,535	2,098	200,970	6,346	211,949
Facilities and Equipment					
Equipment rental and maintenance	38,224	19,666	4,053	0	61,944
Rent	6,503	43,784	0	0	50,287
Utilities	38,320	24,826	0	0	63,146
Telephone	1,646	16,015	2,261	565	20,487
Printing and copying	11,566	31,979	5,834	1,459	50,838
Decorations	0	2,056	0	64	2,120
Other facility costs	0	31,012	4,378	1,095	36,485
Total Facilities and Equipment	96,260	169,338	16,527	3,182	285,307

The accompanying notes are an integral part of these consolidated financial statements.

**EDWINS LEADERSHIP AND RESTAURANT INSTITUTE, EDWINS SECOND CHANCE LIFE SKILLS
CENTER AND EDWINS FOUNDATION**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

**FOR THE YEAR ENDED JULY 31, 2016
(CONTINUED FROM PREVIOUS PAGE)**

	<u>Program Expenses</u>	<u>Restaurant Expenses</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Other Expenses					
Supplies	\$ 34,502	\$ 29,173	\$ 16,539	\$ 2,481	\$ 82,695
Uniforms	16,235	0	0	0	16,235
Travel, meals, and entertainment	736	101	31,398	992	33,227
Education and training	28,259	0	0	0	28,259
Insurance	5,562	9,639	45,606	0	60,807
Donations and gifts	43,169	0	0	0	43,169
Fundraising and campaign costs	0	0	0	16,033	16,033
Miscellaneous	5,636	208	0	0	5,844
Total Other Expenses	<u>134,100</u>	<u>39,120</u>	<u>93,543</u>	<u>19,505</u>	<u>286,269</u>
Total Expenses Before Depreciation and Amortization	732,968	441,262	561,973	79,220	1,815,423
Depreciation and Amortization Expense	<u>51,273</u>	<u>0</u>	<u>12,818</u>	<u>0</u>	<u>64,091</u>
Total Expenses	<u>\$ 784,241</u>	<u>\$ 441,262</u>	<u>\$ 574,791</u>	<u>\$ 79,220</u>	<u>\$ 1,879,514</u>
	42%	23%	31%	4%	100%

The accompanying notes are an integral part of these consolidated financial statements.

**EDWINS LEADERSHIP AND RESTAURANT INSTITUTE, EDWINS SECOND CHANCE LIFE SKILLS
CENTER AND EDWINS FOUNDATION**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JULY 31, 2015

	<u>Program Expenses</u>	<u>Restaurant Expenses</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and Related Expenses					
Salaries and wages	\$ 369,666	\$ 193,033	\$ 200,964	\$ 40,193	\$ 803,855
Payroll taxes	32,171	16,592	17,416	3,483	69,662
Total Salaries and Related Expenses	401,837	209,625	218,379	43,676	873,517
Contract Services					
Professional fees	295	753	49,821	1,573	52,442
Bank fees	0	692	32,913	1,039	34,644
Other services	281	697	46,207	1,459	48,644
Total Contract Services	576	2,142	128,941	4,072	135,730
Facilities and Equipment					
Equipment rental and maintenance	1,749	22,000	3,239	0	26,988
Rent	10,698	55,687	0	0	66,385
Utilities	1,867	27,276	0	0	29,143
Telephone	0	14,658	2,069	517	17,245
Printing and copying	1,190	17,055	2,576	644	21,465
Decorations	0	3,310	0	102	3,412
Other facility costs	0	33,221	5,554	1,388	40,163
Total Facilities and Equipment	15,504	173,206	13,438	2,652	204,801

The accompanying notes are an integral part of these consolidated financial statements.

**EDWINS LEADERSHIP AND RESTAURANT INSTITUTE, EDWINS SECOND CHANCE LIFE SKILLS
CENTER AND EDWINS FOUNDATION**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

**FOR THE YEAR ENDED JULY 31, 2015
(CONTINUED FROM PREVIOUS PAGE)**

	<u>Program Expenses</u>	<u>Restaurant Expenses</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Other Expenses					
Supplies	\$ 2,107	\$ 32,516	\$ 8,993	\$ 1,349	\$ 44,966
Uniforms	703	0	0	0	703
Travel, meals, and entertainment	495	48	25,860	817	27,220
Education and training	9,241	0	0	0	9,241
Insurance	2,048	4,673	20,167	0	26,888
Donations and gifts	5,125	0	0	0	5,125
Miscellaneous	2,420	0	0	0	2,420
Total Other Expenses	<u>22,140</u>	<u>37,238</u>	<u>55,020</u>	<u>2,166</u>	<u>116,563</u>
Total Expenses Before Depreciation and Amortization	440,057	422,210	415,777	52,565	1,330,610
Depreciation and Amortization Expense	<u>21,716</u>	<u>0</u>	<u>5,429</u>	<u>0</u>	<u>27,145</u>
Total Expenses	<u>\$ 461,773</u>	<u>\$ 422,210</u>	<u>\$ 421,206</u>	<u>\$ 52,565</u>	<u>\$ 1,357,755</u>
	34%	31%	31%	4%	100%

The accompanying notes are an integral part of these consolidated financial statements.

**EDWINS LEADERSHIP AND RESTAURANT INSTITUTE, EDWINS SECOND CHANCE
LIFE SKILLS CENTER AND EDWINS FOUNDATION**

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JULY 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ (48,830)	1,197,995
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	29,903	27,145
Deferred lease liability	(5,147)	(3,382)
(Increase) decrease in operating assets		
Certificates of deposit	12,505	(12,505)
Unconditional promises to give - Unrestricted	10,000	(50,000)
Contract and accounts receivable	(8,737)	(2,573)
Inventory	(11,505)	(2,860)
Prepaid expenses	14,251	(9,743)
Increase (decrease) in operating liabilities		
Accounts payable	67,110	(6,252)
Accrued expenses	17,372	18,213
Net Cash Provided by Operating Activities	<u>76,922</u>	<u>1,156,038</u>
Cash Flows from Investing Activities		
Acquisition of fixed assets	(993,535)	(166,897)
Net investment activity	442,828	(497,590)
(Increase) decrease in deposits	5,000	(6,071)
Net Cash Used by Investing Activities	<u>(545,707)</u>	<u>(670,558)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(468,785)	485,480
Cash and Cash Equivalents at Beginning of Year	<u>647,949</u>	<u>162,469</u>
Cash and Cash Equivalents at End of Year	<u>\$ 179,164</u>	<u>\$ 647,949</u>

The accompanying notes are an integral part of these consolidated financial statements.

**EDWINS LEADERSHIP AND RESTAURANT INSTITUTE, EDWINS SECOND CHANCE
LIFE SKILLS CENTER AND EDWINS FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2016 AND 2015

**NOTE A - NATURE OF THE ORGANIZATIONS AND SIGNIFICANT ACCOUNTING
POLICIES**

Nature of the Organizations

The accompanying consolidated financial statements include the accounts of EDWINS Leadership and Restaurant Institute (EDWINS), EDWINS Second Chance Life Skills Center (Second Chance) and EDWINS Foundation (Foundation) (collectively referred to as the Organizations). Intercompany transactions and balances have been eliminated in consolidation. EDWINS was incorporated as not-for-profit corporation in July 2007, Second Chance was incorporated as a not-for-profit corporation in July 2015 and Foundation was incorporated as a not-for-profit corporation in April 2016. EDWINS takes a unique approach at giving formerly-incarcerated adults a foundation in the hospitality industry while providing a support network necessary for a successful reentry into society, by teaching a skilled trade in the culinary arts, empowering willing minds through passion for the hospitality industry and preparing students for a successful transition into the world of business professionals. EDWINS also enhances the community of Cleveland's vulnerable neighborhoods by providing for its future leaders. Second Chance is a living community designed to provide program participants with a stable living environment that is nearby and affordable, which increases the participants' likelihood of completing the programs and moving forward into future career success. Intercompany transactions and balances have been eliminated in consolidation.

Foundation was formed to coordinate, promote and oversee the operations of EDWINS and Second Chance as well as other future entities that will be incorporated as sole member LLCs under Foundation's 501(c)(3) status with Foundation being the sole member. Foundation had no activity during 2016. In future years, Foundation intends to fundraise and then use those funds to support the not-for-profit organizations listed above, which will then enable those organizations to focus on their programmatic goals of assisting with the challenges of reentry.

Basis of Presentation

Consolidated financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) 958-205. Under ASC 958-205, the Organizations are required to report information regarding their consolidated financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Basis of Accounting

The consolidated financial statements of the Organizations have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

**EDWINS LEADERSHIP AND RESTAURANT INSTITUTE, EDWINS SECOND CHANCE
LIFE SKILLS CENTER AND EDWINS FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2016 AND 2015

**NOTE A - NATURE OF THE ORGANIZATIONS AND SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)**

Accounts Receivable

Accounts receivable are reported at the amount management expects to collect on balances outstanding at year-end. Management closely monitors outstanding balances and writes off any uncollectible portion at year-end.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organizations that is, in substance, unconditional. Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Conditional promises to give are recognized when the conditions on which they depend are substantially met. The Organizations use the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. As of July 31, 2016 and 2015, management believes that all receivables are collectible and therefore no valuation allowance is necessary.

Investments

Investments are valued at market.

Donated investments are reflected as contributions at their market values at date of receipt. Dividend and interest income and gains and losses on investments are reflected in current unrestricted activities unless temporarily or permanently restricted, either by law or explicit donor stipulation, in which case they would be reported in either temporarily or permanently restricted activities.

Valuation of Long-Lived Assets

The Organizations review for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. An impairment loss is recognized when the estimated future net cash flows are less than the carrying amount of the asset. No impairment losses were recognized in fiscal 2016 and 2015.

Property and Equipment

Property and equipment are carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. It is the Organizations' policy to capitalize expenditures for these items in excess of \$1,000.

**EDWINS LEADERSHIP AND RESTAURANT INSTITUTE, EDWINS SECOND CHANCE
LIFE SKILLS CENTER AND EDWINS FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2016 AND 2015

**NOTE A - NATURE OF THE ORGANIZATIONS AND SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)**

Donated Equipment

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. There was no donated equipment during the years ended July 31, 2016 and 2015.

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. Funds received related to conditional grants are classified as refundable advances until expended for the purposes of the grants.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organizations consider all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents received with donor-imposed restrictions limiting their use to long-term purposes are not considered cash and cash equivalents for purposes of the Statement of Cash Flows.

Inventory

Inventory is stated at the lower of cost or fair market value on a first-in, first-out method of valuation and consisted of the following at July 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Food	\$ 18,188	\$ 16,282
Beverage	<u>52,817</u>	<u>43,218</u>
Total	<u>\$ 71,005</u>	<u>\$ 59,500</u>

Pervasiveness of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

**EDWINS LEADERSHIP AND RESTAURANT INSTITUTE, EDWINS SECOND CHANCE
LIFE SKILLS CENTER AND EDWINS FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2016 AND 2015

**NOTE A - NATURE OF THE ORGANIZATIONS AND SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)**

Concentrations of Credit Risk

Financial instruments that potentially subject the Organizations to concentrations of credit risk consist primarily of cash and cash equivalents and accounts and pledges receivable. The Organizations maintain their cash and cash equivalents with financial institutions and limit their exposure to any one financial institution. Concentrations with respect to trade and pledges receivable are limited due to the varied customer and donor base. As of July 31, 2016 and 2015, the Organizations had no other significant concentrations of credit risk.

Functional Expense Allocation

Costs of providing various programs and supporting services are allocated based on specific identification, if practical, or management's estimation of the respective functions benefited.

Advertising

Advertising costs are expensed when incurred.

Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Subsequent Events

The Organizations have evaluated subsequent events through May 15, 2017, the date the consolidated financial statements were available to be issued, and all such events have been properly disclosed in these consolidated financial statements.

NOTE B - PROMISES TO GIVE

Unconditional promises to give at July 31, 2016 and 2015 consist of:

	<u>2016</u>	<u>2015</u>
Unrestricted promises	<u>\$ 40,000</u>	<u>\$ 50,000</u>
Amounts due in:		
Less than one year	<u>\$ 40,000</u>	<u>\$ 50,000</u>

**EDWINS LEADERSHIP AND RESTAURANT INSTITUTE, EDWINS SECOND CHANCE
LIFE SKILLS CENTER AND EDWINS FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2016 AND 2015

NOTE C - INVESTMENTS

The following is a summary of aggregate costs and market values of investments at July 31, 2016 and 2015:

	2016		
	Cost	Market Value	Unrealized Loss
Cash and cash equivalents	\$ 851	\$ 851	\$ 0
Mutual funds	81,021	83,113	2,092
	<u>\$ 81,872</u>	<u>\$ 83,964</u>	<u>\$ 2,092</u>
	2015		
	Cost	Market Value	Unrealized Gain
Cash and cash equivalents	\$ 8,039	\$ 8,039	\$ 0
Mutual funds	491,015	489,551	(1,464)
	<u>\$ 499,054</u>	<u>\$ 497,590</u>	<u>\$ (1,464)</u>

NOTE D - FAIR VALUE OF FINANCIAL ASSETS

The Organizations use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with ASC 820-10, the Organizations have categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy:

Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Organizations have the ability to access. These include investments that are recorded at fair value on a recurring basis and fair value measurement is based upon quoted prices, if available. Securities valued using Level 1 inputs include those traded on an active exchange, such as the New York Stock Exchange and other exchange trade securities.

Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for subsequently the full term of the asset or liability.

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

**EDWINS LEADERSHIP AND RESTAURANT INSTITUTE, EDWINS SECOND CHANCE
LIFE SKILLS CENTER AND EDWINS FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2016 AND 2015

NOTE D - FAIR VALUE OF FINANCIAL ASSETS (CONTINUED)

The following table presents the Organizations’ fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of July 31, 2016 and 2015.

	2016			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Money Market	\$ 851	\$ 851	\$ 0	\$ 0
Mutual funds				
Griffin Institutional Access Real Estate Fund	83,113	83,113	0	0
	<u>\$ 83,964</u>	<u>\$ 83,964</u>	<u>\$ 0</u>	<u>\$ 0</u>
	2015			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Money Market	\$ 8,039	\$ 8,039	\$ 0	\$ 0
Mutual funds				
Franklin K2 Alternative	20,090	20,090	0	0
Franklin Adjustable US Government	60,016	60,016	0	0
Locorr Market Trend Fund Class I	19,905	19,905	0	0
Lord Abbott Short Duration Income Fund	49,860	49,860	0	0
MFS Total Return Fund Class I	130,233	130,233	0	0
Metropolitan West Total Return Bond	48,972	48,972	0	0
Putnam Capital Spectrum Fund Class Y	24,014	24,014	0	0
Putman Absolute Return 500 Fund	136,461	136,461	0	0
	<u>\$ 497,590</u>	<u>\$ 497,590</u>	<u>\$ 0</u>	<u>\$ 0</u>

NOTE E - RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets at July 31, 2016 and 2015 are available for the following purposes or periods:

	2016	2015
Restricted for Second Chances	\$ 10,000	\$ 2,455
	<u>\$ 10,000</u>	<u>\$ 2,455</u>

NOTE F - DONATED SERVICES

EDWINS received donated legal services related to legal situations surrounding the formation of Second Chance. The value of the donated legal services was not provided by the legal firm for the years ended July 31, 2016 and 2015 and therefore could not be determined.

**EDWINS LEADERSHIP AND RESTAURANT INSTITUTE, EDWINS SECOND CHANCE
LIFE SKILLS CENTER AND EDWINS FOUNDATION**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2016 AND 2015

NOTE G - LINE OF CREDIT

In April, 2015, EDWINS entered into a \$25,000 revolving line of credit with a bank with interest at the Prime Rate (3.50 % and 3.25% at July 31, 2016 and 2015, respectively) plus 2.250%. The line of credit is secured by all the assets of EDWINS. The line of credit had a balance of \$0 as of July 31, 2016 and 2015, respectively.

NOTE H - OPERATING LEASES

The Organizations lease equipment and restaurant space. The lease payments on the restaurant space are being recognized on a straight-line basis over the life of the lease, and a corresponding amortization of the deferred lease liability has been recorded.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of July 31, 2016:

2017	\$ 68,446
2018	69,646
2019	63,703
2020	63,600
2021	<u>0</u>
Total minimum payments required	<u><u>\$ 265,395</u></u>

NOTE I - INCOME TAXES

The Organizations are exempt from Federal income taxes under section 501(c)(3) of the Internal Revenue Code, except for any unrelated business income, including unrelated debt-financed income and advertising income, which is subject to taxation.

As of August 1, 2014 and for the years ended July 31, 2016 and 2015, the Organizations had not engaged in any activity which management considers to be activity that could result in a loss of their 501(c)(3) IRS designations. As well, management does not consider any of the activity of the Organizations to be considered unrelated business income that could result in income tax.

For the years ended July 31, 2016 and 2015, there was no tax interest or penalties reflected in the statement of activities or in the consolidated statement of financial position. The Organizations are no longer subject to U.S. federal, state, and local income tax examinations by taxing authorities for years before 2012.

**INDEPENDENT AUDITOR'S REPORT
ON CONSOLIDATING INFORMATION**

Board of Directors

**EDWINS Leadership and Restaurant Institute, EDWINS Second Chance Life Skills Center and
EDWINS Foundation**
Cleveland, Ohio

We have audited the consolidated financial statements of **EDWINS Leadership and Restaurant Institute, EDWINS Second Chance Life Skills Center and EDWINS Foundation** as of and for the years ended July 31, 2016 and 2015, and our report thereon dated May 15, 2017, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis and is not a required part of the 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 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Zinner & Co. LLP

Beachwood, Ohio

May 15, 2017

**EDWINS LEADERSHIP AND RESTAURANT INSTITUTE, EDWINS SECOND CHANCE
LIFE SKILLS CENTER AND EDWINS FOUNDATION**

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

JULY 31, 2016

	EDWINS Restaurant & Leadership Institute	EDWINS Second Chance Life Skills Center	EDWINS Foundation	Total
Assets				
Cash and cash equivalents	\$ 130,267	\$ 48,897	\$ 0	\$ 179,164
Unconditional promises to give - Unrestricted	40,000	0	0	40,000
Temporarily restricted	0	0	0	0
Contract and accounts receivable	13,801	0	0	13,801
Investments	83,964	0	0	83,964
Inventory	71,005	0	0	71,005
Liquor license	30,000	0	0	30,000
Deposits	2,671	0	0	2,671
Smallwares	12,792	0	0	12,792
Property and equipment				
Property held for development	0	259,478	0	259,478
Leasehold improvements	96,276	852,309	0	948,585
Furniture and equipment	68,629	15,606	0	84,235
Vehicles	8,267	0	0	8,267
Accumulated depreciation	(71,855)	(34,188)	0	(106,043)
Total Assets	<u>\$ 485,817</u>	<u>\$ 1,142,102</u>	<u>\$ 0</u>	<u>\$ 1,627,919</u>
Liabilities				
Accounts payable	\$ 35,333	\$ 36,166	\$ 0	\$ 71,499
Accrued expenses	68,557	1,364	0	69,921
Deferred lease liability	20,375	0	0	20,375
Total Liabilities	<u>124,265</u>	<u>37,530</u>	<u>0</u>	<u>161,795</u>
Net Assets				
Unrestricted	351,552	1,104,572	0	1,456,124
Temporarily restricted	10,000	0	0	10,000
Total Net Assets	<u>361,552</u>	<u>1,104,572</u>	<u>0</u>	<u>1,466,124</u>
Total Liabilities and Net Assets	<u>\$ 485,817</u>	<u>\$ 1,142,102</u>	<u>\$ 0</u>	<u>\$ 1,627,919</u>

See independent auditor's report on consolidating information.

**EDWINS LEADERSHIP AND RESTAURANT INSTITUTE, EDWINS SECOND CHANCE
LIFE SKILLS CENTER AND EDWINS FOUNDATION**

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

JULY 31, 2015

	EDWINS Restaurant & Leadership Institute	EDWINS Second Chance Life Skills Center	Total
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash and cash equivalents	\$ 636,831	\$ 11,118	\$ 647,949
Certificates of deposit	12,505	0	12,505
Unconditional promises to give			
Unrestricted	50,000	0	50,000
Contract and accounts receivable	5,064	0	5,064
Investments	497,590	0	497,590
Inventory	59,500	0	59,500
Prepaid expenses	14,251	0	14,251
Liquor license	30,000	0	30,000
Deposits	2,671	5,000	7,671
Smallwares	12,792	0	12,792
Property and equipment			
Land	0	134,748	134,748
Leasehold improvements	89,841	0	89,841
Furniture and equipment	68,629	559	69,188
Vehicles	8,267	0	8,267
Accumulated depreciation	(41,952)	0	(41,952)
Total Assets	<u>\$ 1,445,989</u>	<u>\$ 151,425</u>	<u>\$ 1,597,414</u>
Liabilities			
Accounts payable	\$ 4,389	\$ 0	\$ 4,389
Accrued expenses	52,549	0	52,549
Deferred lease liability	25,522	0	25,522
Total Liabilities	<u>82,460</u>	<u>0</u>	<u>82,460</u>
Net Assets			
Unrestricted	1,361,074	151,425	1,512,499
Temporarily restricted	2,455	0	2,455
Total Net Assets	<u>1,363,529</u>	<u>151,425</u>	<u>1,514,954</u>
Total Liabilities and Net Assets	<u>\$ 1,445,989</u>	<u>\$ 151,425</u>	<u>\$ 1,597,414</u>

See independent auditor's report on consolidating information.

**EDWINS LEADERSHIP AND RESTAURANT INSTITUTE, EDWINS SECOND CHANCE LIFE SKILLS
CENTER AND EDWINS FOUNDATION**

CONSOLIDATING STATEMENT OF UNRESTRICTED ACTIVITIES

FOR THE YEAR ENDED JULY 31, 2016

	EDWINS Restaurant & Leadership Institute	EDWINS Second Chance Life Skills Center	EDWINS Foundation	Eliminations	Total
UNRESTRICTED NET ASSETS					
Support					
Contributions					
Individual	\$ 181,641	\$ 1,192,360	\$ 0	\$ (1,181,909)	\$ 192,092
Corporate	299,502	0	0	0	299,502
Foundations	186,240	0	0	0	186,240
Restaurant	234,075	0	0	0	234,075
Special events					
Gross revenue	86,468	0	0	0	86,468
Less: Direct expenses	(27,313)	0	0	0	(27,313)
Miscellaneous fees and income	18,585	11,366	0	0	29,951
Interest and dividend income	27,906	0	0	0	27,906
Investment gains and (losses)	(40,592)	0	0	0	(40,592)
Total Support	966,512	1,203,726	0	(1,181,909)	988,329
Revenue					
Restaurant operations	1,274,855	0	0	0	1,274,855
Cost of goods sold	(442,500)	0	0	0	(442,500)
Net Revenue	832,355	0	0	0	832,355
Total Support and Revenue	1,798,867	1,203,726	0	(1,181,909)	1,820,684

See independent auditor's report on consolidating information.

**EDWINS LEADERSHIP AND RESTAURANT INSTITUTE, EDWINS SECOND CHANCE LIFE SKILLS
CENTER AND EDWINS FOUNDATION**

CONSOLIDATING STATEMENT OF UNRESTRICTED ACTIVITIES

**FOR THE YEAR ENDED JULY 31, 2016
(CONTINUED FROM PREVIOUS PAGE)**

	EDWINS Restaurant & Leadership Institute	EDWINS Second Chance Life Skills Center	EDWINS Foundation	Eliminations	Total
Expenses					
Program expenses	\$ 1,966,150	\$ 0	\$ 0	\$ (1,181,909)	\$ 784,241
Restaurant expenses	441,262	0	0	0	441,262
Management and general	324,212	250,579	0	0	574,791
Fundraising	79,220	0	0	0	79,220
Total Expenses	<u>2,810,844</u>	<u>250,579</u>	<u>0</u>	<u>(1,181,909)</u>	<u>1,879,514</u>
Change in Unrestricted Net Assets	(1,011,977)	953,147	0	0	(58,830)

See independent auditor's report on consolidating information.

**EDWINS LEADERSHIP AND RESTAURANT INSTITUTE, EDWINS SECOND CHANCE LIFE SKILLS
CENTER AND EDWINS FOUNDATION**

CONSOLIDATING STATEMENT OF TEMPORARILY RESTRICTED ACTIVITIES

FOR THE YEAR ENDED JULY 31, 2016

	EDWINS Restaurant & Leadership Institute	EDWINS Second Chance Life Skills Center	EDWINS Foundation	Eliminations	Total
TEMPORARILY RESTRICTED NET ASSETS					
Support					
Contributions					
Foundations	\$ 10,000	\$ 0	\$ 0	\$ 0	\$ 10,000
Total Support	<u>10,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net assets released from restrictions:					
Satisfaction of program restrictions	(2,455)	0	0	0	(2,455)
Total Reclassifications	<u>(2,455)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(2,455)</u>
Total Support and Revenues	<u>7,545</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>7,545</u>
Change in Temporarily Restricted Net Assets	<u>7,545</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>7,545</u>
CHANGE IN NET ASSETS	<u><u>\$ (1,004,432)</u></u>	<u><u>\$ 953,147</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ (51,285)</u></u>

See independent auditor's report on consolidating information.

**EDWINS LEADERSHIP AND RESTAURANT INSTITUTE, EDWINS SECOND CHANCE
LIFE SKILLS CENTER AND EDWINS FOUNDATION**

CONSOLIDATING STATEMENT OF UNRESTRICTED ACTIVITIES

FOR THE YEAR ENDED JULY 31, JULY 31, 2015

	EDWINS Restaurant & Leadership Institute	EDWINS Second Chance Life Skills Center	Eliminations	Total
UNRESTRICTED NET ASSETS				
Support				
Contributions				
Individual	\$ 1,164,318	\$ 160,300	\$ (160,300)	\$ 1,164,318
Corporate	16,660	0	0	16,660
Foundations	313,700	0	0	313,700
Restaurant	221,547	0	0	221,547
Direct public support - Other	250	0	0	250
Indirect public support	7,500	0	0	7,500
Special events				
Gross revenue	65,980	0	0	65,980
Less: Direct expenses	(14,280)	0	0	(14,280)
Miscellaneous fees and income	4,902	508	0	5,410
Interest and dividend income	1,179	0	0	1,179
Investment gains and (losses)	(2,410)	0	0	(2,410)
Total Support	1,779,346	160,808	(160,300)	1,779,854
Revenue				
Restaurant operations	1,176,111	0	0	1,176,111
Cost of goods sold	(402,670)	0	0	(402,670)
Net Revenue	773,441	0	0	773,441
Total Support and Revenue	2,552,787	160,808	(160,300)	2,553,295
Expenses				
Program expenses	622,073	0	(160,300)	461,773
Restaurant expenses	412,827	9,383	0	422,210
Management and general	421,206	0	0	421,206
Fundraising	52,565	0	0	52,565
Total Expenses	1,508,672	9,383	(160,300)	1,357,755
Change in Unrestricted Net Assets	1,044,115	151,425	0	1,195,540

See independent auditor's report on consolidating information.

**EDWINS LEADERSHIP AND RESTAURANT INSTITUTE, EDWINS SECOND CHANCE
LIFE SKILLS CENTER AND EDWINS FOUNDATION**

CONSOLIDATING STATEMENT OF TEMPORARILY RESTRICTED ACTIVITIES

FOR THE YEAR ENDED JULY 31, JULY 31, 2015

	EDWINS Restaurant & Leadership Institute	EDWINS Second Chance Life Skills Center	Eliminations	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TEMPORARILY RESTRICTED NET ASSETS				
Support				
Contributions				
Individual	\$ 2,455	\$ 0	\$ 0	\$ 2,455
Total Support	<u>2,455</u>	<u>0</u>	<u>0</u>	<u>2,455</u>
Change in Temporarily Restricted Net Assets	<u>2,455</u>	<u>0</u>	<u>0</u>	<u>2,455</u>
 CHANGE IN NET ASSETS	 <u><u>\$ 1,046,570</u></u>	 <u><u>\$ 151,425</u></u>	 <u><u>\$ 0</u></u>	 <u><u>\$ 1,197,995</u></u>

See independent auditor's report on consolidating information.