

ELMHURST ART MUSEUM

**FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2016**

TOGETHER WITH AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Elmhurst Art Museum:

We have audited the accompanying financial statements of Elmhurst Art Museum (the Museum) (an Illinois nonprofit organization) which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, cash flows and functional expenses 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.

To the Board of Directors of
Elmhurst Art Museum
Page two

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Elmhurst Art Museum as of December 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.

Dugan + Lopatka

DUGAN & LOPATKA

Wheaton, Illinois
April 25, 2017

ELMHURST ART MUSEUM
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 134,993
Grants receivable	147,447
Gift shop inventory	14,974
	14,974

Total current assets	297,414
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PROPERTY AND EQUIPMENT:

Building	1,998,661
Building improvements	525,289
Furniture and fixtures	84,818
Office equipment	45,056
Computer software	21,257
Museum fixtures	110,211
	110,211

	2,785,292
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Less - Accumulated depreciation	1,382,588
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Net property and equipment	1,402,704
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OTHER ASSETS:

Works of art - not part of collection net, of reserve of \$557,533	237,418
Cash and cash equivalents - permanently restricted	227
Investments - permanently restricted	563,429
	563,429

Total other assets	801,074
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Total assets	\$ 2,501,192
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Line of credit	\$ 45,996
Accounts payable	131,468
Accrued liabilities	5,472
Deferred revenue	12,241
	12,241

Total current liabilities	195,177
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COMMITMENTS

NET ASSETS:

Unrestricted	1,650,944
Temporarily restricted	43,398
Permanently restricted	611,673
	611,673

Total net assets	2,306,015
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Total liabilities and net assets	\$ 2,501,192
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The accompanying notes are an integral part of this statement.

ELMHURST ART MUSEUM
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE:				
Public support -				
Contributions	\$ 318,133	\$ 96,250	\$ -	\$ 414,383
Memberships	23,083	-	-	23,083
Fundraising	218,150	-	-	218,150
Other revenues -				
Gift shop sales	28,493	-	-	28,493
Other programs	187,416	-	-	187,416
Facility	8,869	-	-	8,869
Investment income -				
Interest and dividend income	12,726	-	-	12,726
Unrealized and realized gain on investments	20,448	-	-	20,448
Net assets released from restrictions	96,250	(96,250)	-	-
	<u>913,568</u>	<u>-</u>	<u>-</u>	<u>913,568</u>
FUNCTIONAL EXPENSES:				
Program services	860,293	-	-	860,293
Management and general	86,547	-	-	86,547
Fundraising	92,523	-	-	92,523
	<u>1,039,363</u>	<u>-</u>	<u>-</u>	<u>1,039,363</u>
CHANGE IN NET ASSETS BEFORE CHANGES RELATED TO COLLECTION ITEMS NOT CAPITALIZED	(125,795)	-	-	(125,795)
PROCEEDS FROM SALE OF COLLECTION ITEMS	<u>26,440</u>	<u>-</u>	<u>-</u>	<u>26,440</u>
CHANGE IN NET ASSETS	(99,355)	-	-	(99,355)
NET ASSETS, Beginning of year	<u>1,750,299</u>	<u>43,398</u>	<u>611,673</u>	<u>2,405,370</u>
NET ASSETS, End of year	<u>\$ 1,650,944</u>	<u>\$ 43,398</u>	<u>\$ 611,673</u>	<u>\$ 2,306,015</u>

The accompanying notes are an integral part of this statement.

ELMHURST ART MUSEUM
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ (99,355)
Adjustments to reconcile change in net assets to net cash (used in) operating activities:	
Depreciation	72,339
Sales of art	(26,440)
Unrealized and realized (gain) on investments	(20,448)
Changes in assets and liabilities -	
(Increase) in gift shop inventory	(5,088)
(Increase) in grants receivable	(26,875)
Decrease in accounts receivable	37,894
Decrease in works of art non-collection	24,950
(Decrease) in accounts payable	(22,286)
(Decrease) in accrued liabilities	(7,972)
(Decrease) in deferred revenue	(4,211)
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Net cash (used in) operating activities	(77,492)
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CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sale of collection art	26,440
Proceeds from sale of investments	36,539
Purchase of investments	(14,926)
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Net cash provided by investing activities	48,053
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CASH FLOW FROM FINANCING ACTIVITIES	
Net payments on line of credit	(2,491)
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NET CHANGE IN CASH AND CASH EQUIVALENTS	(31,930)
CASH AND CASH EQUIVALENTS, Beginning of year	167,150
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CASH AND CASH EQUIVALENTS, End of year	\$ 135,220
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The accompanying notes are an integral part of this statement.

ELMHURST ART MUSEUM
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 224,215	\$ 28,027	\$ 28,027	\$ 280,269
Advertising	30,104	3,763	3,763	37,630
Bank and credit card processing fees	15,106	1,888	1,888	18,882
Mies house restoration	162,350	-	-	162,350
Catering expense	45,859	-	11,464	57,323
Depreciation	57,871	7,234	7,234	72,339
Dues and publications	6,592	824	824	8,240
Equipment rental	4,155	519	519	5,193
Exhibition expenses	70,444	-	-	70,444
Reduction of works of arts	16,400	-	-	16,400
Gift shop	-	19,359	-	19,359
Insurance	20,608	2,576	2,576	25,760
Maintenance and repairs	18,391	2,299	2,299	22,989
Other	14,280	1,785	1,785	17,850
Postage	10,409	1,301	1,301	13,011
Refunds of program revenue	12,393			12,393
Professional fees	76,938	9,617	9,617	96,172
Printing	13,134	1,642	1,642	16,418
Supplies - Office	4,381	548	548	5,477
- Education	15,348	-	-	15,348
- Admin	1,214	152	152	1,518
- Event	-	-	13,871	13,871
Travel	5,601	700	700	7,001
Utilities	34,500	4,313	4,313	43,126
Total functional expenses	<u>\$ 860,293</u>	<u>\$ 86,547</u>	<u>\$ 92,523</u>	<u>\$ 1,039,363</u>

The accompanying notes are an integral part of this statement.

ELMHURST ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Elmhurst Art Museum (the Museum) was created to promote the visual arts through exhibitions, classes, and the preservation of objects and documents. The Museum was incorporated in 1990 under the Illinois General Not-For-Profit Act. Funding for the Museum comes from individuals, organizations, businesses, government grants and private and corporate foundations.

The financial statements were available to be issued on April 25, 2017, with subsequent events being evaluated through this date.

Accounting Method -

The accounting records are maintained on the accrual basis which recognizes revenues as they are earned and expenses as they are incurred.

Basis of Presentation -

Financial statement presentation follows the recommendations of the Accounting Standards Codification (ASC) for Financial Statements of Not-for-Profit Organizations. Under the ASC, the Museum is required to report information regarding its financial position and activities according to three classes of net assets, which are unrestricted, temporarily restricted and permanently restricted net assets.

Unrestricted and Restricted Resources -

The Museum 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 and reported in the statement of activities as net assets released from restrictions.

The Museum reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributed Materials and Services -

Donated materials and services are recorded as support and expenses at fair market value when determinable, otherwise, at values indicated by the donor. No amounts have been reflected in the financial statements for contributed services that do not meet the criteria for recognition under the ASC for Accounting for Contributions Received and Contributions Made, which prohibits the recording of donated services unless they create or enhance a non-financial asset or have specialized skills that would have been purchased if they were not donated. The reserve for the Work of Art is a change in the fair market value from the original amount when donated.

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

Contributed Materials and Services - (Continued)

The Museum receives donated services from a variety of unpaid volunteers each week. For the year ended December 31, 2016, approximately 1,652 hours, were donated to the Museum by persons working as volunteers, members of various committees, and members of the Board of Directors.

Cash and Cash Equivalents -

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

Receivables -

Receivables represent grants, program revenue and donations due to the Museum. These receivables were reviewed at year end and amounts deemed uncollectible were written off.

Art Collections -

The art collections, which were acquired through purchases and contributions since the Museum's inception, are not recognized as assets on the statement of financial position. Purchases of art collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or as temporarily restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

Inventories -

Gift shop items are stated at the lower of cost.

Property and Equipment -

Property and equipment are stated at cost or if donated, at the estimated market value at the date of donation. The Museum generally capitalizes assets costing \$1,000 or more and have a useful life in excess of one year. Depreciation is provided over the estimated useful lives of the assets, which range from 3 to 39 years, using the straight-line method, and is allocated among program and supporting services. Repairs and maintenance charges are expensed as incurred.

Income Taxes -

The Museum has been determined by the Internal Revenue Service to be exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income tax has been established.

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

Income Taxes - (Continued)

The Museum files informational returns in the U.S. federal jurisdiction and Illinois. With few exceptions, the Museum is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2013. The Museum does not expect a material net change in unrecognized tax benefits in the next twelve months.

Estimates -

The Museum 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 may differ from those estimates.

(2) FAIR VALUE MEASUREMENTS:

The Accounting Standards Codification for Fair Value Measurement established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

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.

(2) 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.

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 December 31, 2016.

Mutual Funds: Valued at the net assets value (NAV) of shares held by the Museum at year end.

Community Foundation Fund: Valued at the fair value of the Museum's share of net assets of the Community Foundation as of December 31, 2016.

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 the Museum 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, the assets at fair value as of December 31, 2016:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Bond funds	\$ 175,862	\$ -	\$ -	\$ 175,862
Equity funds	243,695	-	-	243,695
International funds	<u>90,800</u>	<u>-</u>	<u>-</u>	<u>90,800</u>
Total mutual funds	<u>510,357</u>	<u>-</u>	<u>-</u>	<u>510,357</u>
Community Foundation Fund	<u>-</u>	<u>-</u>	<u>53,072</u>	<u>53,072</u>
Total assets at fair value	<u>\$ 510,357</u>	<u>\$ -</u>	<u>\$ 53,072</u>	<u>\$ 563,429</u>

Level 3 Gains and Losses:

The following table sets forth a summary of changes in the fair value of the Museum's level 3 assets as of December 31, 2016:

Balance, beginning of year	\$ 51,831
Interest and dividends	1,081
Unrealized losses relating to instruments still held at the reporting date	2,009
Purchases, sales, issuances, and settlements (net)	<u>(1,849)</u>
Balance, end of year	<u>\$ 53,072</u>

(3) COLLECTIONS:

The Museum maintains a collection of visual art materials or objects, supporting archive materials, a teaching collection, and a resource library. The collection is eclectic in scope with a concentration of, but not limited to, later 20th century American art. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales to be deposited to the credit of "Collection Management and Development Funds." The Museum does not accept any acquisitions with any donor imposed restrictions. The value of the Museum's permanent collection is not generally subject to a reasonable estimation.

(4) LINE OF CREDIT:

The Museum has a \$50,000 line of credit from a bank, bearing interest at prime plus 1.25%, unsecured, and due on demand. As of December 31, 2016, the Museum had a balance of \$45,996.

(6) NET ASSETS:

Temporarily restricted net assets as of December 31, 2016 consist of \$43,398 for the Cleve Carney Art Collection.

(7) ENDOWMENT:

The ASC provides guidance on the net asset classification of donor-restricted endowment funds for a non-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The ASC also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The Museum's endowment consists of one fund established to cover operating expenses. Its endowment consists of donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law -

The Board of Directors of the Museum has interpreted Illinois Prudent Management of Institutional Funds Act (IPMIFA) 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 Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument and the Museum's bylaws at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by IPMIFA. In accordance with IPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(7) ENDOWMENT: (Continued)

Interpretation of Relevant Law - (Continued)

- (1) The duration and preservation of the fund;
- (2) The purposes of the Museum 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 the appreciation of investments;
- (6) Other resources of the Museum;
- (7) The investment policies of the Museum.

Composition of endowment net assets by type of fund as of December 31, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (48,017)	\$ -	\$ 611,673	\$ 563,656

Changes in endowment net assets for the year ended December 31, 2016 are as follow:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - beginning	\$ (51,809)	\$ -	\$ 611,673	\$ 559,864
Investment return:				
Investment income	9,688	-	-	9,688
Net depreciation (realized and unrealized)	20,448	-	-	20,448
	<u>30,136</u>	<u>-</u>	<u>-</u>	<u>30,136</u>
Appropriation of endowment assets	<u>(26,344)</u>	<u>-</u>	<u>-</u>	<u>(26,344)</u>
Endowment net assets - ending	<u>\$ (48,017)</u>	<u>\$ -</u>	<u>\$ 611,673</u>	<u>\$ 563,656</u>

(7) ENDOWMENT: (Continued)

Investment Policies -

The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity or for donor-specified periods as well as board-designated funds. The Museum expects its endowment funds over time, to provide an average rate of return of approximately five percent annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Spending Policies -

The Museum has a policy that in each calendar year, distributions of 5% of the fair market value of the donor-restricted endowment fund determined as of the close of business on the last day of the prior calendar year shall be made from the endowment to the Museum's general operating fund (only if it has investment earnings of more than 5%). This is consistent with the Museum's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

(8) AFFILIATED ORGANIZATIONS:

Legal title to the land upon which the Museum is situated is vested with the Elmhurst Park District (the Park District), but the Museum is vested with the sole right to utilize the identified real property in Wilder Park, which is located in the City of Elmhurst. The original land transfer agreement further required that the Museum have a Commissioner of the Park District, a member of the Elmhurst Library Board, and two directors from the Elmhurst Artists' Guild (the Guild) on the Museum's Board of Directors.

In January, 1996, the Guild paid \$150,000 for the construction of the Museum building in exchange for lifetime use of one of its galleries at no cost. The Museum also sells Guild gift shop items on consignment and receives twenty percent of the sales.