

ELMHURST ART MUSEUM

**FINANCIAL STATEMENTS
AS OF JUNE 30, 2012 AND 2011**

TOGETHER WITH AUDITOR'S REPORT

Dugan & Lopatka

Certified Public Accountants & Consultants
A Professional Corporation
104 East Roosevelt Road
Wheaton, Illinois 60187
(630) 665-4440
Fax (630) 665-5030
www.duganlopatka.com
e-mail: info@duganlopatka.com

Michael J. Dugan
Jerry L. Lopatka
Mark F. Schultz
Peter J. Zich
Leo M. Misdom

T. Brett Flickinger
Karen M. Olson
Hugh E. Elliott
James P. Hofner

Gwen S. Henry

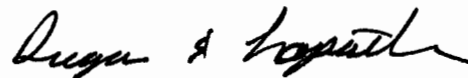
INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Elmhurst Art Museum:

We have audited the accompanying statement of financial position of Elmhurst Art Museum (the Museum) (an Illinois not-for-profit organization) as of June 30, 2012 and 2011, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Museum's management. 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. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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 June 30, 2012, and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



DUGAN & LOPATKA

Wheaton, Illinois
November 28, 2012

ELMHURST ART MUSEUM
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 95,384	\$ 111,915
Investment - unrestricted	-	112,423
Gift shop inventory	6,190	4,618
Grants receivable	13,023	34,500
Accounts receivable	18,256	-
Prepaid expenses	9,108	9,110
Total current assets	<u>141,961</u>	<u>272,566</u>
PROPERTY AND EQUIPMENT:		
Building	1,883,717	1,883,717
McCormick House	911,000	911,000
Building improvements	410,121	297,233
Land improvements	106,725	106,725
Furniture and fixtures	87,680	79,880
Office equipment	93,488	89,666
Computer software	26,501	26,501
Museum fixtures	110,211	110,211
	<u>3,629,443</u>	<u>3,504,933</u>
Less - Accumulated depreciation	<u>1,593,527</u>	<u>1,489,489</u>
Net property and equipment	<u>2,035,916</u>	<u>2,015,444</u>
OTHER ASSETS:		
Cash - permanently restricted	536,975	-
Investments - permanently restricted	44,716	571,563
Total other assets	<u>581,691</u>	<u>571,563</u>
Total assets	<u>\$ 2,759,568</u>	<u>\$ 2,859,573</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Line of credit	\$ -	\$ 50,000
Accounts payable	24,157	41,957
Accrued liabilities	18,804	8,954
Total current liabilities	<u>42,961</u>	<u>100,911</u>
COMMITMENTS		
NET ASSETS:		
Unrestricted	2,055,062	2,059,063
Temporarily restricted	79,854	117,908
Permanently restricted	581,691	581,691
Total net assets	<u>2,716,607</u>	<u>2,758,662</u>
Total liabilities and net assets	<u>\$ 2,759,568</u>	<u>\$ 2,859,573</u>

The accompanying notes are an integral part of this statement.

ELMHURST ART MUSEUM
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE:				
Public support -				
Contributions	\$ 418,870	\$ 33,627	\$ -	\$ 452,497
Contributions in-kind	17,098	-	-	17,098
Sponsorship	-	-	-	-
Memberships	11,230	-	-	11,230
Fundraising	20,095	-	-	20,095
Grants -				
City of Elmhurst	-	-	-	-
Other Illinois agencies	88,758	-	-	88,758
Other revenues -				
Gift shop sales	8,391	-	-	8,391
Other programs	54,715	620	-	55,335
Facility	38,262	-	-	38,262
Investment income (loss) -				
Interest and dividend income	70,422	-	-	70,422
Realized (loss) on investments	(9,199)	-	-	(9,199)
Unrealized (loss) on investments	(83,885)	-	-	(83,885)
Net assets released from restrictions	72,301	(72,301)	-	-
	<u>707,058</u>	<u>(38,054)</u>	<u>-</u>	<u>669,004</u>
Total public support and revenue				
FUNCTIONAL EXPENSES:				
Program services	441,913	-	-	441,913
Management and general	170,686	-	-	170,686
Fundraising	98,460	-	-	98,460
	<u>711,059</u>	<u>-</u>	<u>-</u>	<u>711,059</u>
Total functional expenses				
CHANGE IN NET ASSETS	(4,001)	(38,054)	-	(42,055)
NET ASSETS, Beginning of year	<u>2,059,063</u>	<u>117,908</u>	<u>581,691</u>	<u>2,758,662</u>
NET ASSETS, End of year	<u>\$ 2,055,062</u>	<u>\$ 79,854</u>	<u>\$ 581,691</u>	<u>\$ 2,716,607</u>

The accompanying notes are an integral part of this statement.

ELMHURST ART MUSEUM
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE:				
Public support -				
Contributions	\$ 202,574	\$ 2,575	\$ -	\$ 205,149
Contributions in-kind	4,928	-	-	4,928
Sponsorship	-	13,600	-	13,600
Memberships	12,671	-	-	12,671
Fundraising	240	11,640	-	11,880
Grants -				
City of Elmhurst	22,500	25,000	-	47,500
Other Illinois agencies	49,296	-	-	49,296
Other revenues -				
Gift shop sales	4,323	-	-	4,323
Other Programs	7,436	40,205	-	47,641
Facility	21,310	-	-	21,310
Investment income (loss) -				
Interest and dividend income	12,823	3,748	31,326	47,897
Realized gain (loss) on investments	10,135	(42,321)	24,759	(7,427)
Unrealized gain on investments	17,655	63,554	79,402	160,611
Net assets released from restrictions	253,020	(253,020)	-	-
	<u>618,911</u>	<u>(135,019)</u>	<u>135,487</u>	<u>619,379</u>
FUNCTIONAL EXPENSES				
Program services	372,294	-	-	372,294
Management and general	212,835	-	-	212,835
Fundraising	129,051	-	-	129,051
	<u>714,180</u>	<u>-</u>	<u>-</u>	<u>714,180</u>
CHANGE IN NET ASSETS	(95,269)	(135,019)	135,487	(94,801)
NET ASSETS, Beginning of year	<u>2,154,332</u>	<u>252,927</u>	<u>446,204</u>	<u>2,853,463</u>
NET ASSETS, End of year	<u>\$ 2,059,063</u>	<u>\$ 117,908</u>	<u>\$ 581,691</u>	<u>\$ 2,758,662</u>

The accompanying notes are an integral part of this statement.

ELMHURST ART MUSEUM
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (42,055)	\$ (94,801)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	104,039	106,355
Unrealized (gain) loss on investments	83,885	(160,611)
Realized loss on investments	9,199	7,427
Changes in assets and liabilities -		
(Increase) in gift shop inventory	(1,572)	(1,183)
Decrease in grant receivables	21,477	18,108
Increase in accounts receivable	(18,256)	-
(Increase) decrease in prepaid expenses	2	(1,726)
Increase (decrease) in accounts payable	(17,800)	33,190
Increase (decrease) in accrued liabilities	9,850	(1,049)
(Decrease) in other liabilities	-	(497)
Net cash provided by (used in) operating activities	<u>148,769</u>	<u>(94,787)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(124,511)	(16,344)
Proceeds from sale of investments	846,928	239,275
Purchase of investments	(300,742)	(209,388)
(Increase) decrease in permanently restricted cash	<u>(536,975)</u>	<u>78,158</u>
Net cash provided by (used in) investing activities	<u>(115,300)</u>	<u>91,701</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of line of credit	<u>(50,000)</u>	<u>-</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(16,531)	(3,086)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>111,915</u>	<u>115,001</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 95,384</u>	<u>\$ 111,915</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	<u>\$ 2,891</u>	<u>\$ 2,143</u>

The accompanying notes are an integral part of this statement.

ELMHURST ART MUSEUM
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012			2011				
	Program Services	Management and General	Fundraising	Total	Program Services	Management & General	Fundraising	Total
Salaries and wages	\$ 180,638	\$ 51,612	\$ 25,805	\$ 258,055	\$ 111,430	\$ 31,837	\$ 15,919	\$ 159,186
Employee benefits	4,049	1,157	578	5,784	8,411	2,402	1,202	12,015
Payroll taxes	22,545	6,441	3,221	32,207	11,810	3,375	1,687	16,872
Advertising	8,615	2,402	1,231	12,248	1,961	1,587	2,949	6,497
Bad debt	-	-	-	-	-	-	40,150	40,150
Bank and credit card processing fees	-	5,533	-	5,533	-	3,997	-	3,997
Collection/Conservation expense	249	-	-	249	4,663	-	-	4,663
Communications	2,259	-	384	2,643	1,604	344	343	2,291
Depreciation	72,827	20,808	10,404	104,039	74,449	15,953	15,953	106,355
Dues and publications	52	1,432	912	2,396	197	1,228	447	1,872
Equipment rental	5,329	1,235	8,119	14,683	3,167	678	1,489	5,334
Equipment purchase	6,552	3,325	917	10,794	1,941	730	347	3,018
Exhibition expenses - Shipping and transportation	2,432	-	-	2,432	2,176	-	-	2,176
- Rental fees	-	-	-	-	7,000	-	-	7,000
- Conservation	650	-	-	650	329	-	-	329
Gift shop	-	4,779	-	4,779	-	1,848	-	1,848
Insurance - Property and casualty	12,558	3,588	1,794	17,940	10,758	2,306	2,305	15,369
- Workers' compensation	536	153	77	766	1,075	359	358	1,792
- Directors and officers	1,708	488	244	2,440	1,715	368	367	2,450
Interest	-	2,891	-	2,891	-	2,143	-	2,143
Maintenance and repairs	558	14,970	2,879	18,407	937	13,235	3,226	17,398
Other	2,590	7,219	8,838	18,647	1,304	3,073	590	4,967
Postage	2,138	499	2,440	5,077	3,230	693	2,592	6,515
Professional development	150	-	80	230	-	-	45	45
Professional fees	47,441	33,764	5,678	86,883	81,010	110,441	18,490	209,941
Printing	12,214	990	4,414	17,618	6,853	610	6,372	13,835
Supplies - Maintenance	1,893	541	270	2,704	2,694	577	577	3,848
- Office	2,188	624	313	3,125	1,903	409	408	2,720
- Project	13,242	223	394	13,859	153	3,371	100	3,624
- Event	4,365	-	14,205	18,570	-	4,124	6,331	10,455
Travel	545	393	473	1,411	485	495	153	1,133
Utilities	33,590	5,619	4,790	43,999	31,039	6,652	6,651	44,342
Total functional expenses	\$ 441,913	\$ 170,686	\$ 98,460	\$ 711,059	\$ 372,294	\$ 212,835	\$ 129,051	\$ 714,180

The accompanying notes are an integral part of this statement.

ELMHURST ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Elmhurst Art Museum (the Museum) was created to promote the visual arts through exhibitions, classes, and the preservations 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 Museum received 68% and 50% of its total non-investment revenues for the years ended June 30, 2012 and 2011 from contributions, respectively.

The financial statements were available to be issued on November 28, 2012, 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 Museum recognized \$17,098 and \$4,928 of in-kind contributions for supplies and other materials donated to them during the years ended June 30, 2012 and 2011, respectively.

(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. As of June 30, 2012 and 2011, approximately 1,572 and 2,227 hours, respectively, 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.

The Museum files income tax 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 2008. The Museum does not expect a material net change in unrecognized tax benefits in the next twelve months.

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

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) INVESTMENTS:

Investments are carried at fair market value and principally consist of the following at June 30, 2012 and 2011.

	<u>2012</u>		<u>2011</u>	
	<u>Fair Market Value</u>	<u>Cost</u>	<u>Fair Market Value</u>	<u>Cost</u>
Community Foundation Fund	\$ 44,716	\$ 40,000	\$ 45,933	\$ 40,000
Common stocks	<u>-</u>	<u>-</u>	<u>638,053</u>	<u>559,410</u>
	<u>\$ 44,716</u>	<u>\$ 40,000</u>	<u>\$ 683,986</u>	<u>\$ 599,410</u>

(3) 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.

(3) FAIR VALUE MEASUREMENTS: (Continued)

Level 3:

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

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 June 30, 2012 and 2011.

Common Stocks: Valued at the closing price reported on the active market on which the individual securities are traded.

Community Foundation Fund: Valued at the fair value of the Museum's share of net assets of the Community Foundation as of June 30, 2012 and 2011.

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 June 30, 2012 and 2011:

<u>Description</u>	<u>2012</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Community Foundation Fund	\$ -	\$ -	\$ 44,716	\$ 44,716
Total assets at fair value	\$ -	\$ -	\$ 44,716	\$ 44,716
<u>Description</u>	<u>2011</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stocks:				
Consumer discretionary	\$ 59,870	\$ -	\$ -	\$ 59,870
Energy	252,430	-	-	252,430
Financial	163,563	-	-	163,563
Materials	137,980	-	-	137,980
Telecommunication services	24,210	-	-	24,210
Total common stock	638,053	-	-	638,053
Community Foundation Fund	-	-	45,933	45,933
Total assets at fair value	\$ 638,053	\$ -	\$ 45,933	\$ 683,986

(3) FAIR VALUE MEASUREMENTS: (Continued)

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 for the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 45,933	\$ 40,307
Interest and dividends	1,329	1,244
Unrealized gains (loss) relating to instruments still held at the reporting date	(2,608)	6,006
Purchases, sales, issuances, and settlements (net)	<u>62</u>	<u>(1,624)</u>
Balance, end of year	<u>\$ 44,716</u>	<u>\$ 45,933</u>

(4) COMMITMENTS:

The Museum leases off-site storage space on a month-to-month basis with a monthly payment of \$337. The Museum also leases office equipment at a rate of \$75 per month under a lease that expires in January, 2015. Lease expense for the years ended June 30, 2012 and 2011 was \$4,694 and \$4,524, respectively.

Future minimum lease payments are as follows:

2012	\$ 900
2013	900
2014	900
2015	450

(5) 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.

(6) NET ASSETS:

Temporarily restricted net assets as of June 30, 2012 and 2011 are as follow:

<u>Project</u>	<u>2012</u>	<u>2011</u>
Art in the Park	\$ 296	\$ 2,500
Building Fund for the McCormick House/ Capital Campaign	999	17,016
Contemporary Works from the Cleve Carney Collection Exhibition Catalog	18,378	19,527
Cleve Carney Exhibition Fund	8,355	-
Education Fund	732	732
Eleanor King Hookham Fund	39	39
Facilities	-	1,544
Front entrance renovation - lighting	565	1,565
Miscellaneous project funds	2,048	2,048
Grant receivable	-	22,500
Strategic planning	5,969	-
Art on the Run	750	-
Sliwa Bequest Funds	35,822	37,322
Artwork, presentation and purchases	<u>5,901</u>	<u>13,115</u>
	<u>\$ 79,854</u>	<u>\$ 117,908</u>

(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)

- (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 June 30, 2012 and 2011 are as follows:

	<u>2012</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Donor-restricted endowment funds	\$ (52,101)	\$ -	\$ 581,691	\$ 529,590
Total	<u>\$ (52,101)</u>	<u>\$ -</u>	<u>\$ 581,691</u>	<u>\$ 529,590</u>
	<u>2011</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (4,883)	\$ -	\$ 581,691	\$ 576,808
Total	<u>\$ (4,883)</u>	<u>\$ -</u>	<u>\$ 581,691</u>	<u>\$ 576,808</u>

Changes in endowment net assets for the years ended June 30, 2012 and 2011 are as follow:

	<u>2012</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets - beginning	\$ (4,883)	\$ -	\$ 581,691	\$ 576,808
Investment return:				
Investment income	54,662	-	-	54,662
Net depreciation (realized and unrealized)	<u>(76,424)</u>	<u>-</u>	<u>-</u>	<u>(76,424)</u>
	<u>(21,762)</u>	<u>-</u>	<u>-</u>	<u>(21,762)</u>
Appropriation of endowment assets for expenditure	<u>(25,456)</u>	<u>-</u>	<u>-</u>	<u>(25,456)</u>
Endowment net assets - ending	<u>\$ (52,101)</u>	<u>\$ -</u>	<u>\$ 581,691</u>	<u>\$ 529,590</u>

(7) ENDOWMENT: (Continued)

	2011			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - beginning	\$ -	\$ 1,863	\$ 446,204	\$ 448,067
Investment return:				
Investment income	-	1,649	31,326	32,975
Net appreciation (realized and unrealized)	-	20,754	104,161	124,915
	-	22,403	135,487	157,890
Appropriation of endowment assets for expenditure	(4,883)	(24,266)	-	(29,149)
Endowment net assets - ending	\$ (4,883)	\$ -	\$ 581,691	\$ 576,808

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.

(8) AFFILIATED ORGANIZATIONS: (Continued)

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.

The Museum has a contract with the Park District, in which the Park District remits an agreed upon amount from the Park District's Organization Tax Fund to support the operations of the Museum, including joint arts programming. During the year ended June 30, 2012, the contract was renewed for an additional five years and expires on December 31, 2015. The future minimum payments to be received from the Park District on September 1 of each year are as follows:

2012	\$	40,000
2013		30,000
2014		20,000
2015		10,000

(9) PRIOR PERIOD ADJUSTMENT:

During the year ended June 30, 2011, it was determined that beginning permanently restricted net assets as of June 30, 2010 were overstated by \$107,676, beginning temporarily restricted net assets were understated by \$1,863 and beginning unrestricted net assets were understated by \$105,813. The Museum discovered that some of the investment earnings and original contributions should have been classified as temporarily restricted or unrestricted instead of permanently restricted.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning balance as of 2010, as previously reported	\$ 2,048,519	\$ 251,064	\$ 553,880	\$ 2,853,463
Adjustment for classification errors	<u>105,813</u>	<u>1,863</u>	<u>(107,676)</u>	<u>-</u>
Beginning balance, restated as of 2010	<u>\$ 2,154,332</u>	<u>\$ 252,927</u>	<u>\$ 446,204</u>	<u>\$ 2,853,463</u>