

Cheryl Rohlf & Associates, Ltd.

Certified Public Accountants

**PRELIMINARY DRAFT
SUBJECT TO
REVIEW AND REVISION**

**EVANSTON ART CENTER
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
AUGUST 31, 2010**

**WITH
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

**PRELIMINARY DRAFT
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INDEPENDENT AUDITORS' REPORT

October 21, 2010

The Board of Directors of
Evanston Art Center
Evanston, Illinois

We have audited the accompanying statement of financial position of Evanston Art Center (an Illinois non-profit organization) as of August 31, 2010 and the related statements of activities, functional expenses and cash flows for the fiscal year then ended. These financial statements are the responsibility of the EAC'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 Evanston Art Center as of August 31, 2010 and the changes in its net assets and its cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

CHERYL ROHLFS & ASSOCIATES, LTD.

EVANSTON ART CENTER
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2010

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ASSETS

Current Assets:

Cash	\$ 73,164
Accounts Receivable	2,261
Investments	495,646
Prepaid Expenses and Deposit	<u>34,505</u>
Total Current Assets	605,576

Property and Equipment:

School Equipment	154,952
Office Equipment	109,929
Audio Visual Equipment	31,061
Other Equipment	5,830
Leasehold Improvements	<u>132,892</u>
	434,664
Less: Accumulated Depreciation	<u>(408,661)</u>
Total Property and Equipment	<u>26,003</u>

Total Assets \$ 631,579

LIABILITIES

Current Liabilities:

Current Obligations Under Capital Lease	\$ 900
Accounts Payable and Accrued Expenses	10,001
Tuition and Fees Paid in Advance	<u>129,718</u>
Total Current Liabilities	<u>140,619</u>

Net Assets:

Unrestricted	383,024
Board Designated	<u>6,215</u>
Total Unrestricted	389,239
Temporarily Restricted	15,894
Permanently Restricted	<u>85,827</u>
	<u>490,960</u>

Total Liabilities and Net Assets \$ 631,579

See accompanying notes and auditors' report.

EVANSTON ART CENTER
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED AUGUST 31, 2017

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UNRESTRICTED NET ASSETS**Unrestricted Support, Revenues and Gains**

Contributions and Grants	\$ 111,065
Special Events, net of expenses of \$58,637	93,340
Memberships	46,415
School Tuition and Fees	843,624
Galleries Revenues	9,311
Miscellaneous Income	5,324
Investment Income	<u>13,364</u>
Total Unrestricted Revenues and Gains	1,122,443
Net Assets Released from Restrictions Satisfied by Payments	<u>12,450</u>
Total Unrestricted Revenues, Gains and Other Support	<u>1,134,893</u>

Expenses:**Program Services**

School	862,264
Exhibitions	<u>76,886</u>
Total Program Services Expenses	<u>939,150</u>

Supporting Services

Management and General	121,473
Development	<u>68,666</u>
Total Supporting Services Expenses	<u>190,139</u>
Total Expenses	<u>1,129,289</u>

INCREASE IN UNRESTRICTED NET ASSETS **\$ 5,604**

TEMPORARILY RESTRICTED NET ASSETS

Net Assets released from restrictions satisfied by payments	<u>\$ (12,450)</u>
(DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	<u>\$ (12,450)</u>

PERMANENTLY RESTRICTED NET ASSETS **\$ -**

(DECREASE) IN NET ASSETS **\$ (6,846)**

Net Assets, Beginning of Year 497,806

Net Assets, End of Year **\$ 490,960**

See accompanying notes and auditors' report.

**EVANSTON ART CENTER
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE FISCAL YEAR ENDED AUGUST 31, 2010**

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	Program Services		Supporting Services		Total
	School	Exhibitions	Management and General	Development	
Compensation and Related Expenses:					
Salaries	\$ 248,445	\$ 34,618	\$ 69,236	\$ 42,309	\$ 394,608
Payroll Taxes	20,837	2,903	5,807	3,548	33,095
Employee Benefits	6,523	909	1,818	1,111	10,361
	\$ 275,805	\$ 38,430	\$ 76,861	\$ 46,968	\$ 438,064
Faculty Fees	271,111	-	-	-	271,111
Professional Fees	14,065	2,175	11,392	2,175	29,807
Contractual Services	70,844	-	4,078	-	74,922
Exhibit Expenses	-	15,348	-	-	15,348
Communications	5,447	-	605	-	6,052
Postage and Delivery	1,578	-	1,535	-	3,113
Program Expenses	30,903	9,064	1,805	-	41,772
Supplies	42,176	-	3,231	3,230	48,637
Publications and Printing	38,468	-	3,326	-	41,794
Public Relations	-	-	3,502	-	3,502
Occupancy:					
Rent	39,749	-	-	-	39,749
Utilities	21,580	5,886	5,886	5,886	39,238
Insurance	12,114	3,303	3,303	3,303	22,023
Repairs and Maintenance	22,312	75	1,084	-	23,471
Dues and Subscriptions	193	-	684	-	877
Equipment Expenses	495	-	345	-	840
Bank and Credit Card Charges	6,485	-	82	-	6,567
Fundraising Expenses	-	-	-	4,717	4,717
Miscellaneous Expenses	185	218	1,367	-	1,770
Total Expenses Before Depreciation	\$ 853,510	\$ 74,499	\$ 119,086	\$ 66,279	\$ 1,113,374
Depreciation	8,754	2,387	2,387	2,387	15,915
TOTAL EXPENSES	\$ 862,264	\$ 76,886	\$ 121,473	\$ 68,666	\$ 1,129,289

See accompanying notes and auditors' report.

**EVANSTON ART CENTER
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2010**

CASH FLOWS FROM OPERATING ACTIVITIES:

Decrease in Net Assets	\$ (6,846)
Adjustment to Reconcile Change in Net Assets to Net Cash	
Provided by Operating Activities:	
Depreciation	15,915
(Increase) Decrease in Operating Assets:	
Accounts Receivable	(2,261)
Prepaid Expenses	3,470
Increase (Decrease) in Operating Liabilities:	
Accounts Payable and Accrued Expenses	(3,151)
Tuition and Fees Paid in Advance	<u>(32,738)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (25,611)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of Property and Equipment	\$ (11,703)
Changes in Investments	<u>83,229</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>\$ 71,526</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Repayments of Capital Lease Obligation	<u>\$ (2,475)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>\$ (2,475)</u>

NET INCREASE IN CASH 43,440

CASH AND CASH EQUIVALENTS AT BEGINNING YEAR 159,832

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 203,272

Operating	\$ 73,164
Investments	<u>130,108</u>
CASH AND CASH EQUIVALENTS	<u>\$ 203,272</u>

Supplementary Information:

Interest Paid	\$ -
Income Taxes Paid	\$ -

See accompanying notes and auditors' report.

EVANSTON ART CENTER
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2010

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1. DESCRIPTION OF THE ORGANIZATION

Since its inception in 1929 and later incorporated in 1942, the Evanston Art Center (EAC) has been dedicated to fostering the appreciation and expression of the visual arts with art classes for all ages, exhibitions, arts outreach activities, public programs, publications, docent-led tours and more. All EAC activities are designed to enrich both the individual and the diverse communities served as well as encourage lifelong learning in the arts and to make the art of our time an accessible and integral part of people's lives. EAC operates out of two main facilities both located in Evanston.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, Evanston Art Center considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents, including cash in bank and money market and certificate of deposit investments.

Contributions

Contributions are recognized when the donor makes a promise to give to EAC that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the 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.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and Equipment

It is EAC's policy to capitalize property and equipment over \$500. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are

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recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support.

Equipment is depreciated using straight-line method over the estimated useful life of the asset as follows:

Leasehold Improvements	5-15 years
School Equipment	5 years
Office Equipment	5 years
Audio Visual Equipment	5 years
Other Equipment	5 years

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by EAC. Volunteers provided administrative and fund-raising services throughout the fiscal year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Expenses which are easily and directly associated with a particular program or supporting service are allocated directly to that functional category.

Income Taxes

Evanston Art Center is not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

3. INVESTMENTS

Investments as of August 31, 2010 are carried at fair market value and are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Unrestricted			
Common Stock	\$ 131,959	\$ 164,994	\$ 33,035
Corporate Bonds	75,709	75,917	208
U.S. Securities	24,984	26,672	1,688
Mutual Funds	59,650	63,644	3,994
Money Market	52,135	52,135	-
Certificate of Deposit	<u>25,000</u>	<u>25,000</u>	<u>-</u>
Total Unrestricted	<u>369,437</u>	<u>408,362</u>	<u>38,925</u>

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Endowment			
Certificate of Deposit	50,000	51,011	1,011
Mutual Funds	10,000	9,311	(689)
Money Market	<u>26,962</u>	<u>26,962</u>	<u>-</u>
Total Endowment Investments	<u>86,962</u>	<u>87,284</u>	<u>322</u>
Total Investments	<u>\$ 456,399</u>	<u>\$ 495,646</u>	<u>\$ 39,247</u>
Interest and Dividend Income	\$ 12,436		
Unrealized Net Gains	<u>928</u>		
Total Investment Income for the fiscal year ended August 31, 2010	<u>\$ 13,364</u>		

4. FAIR VALUE MEASUREMENTS

Fair values of assets measured on a recurring basis as of August 31, 2010 were as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Certificates of Deposit	\$ 76,011	\$ 76,011	\$ -	\$ -
Common Stock	164,994	164,994	-	-
Corporate Bonds	75,917	75,917	-	-
U.S. Securities	26,672	26,672	-	-
Mutual Funds	<u>72,955</u>	<u>72,955</u>	<u>-</u>	<u>-</u>
	<u>\$ 416,549</u>	<u>\$ 416,549</u>	<u>\$ -</u>	<u>\$ -</u>

Fair values for these investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

5. LEASE AGREEMENTS

Evanston Art Center leases their main facility from the City of Evanston at an annual rate of \$1 through May 31, 2021. EAC is also required under this agreement with the City of Evanston to contribute \$1,000 for improvements in accordance with the Americans with Disabilities Act for each year of the lease term.

Evanston Art Center leases space for the art school programs from the City of Evanston under an operating lease in its third option year through February 28, 2011. The future minimum rentals under this lease are \$20,170. The lease requires EAC to pay all expenses relating to repairs of any damage, custodial overtime fees, utilities and insurance on the leased facility.

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EAC also leases a copier under a capital lease through 2011, which had been initially recorded as equipment and a capital lease obligation of \$13,500. The future minimum payments remaining in 2011 are \$675, and the outstanding liability under capital lease is \$900 as of August 31, 2010.

6. RESTRICTIONS ON NET ASSETS

Net assets were temporarily restricted for the following purposes at August 31, 2010:

Restoration of Jens Jeansen Garden Fund	\$ 1,267
Margaret Klimek Scholarship	14,143
Barr/Weighardt Fund	<u>484</u>
Total	<u>\$ 15,894</u>

The Margaret Klimek-Phillips Trust scholarship is designated to be used exclusively and solely for scholarships to persons who are twenty-five years of age and who reside within a 100 miles radius of EAC. The Barr/Weighardt fund represents funds which shall be used to underwrite expenses of an annual master class seminar workshop, which will be known as the Nelli Barr and Paul Weighardt Annual Master Class.

Net assets were permanently restricted for the following purposes at August 31, 2010:

Endowment Fund	\$ 35,500
Friends of Evanston Art Center	327
Barr/Weighardt Fund	<u>50,000</u>
Total	<u>\$ 85,827</u>

Permanently restricted net assets are funds restricted as endowment funds. Income generated by these assets can be used as specified by the donors.

7. ENDOWMENT FUNDS

The endowment funds consist of donor-restricted contributions to the Evanston Art Center. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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, EAC 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 at the time the accumulation is added to the fund.

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Investment Return Objectives, Risk Parameters and Strategies. Evanston Art Center has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to EAC's programs while also maintaining the purchasing power of those endowment assets over the long-term. Endowment assets are invested in a well diversified asset mix, which includes a certificate of deposit, mutual funds and money market funds that are intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make distributions, while growing the funds if possible. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. Evanston Art Center has a policy of appropriating of distribution an amount each year of its endowment fund's investment income to cover the budgeted expenses of the Evanston Art Center. In establishing this policy, EAC considered the long-term expected return on its investment assets, the nature and duration of the endowment funds, which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. EAC's objective is to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Endowment net asset composition by type of funds as of August 31, 2010, is as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds, beginning of year	\$ 28,344	\$ 85,827	\$ 114,171
Contributions	-	-	-
Program Expenses	<u>(12,450)</u>	<u>-</u>	<u>(12,450)</u>
Donor-Restricted Endowment Funds, end of year	<u>\$ 15,894</u>	<u>\$ 85,827</u>	<u>\$ 101,721</u>

8. EVALUATION OF SUBSEQUENT EVENTS

Evanston Art Center has evaluated subsequent events through October 21, 2010, the date which the financial statements were available to be issued.