

Cheryl Rohlf & Associates, Ltd.

Certified Public Accountants

EVANSTON ART CENTER
FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED
AUGUST 31, 2014 AND 2013

WITH
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

November 11, 2014

The Board of Directors of
Evanston Art Center
Evanston, Illinois

We have audited the accompanying financial statements of Evanston Art Center (an Illinois nonprofit organization), which comprise the statements of financial position as of August 31, 2014 and 2013, and the related statements of activities, functional expenses and cash flows for the fiscal years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An

audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Evanston Art Center as of August 31, 2014 and 2013, and the changes in its net assets and its cash flows and for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Cheryl Rohlf & Associates, Ltd.

CHERYL ROHLFS & ASSOCIATES, LTD.
Northbrook, Illinois

**EVANSTON ART CENTER
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets:		
Cash	\$ 66,415	\$ 41,472
Cash - Restricted for Capital Campaign	437,045	-
Accounts Receivable	-	12,500
Other Receivables	2,015	-
Unconditional Promises to Give	3,000	-
Investments	444,354	465,342
Investments - Restricted for Capital Campaign	436,803	148,932
Prepaid Expenses and Deposit	<u>55,212</u>	<u>37,686</u>
Total Current Assets	1,444,844	705,932
Property and Equipment:		
School Equipment	158,281	156,451
Office Equipment	112,691	112,691
Audio Visual Equipment	32,549	32,549
Other Equipment	6,363	6,363
Leasehold Improvements	132,892	132,892
Vehicles	3,028	-
Website	15,800	15,800
Construction in Progress	213,818	-
	475,422	456,746
Less: Accumulated Depreciation	<u>(451,954)</u>	<u>(445,411)</u>
Total Property and Equipment	<u>23,468</u>	<u>11,335</u>
Total Assets	<u><u>\$ 1,468,312</u></u>	<u><u>\$ 717,267</u></u>
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 6,059	\$ 7,132
Tuition and Fees Paid in Advance	<u>89,693</u>	<u>98,962</u>
Total Current Liabilities	<u>95,752</u>	<u>106,094</u>
Net Assets:		
Unrestricted	286,302	311,223
Board Designated	<u>15,284</u>	<u>15,284</u>
Total Unrestricted	301,586	326,507
Temporarily Restricted	980,147	193,839
Permanently Restricted	<u>90,827</u>	<u>90,827</u>
	<u>1,372,560</u>	<u>611,173</u>
Total Liabilities and Net Assets	<u><u>\$ 1,468,312</u></u>	<u><u>\$ 717,267</u></u>

See accompanying notes and independent auditor's report.

**EVANSTON ART CENTER
STATEMENTS OF ACTIVITIES
FOR THE FISCAL YEARS ENDED AUGUST 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
UNRESTRICTED NET ASSETS		
Unrestricted Support, Revenues and Gains		
Contributions and Grants	\$ 120,754	\$ 95,206
Donated Professional Services	148,181	45,704
Special Events, net of expenses of \$53,844 in 2014 and \$59,705 in 2013	78,184	93,210
Memberships	25,125	30,490
School Tuition and Fees	644,724	692,291
Galleries Revenues	11,435	11,027
Miscellaneous Income	627	1,575
Investment Income	<u>38,415</u>	<u>32,181</u>
Total Unrestricted Revenues and Gains	1,067,445	1,001,684
Net Assets Released from Restrictions Satisfied by Payments, Net of Transfers to Property and Equipment	<u>(6,955)</u>	<u>10,363</u>
Total Unrestricted Revenues, Gains and Other Support	<u>1,060,490</u>	<u>1,012,047</u>
Expenses:		
Program Services		
School	656,990	706,194
Exhibitions	<u>66,345</u>	<u>69,000</u>
Total Program Services Expenses	<u>723,335</u>	<u>775,194</u>
Supporting Services		
Management and General	292,848	186,047
Development	<u>69,228</u>	<u>65,823</u>
Total Supporting Services Expenses	<u>362,076</u>	<u>251,870</u>
Total Expenses	<u>1,085,411</u>	<u>1,027,064</u>
DECREASE IN UNRESTRICTED NET ASSETS	<u>\$ (24,921)</u>	<u>\$ (15,017)</u>
TEMPORARILY RESTRICTED NET ASSETS		
Donor Contributions Received for Scholarships	\$ 1,095	\$ -
Donor Contributions Received for Programming	-	20,000
Donor Contributions Received for the Capital Campaign	778,258	126,500
Net Assets Released from Restrictions Satisfied by Payments, Net of Transfers to Property and Equipment	<u>6,955</u>	<u>(10,363)</u>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 786,308</u>	<u>\$ 136,137</u>
PERMANENTLY RESTRICTED NET ASSETS	<u>\$ -</u>	<u>\$ -</u>
INCREASE IN NET ASSETS		
Net Assets, Beginning of Year	\$ 761,387	\$ 121,120
Net Assets, End of Year	<u>611,173</u>	<u>490,053</u>
	<u>\$ 1,372,560</u>	<u>\$ 611,173</u>

See accompanying notes and independent auditor's report.

EVANSTON ART CENTER
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE FISCAL YEARS ENDED AUGUST 31, 2014 AND 2013

	Program Services		Supporting Services		2014 Total
	School	Exhibitions	Management and General	Development	
Compensation and Related Expenses:					
Salaries	\$ 167,395	\$ 42,826	\$ 77,196	\$ 38,598	\$ 326,015
Payroll Taxes	14,606	4,453	7,086	3,543	29,688
Employee Benefits	10,378	2,772	3,553	1,776	18,479
	<u>\$ 192,379</u>	<u>\$ 50,051</u>	<u>\$ 87,835</u>	<u>\$ 43,917</u>	<u>\$ 374,182</u>
Faculty Fees	220,932	-	-	-	220,932
Professional Fees	600	900	13,795	-	15,295
Donated Professional Services	-	-	148,181	-	148,181
Contractual Services	54,581	-	1,061	-	55,642
Exhibit Expenses	-	1,622	-	150	1,772
Communications	851	-	6,540	-	7,391
Postage and Delivery	43	-	2,045	-	2,088
Program Expenses	4,974	5,055	3,089	1,895	15,013
Supplies	27,172	804	804	804	29,584
Publications and Printing	45,269	-	7,647	-	52,916
Public Relations	1,436	-	359	-	1,795
Occupancy:					
Rent	45,198	-	-	-	45,198
Utilities	17,240	4,702	4,702	4,702	31,346
Insurance	8,176	2,230	2,230	2,230	14,866
Repairs and Maintenance	16,140	-	5,124	-	21,264
Relocation Expenses	-	-	5,607	-	5,607
Dues and Subscriptions	-	-	489	-	489
Equipment Expenses	1,500	-	1,464	-	2,964
Bank and Credit Card Charges	13,644	-	49	-	13,693
Fundraising Expenses	-	-	-	14,549	14,549
Miscellaneous Expenses	3,256	-	846	-	4,102
Total Expenses Before Depreciation	<u>\$ 653,391</u>	<u>\$ 65,364</u>	<u>\$ 291,867</u>	<u>\$ 68,247</u>	<u>\$ 1,078,869</u>
Depreciation	3,599	981	981	981	6,542
TOTAL EXPENSES	<u><u>\$ 656,990</u></u>	<u><u>\$ 66,345</u></u>	<u><u>\$ 292,848</u></u>	<u><u>\$ 69,228</u></u>	<u><u>\$ 1,085,411</u></u>

See accompanying notes and auditor's report.

EVANSTON ART CENTER
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE FISCAL YEARS ENDED AUGUST 31, 2014 AND 2013 (CONTINUED)

	Program Services		Supporting Services		2013 Total
	School	Exhibitions	Management and General	Development	
Compensation and Related Expenses:					
Salaries	\$ 212,160	\$ 41,957	\$ 58,915	\$ 45,979	\$ 359,011
Payroll Taxes	10,917	7,278	12,644	5,552	36,391
Employee Benefits	5,047	3,364	6,729	1,682	16,822
	<u>\$ 228,124</u>	<u>\$ 52,599</u>	<u>\$ 78,288</u>	<u>\$ 53,213</u>	<u>\$ 412,224</u>
Faculty Fees	228,474	-	-	-	228,474
Professional Fees	245	-	22,072	-	22,317
Donated Professional Services	-	-	45,704	-	45,704
Contractual Services	67,230	625	1,622	-	69,477
Exhibit Expenses	-	8,389	-	-	8,389
Communications	638	-	6,346	-	6,984
Postage and Delivery	213	21	1,878	-	2,112
Program Expenses	5,193	-	6,239	-	11,432
Supplies	32,185	814	814	814	34,627
Publications and Printing	48,171	-	9,439	-	57,610
Public Relations	1,358	-	333	37	1,728
Occupancy:					
Rent	40,879	-	-	-	40,879
Utilities	14,869	4,055	4,055	4,055	27,034
Insurance	4,227	1,153	1,153	1,153	7,686
Repairs and Maintenance	16,537	-	2,347	-	18,884
Dues and Subscriptions	-	-	290	-	290
Equipment Expenses	457	-	1,441	-	1,898
Bank and Credit Card Charges	12,167	90	275	(25)	12,507
Fundraising Expenses	-	-	-	5,323	5,323
Miscellaneous Expenses	631	-	2,497	-	3,128
Total Expenses Before Depreciation	<u>\$ 701,598</u>	<u>\$ 67,746</u>	<u>\$ 184,793</u>	<u>\$ 64,570</u>	<u>\$ 1,018,707</u>
Depreciation	4,596	1,254	1,254	1,253	8,357
TOTAL EXPENSES	<u><u>\$ 706,194</u></u>	<u><u>\$ 69,000</u></u>	<u><u>\$ 186,047</u></u>	<u><u>\$ 65,823</u></u>	<u><u>\$ 1,027,064</u></u>

See accompanying notes and auditor's report.

**EVANSTON ART CENTER
STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED AUGUST 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in Net Assets	\$ 761,387	\$ 121,120
Adjustment to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	6,542	8,357
Unrealized Gains on Investments	(30,569)	(17,725)
Donation of Vehicle	(3,028)	-
(Increase) Decrease in Operating Assets:		
Accounts Receivable	12,500	(5,362)
Other Receivables	(2,015)	-
Unconditional Promises to Give	(3,000)	-
Prepaid Expenses and Deposit	(17,526)	(2,478)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable and Accrued Expenses	(1,073)	(2,200)
Tuition and Fees Paid in Advance	(9,269)	(15,015)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 713,949</u>	<u>\$ 86,697</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Property and Equipment	\$ (15,647)	\$ (3,324)
Increases in Investments	(265,509)	(98,860)
NET CASH USED BY INVESTING ACTIVITIES	<u>\$ (281,156)</u>	<u>\$ (102,184)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	<u>\$ -</u>	<u>\$ -</u>
NET INCREASE (DECREASE) IN CASH	432,793	(15,487)
CASH AND CASH EQUIVALENTS AT BEGINNING YEAR	<u>97,478</u>	<u>112,965</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 530,271</u></u>	<u><u>\$ 97,478</u></u>
Operating	\$ 66,415	\$ 41,472
Capital Campaign	437,045	-
Investments	26,811	56,006
CASH AND CASH EQUIVALENTS	<u><u>\$ 530,271</u></u>	<u><u>\$ 97,478</u></u>
Supplementary Information:		
Interest Paid	\$ -	\$ -
Income Taxes Paid	\$ -	\$ -

See accompanying notes and independent auditor's report.

**EVANSTON ART CENTER
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014 AND 2013**

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 programs operate in two facilities 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 Evanston Art Center 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

Evanston Art Center's policy is to capitalize property and equipment more than \$500. Lesser amounts are expensed. Purchased property and equipment are capitalized at cost. Donations of property and equipment are 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
Website	3 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. 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. Donated professional services of \$148,181 and \$45,704 were recorded in the Statements of Activities for the fiscal years ended August 31, 2014 and 2013, respectively, as contribution revenues and as professional fees expense.

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, 2014 are carried at fair market value and are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Unrestricted Investments:			
Corporate Bonds	\$ 25,520	\$ 35,399	\$ 9,879
U.S. Securities	49,984	49,957	(27)
Municipal Bonds	50,855	74,725	(1,003)
Mutual Funds	122,904	155,701	32,797
Money Market	23,554	23,554	-
Certificate of Deposit	25,000	25,000	-
Total Unrestricted	<u>297,817</u>	<u>339,463</u>	<u>41,646</u>
Endowment Investments:			
Certificate of Deposit	50,000	50,000	-
Mutual Funds	45,689	51,773	6,084
Money Market	3,118	3,118	-
Total Endowment Investments	<u>98,807</u>	<u>104,891</u>	<u>6,084</u>
Capital Campaign Investments:			
U.S. Securities	406,770	406,770	-
Money Market	30,033	30,033	-
Total Capital Campaign	<u>436,803</u>	<u>436,803</u>	
Total Investments	<u>\$ 833,427</u>	<u>\$ 881,157</u>	<u>\$ 47,730</u>
Interest and Dividend Income	\$ 7,816		
Unrealized Net Gains	30,569		
Realized Gain on Sale of Securities	30		
Total Investment Income for the fiscal year ended August 31, 2014	<u>\$ 38,415</u>		

Investments as of August 31, 2013 are carried at fair market value and are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Unrestricted Investments:			
Corporate Bonds	\$ 25,520	\$ 24,852	\$ (668)
U.S. Securities	49,984	50,387	403
Municipal Bonds	76,080	74,725	(1,355)
Mutual Funds	117,904	133,632	15,728
Money Market	56,006	56,006	-
Certificate of Deposit	25,000	25,000	-
Total Unrestricted	<u>350,494</u>	<u>364,602</u>	<u>14,108</u>
Endowment Investments:			
Certificate of Deposit	50,000	50,328	328
Mutual Funds	45,689	48,540	2,851
Money Market	150,804	150,804	-
Total Endowment Investments	<u>246,493</u>	<u>249,672</u>	<u>3,179</u>
Total Investments	<u>\$ 596,987</u>	<u>\$ 614,274</u>	<u>\$ 17,287</u>
Interest and Dividend Income	\$ 10,221		
Unrealized Net Gains	17,725		
Realized Gain on Sale of Securities	4,235		
Total Investment Income for the fiscal year ended August 31, 2013	<u>\$ 32,181</u>		

4. FAIR VALUE MEASUREMENTS

Fair values of assets measured on a recurring basis as of August 31, 2014 were as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of Deposit	\$ 75,000	\$ 75,000	\$ -	\$ -
Corporate Bonds	35,399	-	35,399	-
Municipal Bonds	49,852	-	49,852	-
U.S. Securities	456,727	456,727	-	-
Mutual Funds	207,474	161,479	45,995	-
	<u>\$ 824,452</u>	<u>\$ 693,206</u>	<u>\$ 131,246</u>	<u>\$ -</u>

Fair values of assets measured on a recurring basis as of August 31, 2013 were as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of Deposit	\$ 75,328	\$ 75,328	\$ -	\$ -
Corporate Bonds	24,852	-	24,852	-
Municipal Bonds	74,725	-	74,725	-
U.S. Securities	50,387	50,387	-	-
Mutual Funds	182,172	141,706	40,466	-
	<u>\$ 407,464</u>	<u>\$ 267,421</u>	<u>\$ 140,043</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 at 2603 Sheridan Road in Evanston from the City of Evanston at an annual rate of \$1 through May 31, 2021. EAC is required under this agreement with the City of Evanston to contribute \$1,000 for improvements in accordance with the Americans with Disabilities Act (ADA) for each year of the lease term.

In July 2011, EAC management learned that the City of Evanston planned to sell the 2603 Sheridan Road facility. Since the date, EAC's Board of Directors and management have reviewed alternative venues. City of Evanston officials assured the EAC they would be given adequate time to locate,

secure, complete due diligence activities, and move into another facility before their current facility is occupied by new owners. Under the terms of the lease, the Lessor or Lessee may terminate this lease upon two hundred forty days written notice, provided however that Lessee's rights of termination are subject to these conditions: a) Lessee will fully perform all class or program offerings; b) fully perform all executed contracts; c) all of Lessee's obligations for ADA improvements must be fulfilled, or Lessee must reimburse the City, therefore; d) Lessee must pay, in accordance with the payment schedule specified in the lease, the remaining \$6,000 in ADA-related physical improvements specified herein for which Lessee is responsible. In the event, the Lessee terminates the lease without fulfilling its predetermination obligations, Lessor shall have a lien on all of Lessee's personal property, to secure performance thereof, in addition to any other rights it may have.

Evanston Art Center also leases space for the art school programs at the Noyes Cultural Arts Center from the City of Evanston under an operating lease through December 31, 2014. The future minimum rentals under this lease are \$13,448 for fiscal year 2014. A lease extension has not been finalized as of the date of this report. Total rent expense for the fiscal year ended August 31, 2014 was \$45,198 and for the fiscal year ended August 31, 2013 was \$40,879.

6. RESTRICTIONS ON NET ASSETS

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

	<u>2014</u>	<u>2013</u>
Restoration of Jens Jeanssen Garden Fund	\$ 1,267	\$ 1,267
Visual Literacy Fund	15,639	18,302
Barr/Wieghardt Fund (Mead Witter Foundation)	484	484
Capital Campaign - Brick and Mortar	20,000	20,000
Capital Campaign	926,304	138,428
Nina M. Bunin Scholarship Fund	16,453	15,358
Total	<u>\$ 980,147</u>	<u>\$ 193,839</u>

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

	<u>2014</u>	<u>2013</u>
Barr/Wieghardt Fund (Mead Witter Foundation)	\$ 50,000	\$ 50,000
Endowment Fund	40,500	40,500
Friends of Evanston Art Center	327	327
Total	<u>\$ 90,827</u>	<u>\$ 90,827</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.

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 Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (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 Organization, and (7) the Organization's investment policies.

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 allocating each year's unrestricted reserve fund's investment income as component of the operating income that supports the Center's budget. 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, 2014, is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds, beginning of year	\$ 193,839	\$ 90,827	\$ 284,666
Contributions for the Capital Campaign	778,258	-	778,258
Donor Restricted Contributions	1,095	-	1,095
Program Expenditures	6,955	-	(55,587)
Donor Restricted Endowment Funds, end of year	<u>\$ 980,147</u>	<u>\$ 90,827</u>	<u>\$ 1,008,432</u>

Endowment net asset composition by type of funds as of August 31, 2013, is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds, beginning of year	\$ 57,702	\$ 90,827	\$ 148,529
Contributions for the Capital Campaign	126,500	-	126,500
Donor Restricted Contributions	20,000	-	20,000
Program Expenses	(10,363)	-	(10,363)
Donor Restricted Endowment Funds, end of year	<u>\$ 193,839</u>	<u>\$ 90,827</u>	<u>\$ 284,666</u>

8. SUBSEQUENT EVENTS

Subsequent to the Organization's August 31, 2014 fiscal year-end, the Board of Directors approved the purchase of a building and land in Evanston, Illinois for the new facility of the Evanston Art Center. The closing for the purchase of the building took place on November 3, 2014. The building is being financed by a \$1,500,000 secured term loan with a bank at 4.75% for a term of five years. The loan will be repaid in equal monthly installments of principal and interest based on a twenty-five year amortization. This loan is secured by the first security lien on the building and land.

Additional funding for the purchase of the building was obtained by a second loan for \$500,000 (the subordinate loan) from two individuals. This loan will be repaid in 20 quarterly installments of principal and interest, with the first principal payment due nine months after the date of closing. Interest on this loan will be payable monthly at 4.75%. If there is a default on the first secured loan to the bank, no payments will be made on the subordinate loan. This loan is secured by a second security lien on the building and land.

9. EVALUATION OF SUBSEQUENT EVENTS

Evanston Art Center has evaluated subsequent events through November 11, 2014, the date which the financial statements were available to be issued.