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# Holocaust Memorial Foundation of Illinois, Inc.

(a not-for-profit corporation)

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**Financial Report**  
**December 31, 2018**

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**Independent Auditor's Report**

To the Board of Directors  
 Holocaust Memorial Foundation of Illinois, Inc.

We have audited the accompanying financial statements of Holocaust Memorial Foundation of Illinois, Inc. (a not-for-profit corporation) (the "Foundation"), which comprise the statement of financial position as of December 31, 2018 and 2017 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the 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 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 audits 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 Holocaust Memorial Foundation of Illinois, Inc. as of December 31, 2018 and 2017 and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As described in Notes 2 and 3 to the financial statements, the Foundation adopted the provisions of the Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, as of January 1, 2018. Our opinion is not modified with respect to this matter.

*Plante & Moran, PLLC*

May 21, 2019

## Holocaust Memorial Foundation of Illinois, Inc.

### Statement of Financial Position

December 31, 2018 and 2017

	2018	2017
<b>Assets</b>		
Cash and cash equivalents	\$ 2,378,949	\$ 3,885,662
Investments	23,088,420	24,154,666
Receivables:		
Pledges receivable - Net of allowance for doubtful accounts	10,243,356	11,939,157
Interest receivable	129,320	131,222
Accounts receivable	9,379	17,873
Inventory	42,074	41,661
Note receivable	549,265	553,862
Prepaid expenses	201,232	175,714
Deferred rent	547,789	531,951
Property, plant, and equipment - Net	37,891,185	39,079,921
	<u>\$ 75,080,969</u>	<u>\$ 80,511,689</u>
Total assets		
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 175,786	\$ 207,362
Other accrued expenses	525,530	299,667
Deferred revenue	537,053	357,476
Interest rate swap marked to market	446,931	671,127
Deferred compensation	858,714	841,503
Bonds payable - Net	15,176,771	21,228,370
	<u>17,720,785</u>	<u>23,605,505</u>
Total liabilities		
<b>Net Assets</b>		
Without donor restrictions	45,364,661	43,457,778
With donor restrictions	11,995,523	13,448,406
	<u>57,360,184</u>	<u>56,906,184</u>
Total net assets		
	<u>\$ 75,080,969</u>	<u>\$ 80,511,689</u>
Total liabilities and net assets		

## Holocaust Memorial Foundation of Illinois, Inc.

# Statement of Activities and Changes in Net Assets

Years Ended December 31, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, Gains, and Other Support</b>						
Contributions	\$ 1,034,719	\$ 1,222,386	\$ 2,257,105	\$ 2,121,971	\$ 2,362,317	\$ 4,484,288
Grants	1,215,665	2,031,637	3,247,302	955,808	1,259,157	2,214,965
Bequests	20,000	-	20,000	-	-	-
Special event income	3,929,000	178,483	4,107,483	3,577,249	126,375	3,703,624
Membership dues	229,814	-	229,814	201,349	-	201,349
Admissions income	692,226	-	692,226	677,829	-	677,829
Gift shop income	152,153	-	152,153	145,838	-	145,838
Speaker income	11,208	-	11,208	16,779	-	16,779
In-kind contributions	278,341	-	278,341	311,167	-	311,167
Other	56,615	-	56,615	39,115	-	39,115
Interest and dividend income - Net of investment expenses	916,981	5,384	922,365	718,517	5,564	724,081
Realized and unrealized (loss) gain on investments	(1,467,374)	(14,614)	(1,481,988)	1,000,702	5,029	1,005,731
Unrealized gain on interest rate swap	224,196	-	224,196	348,934	-	348,934
Net assets released from restrictions	4,876,159	(4,876,159)	-	6,741,528	(6,741,528)	-
<b>Total revenue, gains, and other support</b>	<b>12,169,703</b>	<b>(1,452,883)</b>	<b>10,716,820</b>	<b>16,856,786</b>	<b>(2,983,086)</b>	<b>13,873,700</b>
<b>Expenses</b>						
Program expenses:						
Program services	2,242,031	-	2,242,031	2,171,140	-	2,171,140
Program operations	3,881,773	-	3,881,773	3,662,195	-	3,662,195
Support services:						
General and administrative	566,448	-	566,448	615,993	-	615,993
Supporting operations	1,128,946	-	1,128,946	1,054,706	-	1,054,706
Development	965,860	-	965,860	1,002,643	-	1,002,643
Special events	1,477,762	-	1,477,762	1,325,583	-	1,325,583
<b>Total expenses</b>	<b>10,262,820</b>	<b>-</b>	<b>10,262,820</b>	<b>9,832,260</b>	<b>-</b>	<b>9,832,260</b>
<b>Increase (Decrease) in Net Assets</b>	<b>1,906,883</b>	<b>(1,452,883)</b>	<b>454,000</b>	<b>7,024,526</b>	<b>(2,983,086)</b>	<b>4,041,440</b>
<b>Net Assets - Beginning of year</b>	<b>43,457,778</b>	<b>13,448,406</b>	<b>56,906,184</b>	<b>36,433,252</b>	<b>16,431,492</b>	<b>52,864,744</b>
<b>Net Assets - End of year</b>	<b>\$ 45,364,661</b>	<b>\$ 11,995,523</b>	<b>\$ 57,360,184</b>	<b>\$ 43,457,778</b>	<b>\$ 13,448,406</b>	<b>\$ 56,906,184</b>

## Holocaust Memorial Foundation of Illinois, Inc.

# Statement of Functional Expenses

Year Ended December 31, 2018

	Program Services			Support Services					Total
	Program Services	Program Operations	Total	General and Administrative	Supporting Operations	Development	Special Events	Total	
Salaries, benefits, and payroll taxes	\$ 1,115,991	\$ 674,018	\$ 1,790,009	\$ 431,809	\$ 190,533	\$ 745,679	\$ -	\$ 1,368,021	\$ 3,158,030
Advertising and public relations	464,011	35	464,046	-	-	-	-	-	464,046
Bad debt expense	-	-	-	-	-	87,891	-	87,891	87,891
Bank and credit card charges	12,777	9,295	22,072	-	8,336	30,156	37,318	75,810	97,882
Conferences and meetings	24,822	-	24,822	16,942	90	2,266	-	19,298	44,120
Consultants and temporary help	12,886	20,764	33,650	24,000	6,159	1,750	-	31,909	65,559
Contributions	-	-	-	13,235	-	-	-	13,235	13,235
Cost of goods sold	-	81,218	81,218	-	-	-	-	-	81,218
Depreciation	-	1,538,121	1,538,121	-	455,004	-	-	455,004	1,993,125
Fundraising expenses	-	-	-	-	-	57,258	1,285,021	1,342,279	1,342,279
Education programs	306,045	-	306,045	-	-	-	-	-	306,045
Exhibition costs and maintenance	252,772	-	252,772	-	-	-	-	-	252,772
Information technology	-	120,448	120,448	-	35,729	169	-	35,898	156,346
In-kind expenses	-	85,543	85,543	12,000	25,375	-	155,423	192,798	278,341
Insurance	-	58,293	58,293	6,775	17,799	-	-	24,574	82,867
Interest	-	518,476	518,476	8,401	161,184	-	-	169,585	688,061
Office expenses	33,419	17,809	51,228	2,137	6,393	40,691	-	49,221	100,449
Opportunity grants	19,308	-	19,308	-	-	-	-	-	19,308
Professional fees	-	-	-	51,149	-	-	-	51,149	51,149
Building operations	-	445,878	445,878	-	129,832	-	-	129,832	575,710
Security	-	311,875	311,875	-	92,512	-	-	92,512	404,387
<b>Total functional expenses</b>	<b>\$ 2,242,031</b>	<b>\$ 3,881,773</b>	<b>\$ 6,123,804</b>	<b>\$ 566,448</b>	<b>\$ 1,128,946</b>	<b>\$ 965,860</b>	<b>\$ 1,477,762</b>	<b>\$ 4,139,016</b>	<b>\$ 10,262,820</b>

Statement of Functional Expenses

Year Ended December 31, 2017

	Program Services			Support Services					Total
	Program Services	Program Operations	Total	General and Administrative	Supporting Operations	Development	Special Events	Total	
Salaries, benefits, and payroll taxes	\$ 1,016,530	\$ 662,520	\$ 1,679,050	\$ 434,033	\$ 186,796	\$ 723,780	\$ -	\$ 1,344,609	\$ 3,023,659
Advertising and public relations	343,901	262	344,163	-	-	-	-	-	344,163
Bad debt expense	-	-	-	-	-	29,450	-	29,450	29,450
Bank and credit card charges	11,417	10,093	21,510	2,094	1,842	42,977	27,767	74,680	96,190
Conferences and meetings	16,915	-	16,915	24,489	1,705	1,647	-	27,841	44,756
Consultants and temporary help	14,513	24,173	38,686	24,000	7,171	25,596	-	56,767	95,453
Contributions	-	-	-	13,746	-	-	-	13,746	13,746
Cost of goods sold	-	86,793	86,793	-	-	-	-	-	86,793
Depreciation	-	1,227,292	1,227,292	-	362,884	-	-	362,884	1,590,176
Fundraising expenses	-	-	-	-	-	123,103	1,169,317	1,292,420	1,292,420
Education programs	291,306	-	291,306	-	-	-	-	-	291,306
Exhibition costs and maintenance	321,955	-	321,955	-	-	-	-	-	321,955
Information technology	-	180,542	180,542	-	53,554	-	-	53,554	234,096
In-kind expenses	120,160	36,639	156,799	15,000	10,869	-	128,499	154,368	311,167
Insurance	-	55,271	55,271	9,292	16,909	-	-	26,201	81,472
Interest	-	609,069	609,069	8,401	189,348	-	-	197,749	806,818
Office expenses	18,926	20,932	39,858	2,231	7,113	56,090	-	65,434	105,292
Opportunity grants	15,517	-	15,517	-	-	-	-	-	15,517
Professional fees	-	-	-	82,707	-	-	-	82,707	82,707
Building operations	-	441,188	441,188	-	125,325	-	-	125,325	566,513
Security	-	307,421	307,421	-	91,190	-	-	91,190	398,611
<b>Total functional expenses</b>	<b>\$ 2,171,140</b>	<b>\$ 3,662,195</b>	<b>\$ 5,833,335</b>	<b>\$ 615,993</b>	<b>\$ 1,054,706</b>	<b>\$ 1,002,643</b>	<b>\$ 1,325,583</b>	<b>\$ 3,998,925</b>	<b>\$ 9,832,260</b>

## Holocaust Memorial Foundation of Illinois, Inc.

### Statement of Cash Flows

Years Ended December 31, 2018 and 2017

	2018	2017
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 454,000	\$ 4,041,440
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation	1,993,125	1,590,176
Bad debt	87,891	29,450
Realized and unrealized loss (gain) on investments	1,481,988	(1,005,731)
Amortization of bond issuance costs	8,401	8,401
Increase in deferred rent	(15,838)	(15,838)
Unrealized gain on interest rate swap	(224,196)	(348,934)
Contributions restricted for long-term purposes	(10,590)	(14,068)
Changes in operating assets and liabilities that provided (used) cash and cash equivalents:		
Pledges receivable	1,607,910	2,795,452
Interest receivable	1,902	(2,963)
Accounts receivable	8,494	(5,290)
Inventory	(413)	11,788
Prepaid expenses	(25,518)	70,993
Accounts payable	(32,326)	(33,142)
Other accrued expenses	153,974	(46,231)
Deferred compensation	17,211	16,709
Deferred revenue	179,577	(30,824)
Net cash and cash equivalents provided by operating activities	5,685,592	7,061,388
<b>Cash Flows from Investing Activities</b>		
Purchases of investments	(13,499,336)	(10,929,207)
Proceeds from sales of investments	13,083,594	9,019,503
Payments on notes receivable	4,597	4,328
Capital expenditures	(731,750)	(3,069,626)
Net cash and cash equivalents used in investing activities	(1,142,895)	(4,975,002)
<b>Cash Flows from Financing Activities</b>		
Payments on bond payable	(6,060,000)	(1,590,000)
Contributions restricted for long-term purposes	10,590	14,068
Net cash and cash equivalents used in financing activities	(6,049,410)	(1,575,932)
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(1,506,713)	510,454
<b>Cash and Cash Equivalents - Beginning of year</b>	3,885,662	3,375,208
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 2,378,949</u>	<u>\$ 3,885,662</u>

**December 31, 2018 and 2017**

**Note 1 - Nature of Organization**

Holocaust Memorial Foundation of Illinois, Inc. (a not-for-profit corporation) (the "Foundation") was formed in September 1981 to present vehicles of education, remembrance, recording, and collecting memorabilia and documentation of the period of time referred to as the Holocaust and the Pre-War European Jewish Culture. The Foundation operates a 65,000 square-foot museum in Skokie, Illinois known as Illinois Holocaust Museum and Education Center.

**Note 2 - Significant Accounting Policies**

***Classification of Net Assets***

Net assets of the Foundation are classified based on the presence or absence for donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed or the donor-imposed restriction have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Foundation.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

***Adoption of New Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The Foundation adopted the ASU effective January 1, 2018, using the modified retrospective method. The adoption of the ASU resulted in a restatement to deferred revenue, net assets, and changes in net assets, as disclosed in Note 3.

As of January 1, 2018, the Foundation adopted ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The standard requires net assets to be classified into two categories, net assets with donor restrictions and net assets without donor restrictions. This standard also requires changes in the way certain information is aggregated and reported by the Foundation, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. The standard also clarifies the definition of management and general. All applicable changes to the reporting model have been retrospectively incorporated into the presentation of the financial statements.

December 31, 2018 and 2017

**Note 2 - Significant Accounting Policies (Continued)**

***Upcoming Accounting Pronouncements***

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Foundation's year ending December 31, 2019 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on the Foundation's financial statements as a result of the land lease classified as an operating lease. The lease is expected to increase assets and lease liabilities upon adoption. There is not expected to be a significant effect on expenses or cash flows.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Foundation's year ending December 31, 2019 and will be applied on a modified prospective basis. The Foundation does not expect the standard to have a significant impact on the timing of revenue recognition for government grants and contracts, but has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions.

***Revenue Recognition***

The following revenue streams are included in the new revenue standard, ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*:

- Gift shop income
- Admissions income
- Membership dues
- Other

***Performance Obligations***

The following explains the performance obligations related to each revenue stream under the new standard and how those are recognized.

***Gift Shop Income***

The Foundation generates revenue from implied agreements for a specific exchange of merchandise priced at a market value and recognized at time of performance.

***Admissions***

The Foundation charges entrance to the museum priced at market value and recognized at date of admission.

**December 31, 2018 and 2017**

**Note 2 - Significant Accounting Policies (Continued)**

***Membership Dues***

The Foundation earns dues from its members for memberships. Membership dues are earned over the course of one or two years, representing the period over which the Foundation satisfies the performance obligation.

***Other***

The Foundation receives other income, including room rental fees, which is recognized at time of performance.

***Contributions and Support***

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received and measured at fair value. Contributions received are recorded as without donor restriction, or with donor restriction depending on the existence and/or nature of any donor restrictions. However, if a restriction is fulfilled for an individual gift in its entirety in the same period in which the contribution is received, the Foundation reports the support as unrestricted. Expenses are recorded as decreases in net assets without donor restrictions.

Revenue from the government grant designated for use in specific activities is recognized in the period when expenditures have been incurred in compliance with the grantor's restrictions. Cash received in excess of expenditures is recorded as deferred revenue.

***Cash and Cash Equivalents***

The Foundation maintains interest-bearing checking and money market accounts at various financial institutions, which it classifies as cash and cash equivalents for the purpose of the statement of cash flows. The Foundation considers all highly liquid debt instruments or certificates of deposit with an original maturity of three months or less and money market accounts to be cash equivalents. The cash and cash equivalents may at times exceed the federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

The carrying amount reported in the statement of financial position for cash and cash equivalents approximates fair value due to the short-term nature of these investments.

***Investments***

All investments are carried at fair value. Changes in fair value are reported in the statement of activities and changes in net assets. It is the Foundation's policy to immediately liquidate donations of stock.

The Foundation's investments are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to these risk factors, it is reasonably possible that changes in the value of investments will occur in the near term and could materially affect the amounts reported in the statement of financial position.

***Inventory***

Gift shop inventory is stated at the lower of cost or net realizable value, with cost determined by the average cost method.

***Property and Equipment***

Property and equipment are recorded at cost. Depreciation is calculated using the straight-line method.

**December 31, 2018 and 2017**

**Note 2 - Significant Accounting Policies (Continued)**

***Income Taxes***

The Foundation is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3).

***Management Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

***Collection***

The value of the Foundation's collection is not included in the financial statements. The cost of objects purchased is reported as other changes in net assets in the statement of activities and changes in net assets. The Foundation's policy is to maintain and continue to acquire material evidence, art, and artifacts of victims and survivors of the Holocaust (principally from 1933 to 1945). From time to time, objects may be sold in accordance with the Foundation's collection management policy. Deaccession, the process used to permanently remove an object from the Foundation's collection, may result only if certain conditions have been met. All proceeds realized from deaccessions are allocated to purchase other objects for the Foundation's collection.

***Functional Allocation of Expenses***

Costs of providing the program and support services have been reported on a functional basis in the statement of activities and changes in net assets. Costs are charged to program services and supporting services on an actual basis when available. In addition, indirect costs, including depreciation, information technology, interest, building operations, and security, have been allocated between the program and support services based on relative square footage. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

***Reclassification***

Certain 2017 amounts have been reclassified to conform to the 2018 presentation.

***Subsequent Events***

The financial statements and related disclosures include evaluation of events up through and including May 21, 2019, which is the date the financial statements were available to be issued.

Notes to Financial Statements

December 31, 2018 and 2017

**Note 3 - Adoption of New Accounting Pronouncement**

The accompanying financial statements for 2017 have been restated in accordance with the adoption of ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides accounting guidance on the recognition of revenues from contracts. This change was applied to all periods presented using the modified retrospective method. The following financial statement line items for 2017 were restated:

**Statement of Activities and Changes in Net Assets for the Year Ended December 31, 2017**

	As Computed Under ASC 605	As Reported Under ASC 606	Effect of Change
Total operating revenue	\$ 14,026,775	\$ 13,873,700	\$ (153,075)
Total operating expenses	9,937,074	9,832,260	(104,814)
Decrease in net assets	4,089,701	4,041,440	(48,261)
Net assets - Beginning of year	52,969,351	52,864,744	(104,607)
Net assets - End of year	57,059,052	56,906,184	(152,868)

**Statement of Financial Position as of December 31, 2017**

	As Computed Under ASC 605	As Reported Under ASC 606	Effect of Change
Deferred revenue	\$ 204,608	\$ 357,476	\$ 152,868
Total liabilities	\$ 23,452,637	\$ 23,605,505	\$ 152,868
Total net assets	57,059,052	56,906,184	(152,868)
Total liabilities and net assets	\$ 80,511,689	\$ 80,511,689	\$ -

As a result of the transition adjustments, net assets as of January 1, 2017 decreased from \$52,969,351, as originally reported, to \$52,864,744.

As a result of the transition adjustments, there were no changes in operating, investing, or financing cash flows for the year ended December 31, 2017.

The accompanying financial statements for 2017 have also been restated to reflect changes implemented to reflect the functional allocation of expenses. The changes presented on the statement of activities and changes in net assets are summarized as follows:

	As Computed Under Old Method	As Reported Under New Method	Effect of Change
Program services	\$ 1,477,345	\$ 2,171,140	\$ 693,795
Operations - Program expense	4,552,256	3,662,195	(890,061)
General and administrative	881,761	615,993	(265,768)
Operations - Support services	-	1,054,706	1,054,706
Development	1,727,897	1,002,643	(725,254)
Special events	1,297,815	1,325,583	27,768
Total operating expenses	\$ 9,937,074	\$ 9,832,260	\$ (104,814)

Amounts previously classified as depreciation, information technology, interest, building operations, and security have been reallocated among program services and support services based on the methodology described in Note 2. Investment expenses previously recorded within professional fees are now net with interest and dividend income.

Notes to Financial Statements

December 31, 2018 and 2017

**Note 4 - Cash and Cash Equivalents**

Cash and cash equivalents consist of the following:

	2018	2017
Cash	\$ 1,298,973	\$ 1,671,491
Money market accounts	1,079,976	2,214,171
Total cash and cash equivalents	<u>\$ 2,378,949</u>	<u>\$ 3,885,662</u>

**Note 5 - Fair Value Measurements**

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Foundation's assets and liabilities measured at fair value on a recurring basis at December 31, 2018 and 2017 and the valuation techniques used by the Foundation to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset or liability.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2018

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2018
<b>Assets</b>				
Corporate bonds	\$ -	\$ 12,591,252	\$ -	\$ 12,591,252
Asset-backed securities	-	81,725	-	81,725
Municipal bonds	-	131,308	-	131,308
Variable annuities	-	748,141	-	748,141
Government securities	-	1,759,913	-	1,759,913
Preferred securities	-	347,283	-	347,283
Common stock	7,428,798	-	-	7,428,798
Total assets	<u>\$ 7,428,798</u>	<u>\$ 15,659,622</u>	<u>\$ -</u>	<u>\$ 23,088,420</u>
<b>Liabilities - Interest rate swap</b>	<u>\$ -</u>	<u>\$ 446,931</u>	<u>\$ -</u>	<u>\$ 446,931</u>

December 31, 2018 and 2017

**Note 5 - Fair Value Measurements (Continued)**

	Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2017
<b>Assets</b>				
Brokered certificates of deposit	\$ -	\$ 299,840	\$ -	\$ 299,840
Corporate bonds	-	13,593,087	-	13,593,087
Asset-backed securities	-	85,929	-	85,929
Municipal bonds	-	135,285	-	135,285
Variable annuities	-	620,905	-	620,905
Government securities	-	872,076	-	872,076
Preferred securities	-	370,650	-	370,650
Common stock	8,176,894	-	-	8,176,894
<b>Total assets</b>	<b>\$ 8,176,894</b>	<b>\$ 15,977,772</b>	<b>\$ -</b>	<b>\$ 24,154,666</b>
<b>Liabilities - Interest rate swap</b>	<b>\$ -</b>	<b>\$ 671,127</b>	<b>\$ -</b>	<b>\$ 671,127</b>

**Level 1 Inputs**

Common stock - Fair values were based on quoted market prices.

**Level 2 inputs**

Brokered certificates of deposit, corporate bonds, asset-backed securities, municipal bonds, government securities, and preferred securities - Estimated fair values were based on similar investments that are traded on the secondary market.

**Variable Annuities**

The fair value of the variable annuities is based on the present value of the guaranteed monthly payments over the term of the annuity.

**Interest Rate Swap**

The Foundation's interest rate swap is not traded on an exchange. The Foundation obtained the fair value of the swap from the counterparty. It then tested that fair value against a fair value determined by a methodology that included using the income approach to value the interest rate swap, using observable Level 2 market expectations at the measurement date and standard valuation techniques to convert future amounts to a single present amount (discounted), assuming that participants are motivated but not compelled to transact. Level 2 inputs for the swap valuation were limited to quoted prices for similar assets or liabilities in active markets (specifically future contracts) and inputs other than quoted prices that were observable for the asset or liability (specifically LIBOR cash and swap rates, implied volatility for options, caps and floors, basis swap adjustments, and credit risk at commonly quoted intervals). Midmarket pricing was used as a practical expedient for fair value measurement.

Key inputs, including the cash rates for very short term, futures rates, and swap rates beyond the interest rate swap maturity, were estimated to provide spot rates at resets specified by the swap (reset rates were then further adjusted by the basis swap, if necessary). Inputs were collected from Bloomberg as the last price on the last market day of the period. The same rates used to estimate the yield curve were used to discount the future cash flows prior to the credit risk effect for both the Foundation and the credit risk of its counterparty(ies) when determining the fair value of interest rate swap under U.S. GAAP. The two fair values resulting from the separate calculations were not significantly different.

**December 31, 2018 and 2017****Note 6 - Property and Equipment**

Property and equipment are summarized as follows:

	2018	2017	Depreciable Life - Years
Buildings and improvements	\$ 52,015,053	\$ 51,633,352	5-40
Furniture and equipment	2,146,405	1,723,717	5-7
Subtotal	54,161,458	53,357,069	
Accumulated depreciation	16,270,273	14,277,148	
Total	<u>\$ 37,891,185</u>	<u>\$ 39,079,921</u>	

Depreciation expense for 2018 and 2017 was \$1,993,125 and \$1,590,176, respectively.

**Note 7 - Bonds Payable**

On December 20, 2006, the Foundation borrowed \$28,500,000 through the Cultural Facility Variable Rate Demand Revenue Bonds Series 2006 tax-exempt bonds issued by the Village of Morton Grove, Illinois. The bonds were issued at a discount of \$85,500. The bonds mature on December 1, 2041. The bonds have adjustable methods of interest rate determination, demand features, and interest payment dates. The interest rate on the bonds is reset weekly. As of December 31, 2018 and 2017, the bonds bore interest at 1.71 and 1.73 percent, respectively.

The Foundation has agreed to maintain a letter of credit for the Series 2006 bonds in an amount equal to the bond principal and interest outstanding, payable to the bond trustee. The letter of credit amount as of December 31, 2018 and 2017 was \$15,517,384 and \$21,635,493, respectively.

The fees are payable based on a tiered pricing structure dependent upon a liquidity ratio test. The ratio is measured on the last day of each fiscal quarter and is the sum of unrestricted cash and investments plus the net debt-free fund balance divided by the outstanding indebtedness. As of December 31, 2018 and 2017, the rate charged was 1.00 and 1.05 percent, respectively.

The letter of credit, which was scheduled to expire on July 29, 2019, requires the Foundation to comply with certain financial covenants. The bond is collateralized by any and all property of the Foundation, except for certain excluded assets, consisting of the certain cash and investments with and without donor restrictions. Those excluded assets, however, can be added to the collateral if, in the event of a potential or actual default, as defined, the bank so requires. On April 16, 2019, the agreement was amended to extend the expiration date to July 31, 2023 at a rate of .80 percent.

Based on the weekly remarketing of the interest rate, the carrying value of the debt outstanding approximates fair value as of December 31, 2018 and 2017. The debt would have been classified as a Level 2 input if it had been included in the fair value tables (see Note 5).

Expenses incurred in connection with the bond offerings were deferred and are being amortized on a straight-line basis over the period the bonds are to be outstanding.

The bond payable balance, net of discount and unamortized bond issuance costs, was \$15,313,386 and \$21,370,925 as of December 31, 2018 and 2017, respectively. Bond issuance costs, net of amortization, were \$136,615 and \$142,555 as of December 31, 2018 and 2017, respectively.

**Notes to Financial Statements**

**December 31, 2018 and 2017**

**Note 7 - Bonds Payable (Continued)**

Interest expense in 2018 and 2017 was \$679,660 and \$798,418, respectively.

In December 2011, the Foundation entered into a deposit and redemption agreement with the Amalgamated Bank of Chicago, the trustee. The agreement stipulates that the Foundation directs the trustee to call the bonds, as required by the letter of credit bank, for partial optional redemption in the amount of \$460,000 on March 15 and September 15 of each year through March 15, 2019. On April 16, 2019, these redemptions were amended to \$355,000 on March 15 and September 15 of each year beginning September 15, 2019 through March 15, 2023.

Such redemptions shall be made by draws against the letter of credit. Total amounts of \$6,060,000 and \$1,590,000 were paid on the outstanding bond in 2018 and 2017, respectively.

**Note 8 - Pledges Receivable**

The following are maturities on the pledges receivable as of December 31:

	<u>2018</u>	<u>2017</u>
Years ended December 31:		
Within one year	\$ 4,759,062	\$ 4,420,754
One to five years	5,484,400	6,965,800
More than five years	<u>637,500</u>	<u>1,257,100</u>
Total pledges receivable	10,880,962	12,643,654
Less:		
Discounts at rates from 1.22 to 2.25 percent	(617,506)	(653,197)
Allowance for doubtful accounts	<u>(20,100)</u>	<u>(51,300)</u>
Total	<u>(637,606)</u>	<u>(704,497)</u>
Net minimum pledges receivable	<u>\$ 10,243,356</u>	<u>\$ 11,939,157</u>

**Note 9 - Operating Leases**

In July 2003, the Foundation entered into a lease to secure land for the new museum. The lease requires monthly rental payments of \$3,158 from July 2003 to June 2053 and includes an option to extend the lease for 50 years at \$15 per month. According to the provisions in the lease, the Foundation made an additional one-time special rent payment of \$302,300 in 2003. Rent expense is computed on a straight-line basis over 100 years. This resulted in a deferred rent asset of \$547,789 and \$531,951 as of December 31, 2018 and 2017, respectively. The Foundation recognized \$22,063 in rent expense from the lease for the years ended December 31, 2018 and 2017.

During November 2013, the museum entered into a new four-year lease for copiers. As part of the renewal, the lessor waived the final two payments of the previous lease. The lease required monthly payments of \$1,980 from January 2014 through December 2017 and included an option to purchase the copiers at fair market value.

During November 2017, the Foundation declined the purchase option and entered into a new four-year lease. The lease requires monthly payments of \$867 from December 2017 through November 2021 and includes an option to purchase the copiers at fair market value. The Foundation recognized \$18,974 and \$21,863 of expense on the leases in 2018 and 2017, respectively.

**Note 9 - Operating Leases (Continued)**

Future minimum annual commitments under these operating leases are as follows:

Years Ending December 31	Amount
2019	\$ 48,311
2020	48,311
2021	47,443
2022	37,901
2023	37,901
Thereafter	<u>1,118,085</u>
Total	<u>\$ 1,337,952</u>

**Note 10 - Endowment**

The Foundation's endowment includes donor-restricted endowment funds established for educational purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. There are no board-designated endowment funds.

***Interpretation of Relevant Law***

The Foundation is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board of directors appropriates such amounts for expenditures. Most of these net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The board of directors of the Foundation has interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary.

As a result of this interpretation, when reviewing its donor-restricted endowment fund, the Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Notes to Financial Statements

December 31, 2018 and 2017

Note 10 - Endowment (Continued)

		Endowment Net Asset Composition by Type of Fund as of December 31, 2018	
		Without Donor Restrictions	With Donor Restrictions
	Donor-restricted endowment funds	\$ -	\$ 178,513
		Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2018	
		Without Donor Restrictions	With Donor Restrictions
	Endowment net assets - Beginning of year	\$ -	\$ 180,809
	Contributions	-	10,590
	Investment return - Investment loss	-	(12,886)
	Endowment net assets - End of year	\$ -	\$ 178,513
		Endowment Net Asset Composition by Type of Fund as of December 31, 2017	
		Without Donor Restrictions	With Donor Restrictions
	Donor-restricted endowment funds	\$ -	\$ 180,809
		Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2017	
		Without Donor Restrictions	With Donor Restrictions
	Endowment net assets - Beginning of year	\$ -	\$ 162,736
	Contributions	-	14,068
	Investment return - Investment income	-	4,005
	Endowment net assets - End of year	\$ -	\$ 180,809

**Return Objectives and Risk Parameters**

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period, as well as board-designated funds. Under this policy, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the respective benchmarks for the different asset classes provided for in the Foundation's investment policy. These asset classes include high-grade corporate and government bonds and cash equivalents, but specifically exclude any investment in hedge funds, commodities, and private equities. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 5 percent annually, net of management fees. Actual returns in any given year may vary from this amount.

**Note 10 - Endowment (Continued)**

***Strategies Employed for Achieving Objectives***

To satisfy its long-term rate-of-return objectives, the Foundation 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). The Foundation targets a balanced portfolio of primarily investment-grade rate fixed-income securities with staged maturities investments to achieve its long-term return objectives within prudent risk constraints.

***Spending Policy and How the Investment Objectives Relate to Spending Policy***

Based on the long-term objectives stated above, the Foundation will only spend the income generated by the endowment fund to support educational purposes stated in the agreements, while preserving the related principal.

**Note 11 - In-kind Contributions**

The Foundation received in-kind contributions valued at \$278,341 and \$311,167 for the years ended December 31, 2018 and 2017, respectively. In 2018 and 2017, the in-kind contributions included pro bono legal services, accounting services, public relations consulting, exhibit materials, prize donations, advertising space, photography services, and development consulting.

**Note 12 - Net Assets**

Donor restricted net assets as of December 31 are available for the following purposes:

	2018	2017
Purpose restrictions:		
Daley Fund*	\$ 918,500	\$ 955,890
Opportunity grants	100,382	75,782
Temporary exhibits	187,954	116,557
Total purpose restrictions	1,206,836	1,148,229
Time restrictions	9,565,968	10,959,365
Time and purpose restrictions:		
Education/Event sponsorships	396,616	486,580
Special events	176,875	162,458
Holographic theater	20,000	60,000
Net Debt Free Fund/Debt retirement	450,715	450,965
Educational endowment	178,513	180,809
Total time and purpose restrictions	1,222,719	1,340,812
Total	\$ 11,995,523	\$ 13,448,406

\* While the balance in the Daley Fund is temporarily restricted, these amounts can be released to satisfy debt covenants, if needed. If the amounts from this fund are used to meet the debt covenant, but are not needed in a future year, the restriction will be restored.

**December 31, 2018 and 2017**

**Note 13 - Commitments**

Pursuant to the agreement with the Village of Skokie, Illinois in relation to securing land for the new museum, the Foundation entered into a letter of credit agreement with Bank of America, N.A. for the amount of \$100,000. The letter of credit is subject to renewal annually and must remain in effect as long as the lease agreement exists. The current letter of credit expires on July 29, 2019, and management expects that a new agreement will be reached once this extension expires.

**Note 14 - Deferred Compensation**

On May 5, 2004, the Foundation entered into an employment agreement with its former executive director. Per the terms of the agreement, the Foundation is obligated to pay additional compensation based upon a vested rate beginning on April 1, 2015 and continuing for 10 years. Thereafter, payments will continue for the greater of the remainder of the lives of the former executive director and his spouse or 10 years. In accordance with the former executive director's employment agreement, he was 95 percent vested with respect to additional compensation as of the last day of employment. The liability is recorded as deferred compensation on the statement of financial position.

To provide partial funding against the liability, the Foundation maintains an annuity contract for the benefit of the former executive director and his spouse, which is recorded as an investment on the statement of financial position. The fair value of the annuity as of December 31, 2018 and 2017 was \$465,585.

The Foundation also has a 457(b) deferred compensation plan for the executive director. On an annual basis, the Foundation will make a contribution equal to 5 percent of the executive director's previous year's salary and bonus to the plan.

**Note 15 - 403(b) Plan**

The Foundation sponsors a 403(b) plan for substantially all employees. The plan provides for the Foundation to make a discretionary matching contribution. Contributions to the plan totaled \$11,353 and \$10,492 for the years ended December 31, 2018 and 2017, respectively.

**Note 16 - Supplemental Cash Flow Information**

Cash paid for interest totaled \$624,048 and \$785,278 for 2018 and 2017, respectively. As of December 31, 2018 and 2017, the Foundation had capital expenditures amounting to \$8,974 and \$9,724, respectively, included in accounts payable. As of December 31, 2018, the Foundation had capital expenditures amounting to \$71,889 included in other accrued expenses.

**Note 17 - Interest Rate Swap**

As part of the financing described in Note 7, on September 13, 2007, the Foundation entered into a derivative financial instrument to reduce its exposure to market risks from changes in interest rates. The instrument used to mitigate these risks is an interest rate swap. Any change in the fair value of the interest rate swap agreement is recognized in the statement of activities and changes in net assets.

By using a derivative financial instrument to hedge exposure to changes in interest rates, the Foundation exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of the derivative contract is positive, the counterparty owes the Foundation, which creates credit risk for the Foundation. When the fair value of a derivative contract is negative, the Foundation owes the counterparty if the Foundation terminated the contract. The Foundation minimizes the credit risk in its derivative instrument by entering into transactions with a high-quality counterparty.

Notes to Financial Statements

December 31, 2018 and 2017

**Note 17 - Interest Rate Swap (Continued)**

The Foundation entered into an interest rate swap with Fifth Third Bank to hedge the interest rate risk associated with the \$28,500,000 issuance of the variable-rate debt of tax-exempt bonds. The purpose of this swap is to fix interest rates on variable-rate debt and to reduce certain exposures to interest rate fluctuation. The notional amount is \$14,250,000 through August 31, 2017 and \$8,550,000 through January 31, 2022. The notional amount does not represent a measurable exposure to the Foundation.

Market risk is the adverse effect on the value of financial instruments that results from a change in interest rates. The market risk associated with the interest rate swap is managed by establishing parameters that limit the types and degree of market risk that may be undertaken. The interest rate swap matures on January 31, 2022 and has a fixed rate of 3.41 percent. The Foundation will pay the counterparty interest at a fixed rate, as noted, and the counterparty will pay the Foundation interest at a variable rate equal to 67 percent of LIBOR, which was 1.5724 and 0.9192 percent at December 31, 2018 and 2017, respectively.

The counterparty interest rate approximates the revenue bond interest rate. The interest rate swap exposes the Foundation to basis risk should the relationship between the counterparty rate and revenue bond rate change significantly.

The following table presents the amounts and the locations of the amounts relating to the Foundation's interest rate swap in the Foundation's financial statements as of and for the years ended December 31, 2018 and 2017:

	2018	2017
Statement of financial position - Information location on statement of fair value of liability - Interest rate swap marked to market	\$ 446,931	\$ 671,127
Statement of activities and changes in net assets information:		
Unrealized gain on interest rate swap	\$ 224,196	\$ 348,934
Interest rate expense included in operations	(177,553)	(296,043)
Total gain on interest rate swap	\$ 46,643	\$ 52,891

**Note 18 - Liquidity**

The following reflects the Foundation's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date:

	2018	2017
Cash and cash equivalents	\$ 2,378,949	\$ 3,885,662
Investments	23,088,420	24,154,666
Receivables	10,382,055	12,088,252
Total financial assets at year end	35,849,424	40,128,580
Less those unavailable for general expenditures within one year due to - Contractual or donor-imposed restrictions:		
Restricted by donors with time or purpose restrictions	11,817,010	13,267,597
Unappropriated donor-restricted endowment earnings	1,552	14,438
Net assets to be maintained in perpetuity	176,961	166,371
Contractually restricted by debt covenant	815,000	920,000
Financial assets available to meet cash needs for general expenditures within one year	\$ 23,038,901	\$ 25,760,174

**December 31, 2018 and 2017**

**Note 18 - Liquidity (Continued)**

The Foundation is partially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Foundation must maintain sufficient resources to meet those responsibilities to donors. Thus, financial assets may not be available for general expenditure within one year.

The Foundation has a goal to maintain financial assets, which consist of cash, investments and receivables, on hand to meet one year of normal operating expenses, which are, on average, approximately \$8,250,000. As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.