

**BYRD HOFFMAN
WATER MILL FOUNDATION
a/k/a THE WATERMILL CENTER**

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

DECEMBER 31, 2014

**BYRD HOFFMAN WATER MILL FOUNDATION
a/k/a THE WATERMILL CENTER**

TABLE OF CONTENTS

Independent Auditor's Report

Exhibit

A - Balance Sheet

B - Statement of Activities

C - Statement of Functional Expenses

D - Statement of Cash Flows

Notes to Financial Statements



Independent Auditor's Report

**Board of Directors
Byrd Hoffman Water Mill Foundation
a/k/a The Watermill Center**

Report on the Financial Statements

We have audited the accompanying financial statements of Byrd Hoffman Water Mill Foundation a/k/a The Watermill Center, which comprise the balance sheet as of December 31, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Byrd Hoffman Water Mill Foundation a/k/a The Watermill Center as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Byrd Hoffman Water Mill Foundation a/k/a The Watermill Center's December 31, 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 12, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Loeb & Troper LLP

September 18, 2015

**BYRD HOFFMAN WATER MILL FOUNDATION
a/k/a THE WATERMILL CENTER**

BALANCE SHEET

DECEMBER 31, 2014

(With Summarized Financial Information for December 31, 2013)

ASSETS	<u>2014</u>	<u>2013</u>
Cash	\$ 94,395	\$ 15,728
Cash - board-designated (Note 2)	1,942,463	1,663,699
Cash - temporarily restricted	1,356,578	2,649,360
Investments (Note 2)	1,059	1,134
Accounts receivable	107,748	96,891
Contributions receivable (Note 3)	2,448,633	2,334,084
Prepaid expenses	183,648	36,910
Art - held for sale (Note 10)	174,000	174,000
Security deposits	16,811	1,641
Fixed assets - net (Note 4)	13,983,943	12,798,468
Art - collection (Note 10)	7,023,712	6,355,212
	<u> </u>	<u> </u>
Total assets	<u>\$ 27,332,990</u>	<u>\$ 26,127,127</u>
 LIABILITIES AND NET ASSETS 		
Liabilities		
Accounts payable and accrued expenses	\$ 164,078	\$ 97,333
Construction payable	173,801	
Deferred revenue	200,000	200,000
Due to RW Work Ltd. (Note 1)	26,662	
Line of credit (Note 6)		95,000
Loan payable (Note 5)	3,209,145	3,327,356
	<u> </u>	<u> </u>
Total liabilities	<u>3,773,686</u>	<u>3,719,689</u>
Net assets (Exhibit B)		
Unrestricted		
Operating	15,285,815	12,940,664
Board designated (Note 2)	4,508,222	4,519,902
	<u> </u>	<u> </u>
Total unrestricted	19,794,037	17,460,566
Temporarily restricted (Note 12)	3,765,267	4,946,872
	<u> </u>	<u> </u>
Total net assets	<u>23,559,304</u>	<u>22,407,438</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 27,332,990</u>	<u>\$ 26,127,127</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**BYRD HOFFMAN WATER MILL FOUNDATION
a/k/a THE WATERMILL CENTER**

EXHIBIT B

STATEMENT OF ACTIVITIES

**YEAR ENDED DECEMBER 31, 2014
(With Summarized Financial Information
for the Year Ended December 31, 2013)**

	<u>Unrestricted</u>	<u>Board Designated</u>	<u>Total Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
					<u>2014</u>	<u>2013</u>
Revenues, gains and support						
Support and contributions						
Individual contributions (including \$38,889 of donated stock)	\$ 505,851		\$ 505,851	\$ 124,079	\$ 629,930	\$ 2,494,473
Foundation contributions	392,489		392,489	531,375	923,864	938,179
Corporation contributions	255,241		255,241		255,241	272,597
Government grants	50,000		50,000		50,000	20,000
Donated art	593,000		593,000		593,000	984,000
Bequests		\$ 1,000	1,000		1,000	3,000
Special events revenue - net (Note 8)	1,553,037		1,553,037		1,553,037	1,286,618
Net assets released from restrictions	1,837,059		1,837,059	(1,837,059)		
Subtotal support and contributions	<u>5,186,677</u>	<u>1,000</u>	<u>5,187,677</u>	<u>(1,181,605)</u>	<u>4,006,072</u>	<u>5,998,867</u>
Earned revenues and gains						
Educational workshop fees	185,705		185,705		185,705	146,000
Unrealized gain on investments	(75)		(75)		(75)	1,161
Interest income	319	7,062	7,381		7,381	8,176
Miscellaneous income	30,329		30,329		30,329	5,909
Subtotal earned revenues and gains	<u>216,278</u>	<u>7,062</u>	<u>223,340</u>		<u>223,340</u>	<u>161,246</u>
Total revenues, gains and support	<u>5,402,955</u>	<u>8,062</u>	<u>5,411,017</u>	<u>(1,181,605)</u>	<u>4,229,412</u>	<u>6,160,113</u>
Expenses (Exhibit C)						
Program services	2,261,803	19,742	2,281,545		2,281,545	1,740,775
Management and general	388,876		388,876		388,876	916,979
Fund raising	407,125		407,125		407,125	397,350
Total expenses	<u>3,057,804</u>	<u>19,742</u>	<u>3,077,546</u>		<u>3,077,546</u>	<u>3,055,104</u>
Change in net assets (Exhibit D)	2,345,151	(11,680)	2,333,471	(1,181,605)	1,151,866	3,105,009
Net assets - beginning of year	<u>12,940,664</u>	<u>4,519,902</u>	<u>17,460,566</u>	<u>4,946,872</u>	<u>22,407,438</u>	<u>19,302,429</u>
Net assets - end of year (Exhibit A)	<u>\$ 15,285,815</u>	<u>\$ 4,508,222</u>	<u>\$ 19,794,037</u>	<u>\$ 3,765,267</u>	<u>\$ 23,559,304</u>	<u>\$ 22,407,438</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

BYRD HOFFMAN WATER MILL FOUNDATION
a/k/a THE WATERMILL CENTER

EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2014
(With Summarized Financial Information for
the Year Ended December 31, 2013)

	Program Services					Supporting Services				Total	
	International Summer Program	Residency Program	Library of Inspiration	Education and Outreach	Curatorial/ Exhibitions	Total	Management and General	Fund Raising	Direct Cost of Special Events	2014	2013
	Salaries	\$ 136,505	\$ 64,236	\$ 135,572	\$ 90,600	\$ 42,113	\$ 469,026	\$ 125,576	\$ 203,591	\$ 9,340	\$ 807,533
Payroll taxes and employee benefits	33,249	15,647	33,024	22,069	10,259	114,248	30,585	49,593	2,274	196,700	193,038
Professional fees	16,885		450	2,000	3,125	22,460	50,000	10,830	3,100	86,390	104,781
Consultants	54,002	22,336		6,560		82,898	20,632	33,840		137,370	143,263
Occupancy (Note 9)	42,865	15,611	11,085	5,743	38,261	113,565	49,277	275		163,117	141,669
Program and event supplies	61,291	9,828	15,980	5,528	14,226	106,853			147,396	254,249	210,261
General production expenses	48,280	8,203	828	3,123	7,413	67,847		5,124	42,110	115,081	185,995
Other supplies and printing	5,369	1,712	2,221	210	673	10,185	7,616	41,645	14,099	73,545	72,884
Minor equipment and rentals	277,890	14,082	13,468	10,318	22,233	337,991	2,277	15,382	100,946	456,596	429,944
Travel	49,459	4,982	5,613	4,072	3,099	67,225	8,124	5,897	2,078	83,324	116,673
Postage and shipping	9,358	1,074	1,069	1,168	15,358	28,027	5,160	21,519	11,477	66,183	60,459
Telephone and Internet	3,427	1,015	907	508	635	6,492	20,196	169		26,857	24,292
Insurance	20,895	11,940	16,778	5,971	11,322	66,906	20,586	10,293	5,146	102,931	104,755
Repairs and maintenance	167,139	25,003	20,500	15,677	15,755	244,074	3,582	2,196	25,045	274,897	216,818
Interest	124,297	53,269				177,566	1,150			178,716	185,437
Bank and credit card fees	157					157	20,394	40	30	20,621	22,453
Depreciation and amortization	135,356	116,020	46,408	15,469	50,275	363,528	19,337	3,867		386,732	384,970
Miscellaneous	1,568			921	8	2,497	4,384	2,864	2,440	12,185	9,964
Total expenses	1,187,992	364,958	303,903	189,937	234,755	2,281,545	388,876	407,125	365,481	3,443,027	3,449,138
Less expenses deducted directly from revenues											
Direct costs of special events									(365,481)	(365,481)	(394,034)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 1,187,992	\$ 364,958	\$ 303,903	\$ 189,937	\$ 234,755	\$ 2,281,545	\$ 388,876	\$ 407,125	\$ -	\$ 3,077,546	\$ 3,055,104

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**BYRD HOFFMAN WATER MILL FOUNDATION
a/k/a THE WATERMILL CENTER**

STATEMENT OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 1,151,866	\$ 3,105,009
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	386,732	384,970
Unrealized loss (gain) on investments	75	(1,161)
Contributions restricted for long-term investment		(1,891,516)
Contributed art	(593,000)	(984,000)
Decrease (increase) in assets		
Accounts receivable	(10,857)	91,150
Contributions receivable	(114,549)	(231,945)
Due from RW Work Ltd.		517
Prepaid expenses	(146,738)	1,744
Security deposits	(15,170)	4,009
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	66,745	(95,195)
Due to RW Work Ltd.	26,662	
Deferred revenue		182,500
Net cash provided by operating activities	<u>751,766</u>	<u>566,082</u>
Cash flows from investing activities		
Purchases of art	(75,500)	(201,680)
Proceeds from sales of investments		10,093
Proceeds from contributions restricted for long-term investment		1,101,516
Capital expenditures	(1,398,406)	(345,840)
Decrease (increase) in board-designated and temporarily restricted cash	1,014,018	(1,376,055)
Net cash used by investing activities	<u>(459,888)</u>	<u>(811,966)</u>
Cash flows from financing activities		
Principal payments on loan payable	(118,211)	(111,983)
Proceeds from line of credit	270,000	708,100
Principal payments on line of credit	(365,000)	(613,100)
Net cash used by financing activities	<u>(213,211)</u>	<u>(16,983)</u>
Net change in cash	78,667	(262,867)
Cash - beginning of year	<u>15,728</u>	<u>278,595</u>
Cash - end of year	\$ <u>94,395</u>	\$ <u>15,728</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ <u>178,716</u>	\$ <u>185,437</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**BYRD HOFFMAN WATER MILL FOUNDATION
a/k/a THE WATERMILL CENTER**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE 1 - NATURE OF ENTITY

Byrd Hoffman Water Mill Foundation a/k/a The Watermill Center (the "Foundation"), incorporated in 1970, was founded for the development of emerging artists and the promotion of innovative performing and visual arts, as well as to collect, preserve, and exhibit various artworks. The Foundation operates the Watermill Center (the "Center"), which was founded in 1992 by Robert Wilson on Eastern Long Island, New York. The Center provides a place for study and participation in the artistic and theatrical endeavors. The Foundation has been granted exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code and has been held to be a publicly supported organization, and not a private foundation under Section 509(a).

Robert Wilson, the Artistic Director of the Foundation, is the sole shareholder of RW Work, Ltd., a for-profit corporation. RW Work, Ltd. and the Foundation share administrative office space and certain personnel costs. During 2014, personnel costs of \$80,006 were allocated from the Foundation to RW Work, Ltd. Occupancy costs of \$34,997 and other costs of \$18,108 were allocated from RW Work, Ltd. to the Foundation.

The Foundation is supported primarily by contributions and special event revenues. The programs of the Foundation consist of the following:

International Summer Program - The Summer Program consists of daily workshops with Robert Wilson and his collaborators, based on new projects they are developing in theater and opera, installation and exhibition design, furniture and fashion design, film and video, landscaping, architecture and urban planning.

The participating artists provided more than 20 site-specific installations and performances for a large Open House, which was free to the community.

Additionally, seven guest lecturers spoke to the artists and local community on a variety of subjects regarding science and art.

Residency program - This program is open for artists from all fields, social scientists, alumni of the Center's Summer Program, and former artists-in-residence with a special focus on emerging artists and cross-disciplinary approaches. The projects are evaluated and selected by a prestigious committee consisting of people from diverse artistic, humanities and science backgrounds plus Robert Wilson.

-continued-

**BYRD HOFFMAN WATER MILL FOUNDATION
a/k/a THE WATERMILL CENTER**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE 1 - NATURE OF ENTITY (continued)

Residency program (continued) - The 2014 Residency program featured 12 open rehearsals and support with partnering institutions to showcase these artists across multiple venues in NYC and Long Island. Still and moving image documentation for all residences is standard for each resident artist and community event.

A discretionary fund exists to support financially challenged artists' expenses such as long distance travel and materials. Starting in the Fall of 2013, all artists were supplied with a stipend of between \$1,500 and \$3,000.

Library of Inspiration - (Previously referred to as Artists' Resources.) The primary purpose of the archive is to document the work of Robert Wilson, as well as that of his collaborators and contemporaries. The archive collects, organizes, preserves, describes, and provides access to all formats of documentary materials. In addition, the archive preserves and documents the work of the Byrd Hoffman Water Mill Foundation.

Education and outreach - Regular programs are held for Pre-K-12th grade students run by the Center's Public Program Manager with support from local teaching artists and the international artists-in-residence. Through participation, students explore the visual and performing arts, including music, dance, theater, sculpture, photography and multi-media work.

Beginning in Fall 2014, the Center began an education partnership with the Bridgehampton After School Child Care Center offering weekly workshops uniquely engaging students ages 7 to 13 in the visual and performance arts.

Continuing in Spring and Fall of 2014, a formal apprenticeship program for students ages 11-13 of the Hayground School, an alternative primary school in Bridgehampton, NY, offers opportunities to research the Center's collection.

In the Spring of 2014, the Center continued to give students of the Southampton Intermediate School's Dual-Language Program the opportunity to create original theater work based on classroom curriculum.

-continued-

**BYRD HOFFMAN WATER MILL FOUNDATION
a/k/a THE WATERMILL CENTER**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE 1 - NATURE OF ENTITY (continued)

An annual schedule of free events and educational activities offers members of the community first-hand access to the creative process. The public is invited to open rehearsals and discussions by artists-in-residence, to guided tours of the Center building and grounds, and the viewing of site-specific indoor and outdoor installations by international artists. The public is also invited to attend lectures and film screenings free of charge.

Curatorial/exhibitions - The Foundation's collection is preserved and cared for by a team of art handlers and conservators and is exhibited at the Center, among other rotating venues worldwide. The collection is an integral part of the Foundation's activities as it inspires and supplements the research and activities of the Foundation's artists-in-residence program and is a tool for any who visit the Center.

In 2014, the Center hosted a long-term exhibition, *Portraits of Lady Gaga by Robert Wilson*, from July 26 to September 14, 2014 in the Archive Room of the building.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis of accounting.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Board-designated cash - Board-designated cash consists of cash amounts bequeathed by Paul Thek, as well as cash generated by the sale of artwork, bequeathed by Paul Thek. The Board has designated the funds to be used for the completion of a museum built in memory of Paul Thek.

Temporarily restricted cash - Temporarily restricted cash consists of cash from contributions received for museum construction.

-continued-

BYRD HOFFMAN WATER MILL FOUNDATION
a/k/a THE WATERMILL CENTER

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments - Investments in marketable securities are recorded at fair value. Unrealized gains and losses are due to fluctuations in the fair value of investments. The Foundation invests in various types of investment securities. Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' fluctuations, and that such changes could affect the amounts reported in the Foundation's financial statements.

Accounts receivable - The Foundation records receivables based on art sales and resident services. Interest is not charged on outstanding balances.

Contributions receivable - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Allowance for doubtful accounts - The Foundation determines whether an allowance should be provided for uncollectible receivables. Factors used to determine whether an allowance should be recorded include the age of the receivable, a review of payments subsequent to year end and current economic conditions. Receivables are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. As of December 31, 2014, the Foundation had no allowance for doubtful accounts.

Fixed assets - Fixed assets are stated at cost and depreciated or amortized on the straight-line method over their estimated useful lives. Items with costs in excess of \$1,000 with estimated useful lives of more than one year are capitalized. Amortization of leasehold improvements is computed using the straight-line method over the lesser of the term of the lease or the estimated useful life of the improvement.

-continued-

BYRD HOFFMAN WATER MILL FOUNDATION
a/k/a THE WATERMILL CENTER

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Art collection - The Foundation capitalizes its collections. If purchased, items accessioned into the collection are capitalized at cost and, if donated, they are capitalized at their fair value on the accession date. Gains or losses on the deaccession of collection items are classified on the statement of activities as unrestricted or temporarily restricted support depending on donor restrictions, if any, placed on the item at the time of accession. Those items donated that do not meet the collection criteria of the Foundation are classified as “held for sale”. Held for sale art is valued upon receipt at estimated fair value less anticipated commissions and other costs associated with the sale. The Foundation uses a local gallery to display and sell art held for sale, as well as a local storage facility to store art. The collection is not held as available for sale. The collection is on display at the Center or is in storage.

Deferred revenue - Artwork items which have been sold at auction by the Foundation, but have not yet been produced, are recorded as deferred revenue and recognized as income when delivered.

Contributions - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements.

Educational Workshop fees - Workshop fees are recognized on the accrual basis. Guests are billed in advance of services rendered, and revenues are recorded as earned.

Rent expense - Rent is expensed on the straight-line basis over the term of the lease.

Functional allocation of expenses - The costs of providing the Foundation’s services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Unrestricted net assets - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. In addition, resources which are set aside for board-designated purposes are unrestricted.

-continued-

BYRD HOFFMAN WATER MILL FOUNDATION
a/k/a THE WATERMILL CENTER

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Board-designated net assets - The Board designated funds for the development of an underground museum in memory of Paul Thek. The funds include cash, contributions receivable and art collection pieces.

Temporarily restricted net assets - Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose.

Fair Value Measurements

Fair Value Measurements establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below.

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access. Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

-continued-

BYRD HOFFMAN WATER MILL FOUNDATION
a/k/a THE WATERMILL CENTER

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

The following is a description of the valuation methodology used for assets measured at fair value. There has been no change in the methodology used at December 31, 2014, as compared to that used at December 31, 2013.

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

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the assets at fair value as of December 31, 2014:

	<u>Level 1</u>
Common stock	\$ <u>1,059</u>

Uncertainty in income taxes - The Foundation has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending December 31, 2011 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through September 18, 2015, which is the date the financial statements were available to be issued.

Summarized financial information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2013, from which the summarized information was derived.

-continued-

**BYRD HOFFMAN WATER MILL FOUNDATION
a/k/a THE WATERMILL CENTER**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassification - 2013 contributions have been segregated into individual contributions, foundation contributions, corporation contributions, and government grants to conform with the current financial presentation. 2013 interest has been segregated to conform with current financial presentation.

NOTE 3 - CONTRIBUTIONS RECEIVABLE

The Foundation received pledges from various donors, both unrestricted as well as to support the Underground Museum, which is being built at the Center. Included in contributions receivable are temporarily restricted funds for various purposes as described in Note 12 in the amount of \$2,420,000, which includes receivables that will be paid as the projects progress.

Contributions receivable are expected to be collected as follows:

Past due	\$ 1,357,444
2015	852,500
2016	190,000
2017	<u>60,000</u>
	2,459,944
Less discount to present value (3.75%)	<u>(11,311)</u>
	\$ <u><u>2,448,633</u></u>

-continued-

BYRD HOFFMAN WATER MILL FOUNDATION
a/k/a THE WATERMILL CENTER

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE 4 - FIXED ASSETS

		<u>Estimated Useful Life</u>
Land	\$ 2,227,514	
Building and improvements	13,632,013	10-40 years
Leasehold improvements	297,708	5-10 years
Furniture and equipment	288,686	5-10 years
Software	254,409	5 years
Construction in progress	<u>937,705</u>	
	17,638,035	
Less accumulated depreciation and amortization	<u>(3,654,092)</u>	
	<u>\$ 13,983,943</u>	

All fixed assets of the Foundation are held as collateral for the Foundation's indebtedness as further described in Note 5 to the financial statements.

NOTE 5 - LOAN PAYABLE

In May 2011, the Foundation obtained a term loan for \$3,603,804. The loan is secured by all of the assets of the Foundation. The loan was used to pay off all remaining liability on the principal balance and the swap agreement of the previous loan, with remaining funds used to purchase a vacant lot in Water Mill for future construction. The principal balance of the loan is payable in 120 consecutive monthly installments calculated using an amortization period of twenty years, commencing on June 20, 2011. A final payment of all unpaid balances and all accrued and unpaid interest outstanding under the term loan will be due and payable on the term loan maturity date of May 20, 2021. Interest on the term loan is at a fixed annual rate of 5.35%.

-continued-

BYRD HOFFMAN WATER MILL FOUNDATION
a/k/a THE WATERMILL CENTER

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE 5 - LOAN PAYABLE (continued)

Future principal payments are due as follows:

2015	\$ 124,785
2016	131,250
2017	139,024
2018	146,755
2019	154,916
Thereafter	<u>2,512,415</u>
	\$ <u>3,209,145</u>

Interest expense for the year ended December 31, 2014 was \$178,716.

NOTE 6 - LINE OF CREDIT PAYABLE

The Foundation has an unsecured line of credit of \$250,000 with JP Morgan Chase. The line of credit bears interest at the prime rate, which is 3.25% as of December 31, 2014. As of December 31, 2014, there was no outstanding balance on the line.

Interest expense for the year ended December 31, 2014 was \$1,544.

NOTE 7 - CONCENTRATIONS

Financial instruments which potentially subject the Foundation to a concentration of credit risk are cash accounts with a financial institution in excess of FDIC insurance limits.

NOTE 8 - SPECIAL EVENTS

Special events revenue	\$ 1,918,518
Less direct costs of special events	<u>(365,481)</u>
	\$ <u>1,553,037</u>

-continued-

BYRD HOFFMAN WATER MILL FOUNDATION
a/k/a THE WATERMILL CENTER

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE 9 - LEASE COSTS

- A. The Foundation leased office space in Manhattan from RW Work, Ltd. on a month-to-month basis. Rent expense for the office was \$37,416.
- B. The Foundation leases storage space for certain art objects. The current lease agreement expires in July 2015. Rent expense for storage was \$34,228.
- C. The Foundation leases two vehicles for the Water Mill Center. The lease terms expire in June 2016 and February 2017. Rent expense for the two vehicles was \$6,930.

Future minimum aggregate annual rental payments are as follows:

2015	\$	32,216
2016		6,930
2017		<u>741</u>
	\$	<u>39,887</u>

NOTE 10 - ART COLLECTION AND ART HELD FOR SALE

The Foundation's art collection is made up of art objects that are held for exhibition. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continually. The carrying amount of this collection as of December 31, 2014 is \$7,023,712.

Donated artwork that does not fit into the Foundation's long-term needs is placed for sale at a local gallery. Upon sale, the proceeds are deemed unrestricted. The carrying amount of art that is held for sale as of December 31, 2014 is \$174,000.

-continued-

BYRD HOFFMAN WATER MILL FOUNDATION
a/k/a THE WATERMILL CENTER

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

NOTE 11 - PENSION PLAN

The Foundation participates in a multi-employer defined contribution plan maintained by the Cultural Institution Retirement System (“CIRS”) on behalf of its employees. Employees may contribute to this plan up to the maximum permitted by law. The Foundation matches each employee’s contribution, up to a maximum 3% of gross compensation. Employer contributions, calculated on an annual basis by CIRS, amounted to \$7,097 for the year ended December 31, 2014.

NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Underground Museum	\$ 2,091,846
Library of Inspiration	875,195
Residence	224,760
Summer workshops (passage of time)	423,466
Einstein on the Beach (3D DVD)	<u>150,000</u>
	\$ <u>3,765,267</u>

During 2014, temporarily restricted net assets were released from restriction by satisfying donor imposed timing or usage criteria as follows:

Underground Museum	\$ 1,336,419
Library of Inspiration	15,400
Residence	175,240
Summer workshops (passage of time)	<u>310,000</u>
	\$ <u>1,837,059</u>