

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

**FINANCIAL STATEMENTS  
AND AUDITOR'S REPORT**

**DECEMBER 31, 2015**

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

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## **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, 2015, 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, 2015, 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, 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 18, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Loeb & Troper LLP*

July 22, 2016

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

**BALANCE SHEET**

**DECEMBER 31, 2015**

**(With Summarized Financial Information for December 31, 2014)**

	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 86,475	\$ 94,395
Cash - board-designated (Note 2)	1,716,262	1,942,463
Cash - temporarily restricted	2,597,374	1,356,578
Cash - endowment	100,000	
Investments (Note 2)		1,059
Accounts receivable	44,323	107,748
Contributions receivable (Note 3)	1,951,775	2,448,633
Prepaid expenses	126,449	183,648
Art - held for sale (Note 10)	164,000	174,000
Security deposits	24,890	16,811
Fixed assets - net (Note 4)	13,874,316	13,983,943
Art - collection (Note 10)	7,117,652	7,023,712
	<b>\$ 27,803,516</b>	<b>\$ 27,332,990</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 285,809	\$ 164,078
Construction payable		173,801
Deferred revenue		200,000
Due to RW Work Ltd. (Note 1)	18,415	26,662
Loan payable (Note 5)	3,195,833	3,209,145
	<b>3,500,057</b>	<b>3,773,686</b>
<b>Net assets (Exhibit B)</b>		
<b>Unrestricted</b>		
Operating	15,223,580	15,285,815
Board designated (Note 2)	4,494,710	4,508,222
	<b>19,718,290</b>	<b>19,794,037</b>
Temporarily restricted (Note 12)	4,435,169	3,765,267
Permanently restricted (Note 13)	150,000	
	<b>24,303,459</b>	<b>23,559,304</b>
	<b>\$ 27,803,516</b>	<b>\$ 27,332,990</b>

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, 2015**  
**(With Summarized Financial Information**  
**for the Year Ended December 31, 2014)**

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total	
	Operating	Board Designated	Total			2015	2014
Revenues, gains and support							
Support and contributions							
Individual contributions (including \$3,717 of donated stock)	\$ 523,599		\$ 523,599	\$ 1,344,777	\$ 150,000	\$ 2,018,376	\$ 629,930
Foundation contributions	271,826		271,826	4,329		276,155	923,864
Corporation contributions	49,514		49,514			49,514	255,241
Government grants	95,000		95,000			95,000	50,000
Donated art							593,000
Bequests							1,000
Special events revenue - net (Note 8)	1,869,729		1,869,729			1,869,729	1,553,037
Net assets released from restrictions	669,204		669,204	(669,204)			
Subtotal support and contributions	<u>3,478,872</u>		<u>3,478,872</u>	<u>679,902</u>	<u>150,000</u>	<u>4,308,774</u>	<u>4,006,072</u>
Earned revenues and gains							
Educational workshop fees	182,500		182,500			182,500	185,705
Loss on investments	(402)		(402)			(402)	(75)
Gain on sale of artwork		\$ 15,500	15,500			15,500	
Interest income	110	4,426	4,536			4,536	7,381
Miscellaneous income	8,842		8,842			8,842	30,329
Subtotal earned revenues and gains	<u>191,050</u>	<u>19,926</u>	<u>210,976</u>			<u>210,976</u>	<u>223,340</u>
Total revenues, gains and support	<u>3,669,922</u>	<u>19,926</u>	<u>3,689,848</u>	<u>679,902</u>	<u>150,000</u>	<u>4,519,750</u>	<u>4,229,412</u>
Expenses (Exhibit C)							
Program services	2,369,436	6,994	2,376,430			2,376,430	2,281,545
Management and general	731,367	26,444	757,811			757,811	388,876
Fund raising	631,354		631,354			631,354	407,125
Total expenses	<u>3,732,157</u>	<u>33,438</u>	<u>3,765,595</u>			<u>3,765,595</u>	<u>3,077,546</u>
Change in net assets before bad debt loss	(62,235)	(13,512)	(75,747)	679,902	150,000	754,155	1,151,866
Bad debt loss from uncollectible pledges				(10,000)		(10,000)	
Change in net assets (Exhibit D)	(62,235)	(13,512)	(75,747)	669,902	150,000	744,155	1,151,866
Net assets - beginning of year	<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>
Net assets - end of year (Exhibit A)	<u>\$ 15,223,580</u>	<u>\$ 4,494,710</u>	<u>\$ 19,718,290</u>	<u>\$ 4,435,169</u>	<u>\$ 150,000</u>	<u>\$ 24,303,459</u>	<u>\$ 23,559,304</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, 2015**  
**(With Summarized Financial Information for**  
**the Year Ended December 31, 2014)**

	Program Services						Supporting Services			Total	
	International	Residency	Artistic	Education	Curatorial/	Total	Management	Fund	Direct Cost	2015	2014
	Summer	Program	Resources	and	Exhibitions		and General	Raising	of Special		
Program	Program		Outreach					Events			
Salaries	\$ 81,141	\$ 37,021	\$ 160,461	\$ 52,819	\$ 41,294	\$ 372,736	\$ 230,637	\$ 210,216	\$ 42,911	\$ 856,500	\$ 807,533
Payroll taxes and employee benefits	13,874	6,188	20,733	11,199	16,458	68,452	66,381	30,153	7,311	172,297	196,700
Professional fees and consultants	148,323	29,246	21,212	9,884	57,443	266,108	119,158	68,059	4,963	458,288	223,760
Occupancy (Note 9)	36,000	10,711	5,006	3,337	33,139	88,193	65,211	550		153,954	163,117
Program and event supplies	74,158	5,551	8,609	3,749	18,264	110,331			184,910	295,241	254,249
General production expenses	65,151	6,160	665	6,956	50,657	129,589		159,239	38,575	327,403	115,081
Other supplies and printing	9,778	961	5,549	1,086	467	17,841	19,797	42,089	15,745	95,472	73,545
Minor equipment and rentals	339,084	13,071	10,573	7,856	25,307	395,891	6,679	30,582	115,399	548,551	456,596
Travel	91,913	2,491	6,023	1,017	6,363	107,807	9,005	47,116	829	164,757	83,324
Postage and shipping	4,670	175	768	228	12,593	18,434	15,106	16,286	9,565	59,391	66,183
Telephone and Internet	5,483	1,094	892	547	1,458	9,474	24,150	206		33,830	26,857
Insurance	17,303	9,887	13,894	4,944	9,376	55,404	17,047	12,786		85,237	102,931
Repairs and maintenance	183,542	17,833	13,234	12,389	27,124	254,122	35,608	2,518	25,121	317,369	274,897
Interest	85,282	36,550				121,832				121,832	178,716
Bank and credit card fees			65		56	121	92,490	673		93,284	20,621
Depreciation and amortization	133,581	114,500	45,800	15,267	49,616	358,764	19,084	3,817		381,665	386,732
Bad debt expense							26,444			26,444	
Miscellaneous	338	20	15	931	27	1,331	11,014	7,064	3,302	22,711	12,185
<b>Total expenses</b>	<b>1,289,621</b>	<b>291,459</b>	<b>313,499</b>	<b>132,209</b>	<b>349,642</b>	<b>2,376,430</b>	<b>757,811</b>	<b>631,354</b>	<b>448,631</b>	<b>4,214,226</b>	<b>3,443,027</b>
Less expenses deducted directly from revenues											
Direct costs of special events									(448,631)	(448,631)	(365,481)
<b>Total expenses reported by function on the statement of activities (Exhibit B)</b>	<b>\$ 1,289,621</b>	<b>\$ 291,459</b>	<b>\$ 313,499</b>	<b>\$ 132,209</b>	<b>\$ 349,642</b>	<b>\$ 2,376,430</b>	<b>\$ 757,811</b>	<b>\$ 631,354</b>	<b>\$ -</b>	<b>\$ 3,765,595</b>	<b>\$ 3,077,546</b>

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, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 744,155	\$ 1,151,866
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	381,665	386,732
Loss on investments	402	75
Gain on sale of art	(15,500)	
Contributed art		(593,000)
Contributions restricted for long-term investment	(150,000)	
Decrease (increase) in assets		
Accounts receivable	63,425	(10,857)
Contributions receivable	546,858	(114,549)
Prepaid expenses	57,199	(146,738)
Security deposits	(8,079)	(15,170)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	121,731	66,745
Due to RW Work Ltd.	(8,247)	26,662
Deferred revenue	(200,000)	
Net cash provided by operating activities	<u>1,533,609</u>	<u>751,766</u>
Cash flows from investing activities		
Purchases of art	(99,940)	(75,500)
Proceeds from sale of art	31,500	
Purchases of investments	(3,706)	
Proceeds from sales of investments	4,363	
Capital expenditures	(445,839)	(1,398,406)
Decrease (increase) in board-designated, temporarily restricted, and endowment cash	(1,114,595)	1,014,018
Net cash used by investing activities	<u>(1,628,217)</u>	<u>(459,888)</u>
Cash flows from financing activities		
Proceeds on loan payable	3,250,000	
Principal payments on loan payable	(3,263,312)	(118,211)
Proceeds from line of credit		270,000
Principal payments on line of credit		(365,000)
Contributions restricted for long-term investment	100,000	
Net cash provided (used) by financing activities	<u>86,688</u>	<u>(213,211)</u>
Net change in cash and cash equivalents	(7,920)	78,667
Cash and cash equivalents - beginning of year	<u>94,395</u>	<u>15,728</u>
Cash and cash equivalents - end of year	<u>\$ 86,475</u>	<u>\$ 94,395</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 121,832</u>	<u>\$ 178,716</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, 2015**

**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 2015, personnel costs of \$124,858 and other costs of \$25,325 were allocated from the Foundation to RW Work, Ltd. Personnel costs of \$124,190, occupancy costs of \$64,077 and other costs of \$65,665 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 that focus on new projects in development for theater and opera, installation and exhibition design, furniture and fashion design, film and video, landscaping, and architecture.

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

Additionally, six guest lecturers spoke to the artists and local community on a variety of subjects regarding science and art during the Summer Lecture Series.

***Residency program*** - This program is open for artists from all artistic fields as well as 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.

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

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2015**

**NOTE 1 - NATURE OF ENTITY (continued)**

The 2015 Residency program included 13 residencies and featured 15 open rehearsals and support with partnering institutions to showcase these artists across multiple venues in NYC and Long Island.

*Artistic Resources* - The Library of Inspiration is a project that brings together the Foundation's archives, library resources and information about the Watermill Art Collection as well as digital materials as a resource for artists and scholars into one complete user-friendly database. The final project will be complete in 2017. 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.

*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 2015, the Center hosted two long-term exhibitions, Daniel Arsham's *Formless Figure* from April 4 to August 19, 2015 and *Visitations: G.T. Pellizzi* from September 26 through November 21, 2015.

*Education and outreach* - Regular programs are held for Pre-K-12th grade students run by the Center's Education 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.

The Center also continues its longstanding educational 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.

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

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2015**

**NOTE 1 - NATURE OF ENTITY (continued)**

In the spring of 2015, 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.

An annual schedule of free events and educational activities offers members of the community first-hand access to the creative process. In 2015, the Foundation began a new series of panels and lectures at its W. 29<sup>th</sup> Street offices entitled *Viewpoints @29<sup>th</sup>*, a series dedicated to encouraging dialogue and awareness of the arts.

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.

**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.

***Cash and cash equivalents*** - Cash and cash equivalents include certain investments in highly liquid instruments with original maturities, when acquired, of three months or less.

***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.

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

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2015**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Endowment cash*** - Endowment cash consists of cash from contributions received to be held in perpetuity (see Note 13).

***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, 2015, 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.

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

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2015**

**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.

**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.

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

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2015**

**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 and permanently 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. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

*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, 2012 and subsequent remain subject to examination by applicable taxing authorities.

*Subsequent events* - Subsequent events have been evaluated through July 22, 2016, 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, 2014, from which the summarized information was derived.

*Reclassification* - Professional fees and consultants for 2014 have been reclassified on the statement of functional expenses to conform to the current year's 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 \$1,840,000, which includes receivables that will be paid as the projects progress, and \$50,000 of receivables relating to permanently restricted funds as described in Note 13.

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

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2015**

**NOTE 3 - CONTRIBUTIONS RECEIVABLE (continued)**

Contributions receivable are expected to be collected as follows:

Past due	\$ 1,634,900
2016	235,000
2017	<u>85,000</u>
	1,954,900
Less discount to present value (3.75%)	<u>(3,125)</u>
	<u>\$ 1,951,775</u>

**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	321,496	5-10 years
Software	254,409	5 years
Construction in progress	<u>1,176,933</u>	
	17,910,073	
Less accumulated depreciation and amortization	<u>(4,035,757)</u>	
	<u>\$ 13,874,316</u>	

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

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2015**

**NOTE 5 - LOAN PAYABLE**

In July 2015, the Foundation obtained a term loan for \$3,250,000 from Bank United, N.A. The loan is secured by the land and building of the Center. The loan was used to pay off all remaining liability on the principal balance of the previous loan. The principal balance of the loan is payable in eighty-four consecutive monthly installments of \$13,542 plus interest, commencing on September 1, 2015. A final balloon payment of \$2,112,500 consisting of all unpaid principal, as well as all accrued and unpaid interest outstanding under the term loan, will be due and payable on the term loan maturity date of August 7, 2022. Interest on the term loan is charged monthly at 175 base points in excess of the one month LIBOR, which was 1.99% as of December 31, 2015. The note allows for a one time option to convert to a fixed rate mortgage based on the effective interest rate at the time of conversion. Interest expense for the year ended December 31, 2015 was \$120,758.

Future principal payments are due as follows:

2016	\$ 162,500
2017	162,500
2018	162,500
2019	162,500
2020	162,500
Thereafter	<u>2,383,333</u>
	\$ <u>3,195,833</u>

**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, 2015. As of December 31, 2015, there was no outstanding balance on the line.

**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.

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**BYRD HOFFMAN WATER MILL FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2015**

**NOTE 7 - CONCENTRATIONS (continued)**

For the year ending December 31, 2015, contributions provided by a single donor represented approximately 20% of total support and contributions. Contributions receivable due to the Foundation include a pledge totaling approximately 50% of total contributions receivable.

**NOTE 8 - SPECIAL EVENTS**

Special events revenue	\$ 2,318,360
Less direct costs of special events	<u>(448,631)</u>
	<u>\$ 1,869,729</u>

**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 \$48,000.
- B. The Foundation leases storage space for certain art objects on a month-to-month basis. Rent expense for storage was \$27,256.
- 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 \$9,745.
- D. The Foundation leases homes for the staff and members of the summer program near the Water Mill Center. Most of the leases are short term leases which have terminated as of December 31, 2015. One of the leases expires in October 2017. Rent expense for the staff and program residents housing was \$274,376.

Future minimum aggregate annual rental payments are as follows:

2016	\$ 72,930
2017	<u>55,747</u>
	<u>\$ 128,677</u>

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**BYRD HOFFMAN WATER MILL FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2015**

**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, 2015 is \$7,117,652.

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, 2015 is \$164,000.

**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 \$17,641 for the year ended December 31, 2015.

**NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes:

Water Mill capital project	\$ 2,446,676
Library of Inspiration	760,698
Summer workshops (passage of time)	117,795
Einstein on the Beach (3D DVD)	150,000
Fellowship program (passage of time)	<u>960,000</u>
	\$ <u>4,435,169</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2015**

**NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS (continued)**

During 2015, temporarily restricted net assets were released from restriction by satisfying donor imposed timing or usage criteria as follows:

Water Mill capital project	\$ 169,930
Library of Inspiration	189,274
Summer workshops (passage of time)	<u>310,000</u>
	\$ <u>669,204</u>

**NOTE 13 - PERMANENTLY RESTRICTED NET ASSETS AND ENDOWMENT FUNDS**

**General**

The Foundation's endowment consists of a donor-restricted endowment fund established to support the general operating purposes of the Center. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law**

The Board of Directors of the Foundation has adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA moves away from the "historic dollar value" standard, and permits charities to apply a spending policy to endowments based on certain specified standards of prudence. The Foundation is governed by the NYPMIFA spending policy, which establishes a standard maximum prudent spending limit of 7% of the average of its previous five years' balance. As a result of this interpretation, the Foundation 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 standards of prudence prescribed by NYPMIFA.

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**BYRD HOFFMAN WATER MILL FOUNDATION  
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**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2015**

**NOTE 13 - PERMANENTLY RESTRICTED NET ASSETS AND ENDOWMENT FUNDS  
(continued)**

**Return Objectives and Strategies Employed**

The funds were held in a non-interest bearing cash account while determining a long term investment strategy. The objective of the Foundation is to grow the principal endowment funds and to provide a predictable stream of funding to programs supported by its endowment. The investment policy adopted to achieve this objective is to invest in a mix of money market funds, equities and fixed income instruments. Investment income earned in relation to the endowment funds is recorded as temporarily restricted income and released from restriction upon appropriation by the Board of Directors.

**Funds with Deficiencies**

The Foundation has no funds with deficiencies as of December 31, 2015.

**Endowment Net Asset Composition by Type of Fund as of December 31, 2015**

The endowment net asset composition was:

Permanently restricted	
General operations	\$ <u>150,000</u>

**Changes in Endowment Net Assets for the Year Ended December 31, 2015**

	<b><u>Permanently Restricted</u></b>
Endowment net assets, beginning of year	\$ -
Contributions	<u>150,000</u>
Endowment net assets, end of year	\$ <u>150,000</u>