

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

**FINANCIAL STATEMENTS  
AND AUDITOR'S REPORT**

**DECEMBER 31, 2016**

**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, 2016, 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, 2016, 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, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 22, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Loeb & Troper LLP*

September 27, 2017

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

**BALANCE SHEET**

**DECEMBER 31, 2016**

**(With Summarized Financial Information for December 31, 2015)**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 35,450	\$ 86,475
Cash - board-designated (Note 2)	147,252	1,716,262
Cash - temporarily restricted		2,597,374
Cash - endowment		100,000
Investments (Note 3)	3,424,541	
Accounts receivable	139,274	44,323
Contributions receivable (Note 4)	1,051,888	1,951,775
Prepaid expenses	91,709	126,449
Art - held for sale (Note 11)	164,000	164,000
Security deposits	19,086	24,890
Fixed assets - net (Note 5)	15,712,964	13,874,316
Art - collection (Note 11)	7,530,503	7,117,652
	<u>28,316,667</u>	<u>27,803,516</u>
Total assets	\$ 28,316,667	\$ 27,803,516
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 256,452	\$ 285,809
Construction payable	144,418	
Due to RW Work Ltd. (Note 1)	23,045	18,415
Line of credit (Note 7)	351,935	
Loan payable (Note 6)	3,033,333	3,195,833
	<u>3,809,183</u>	<u>3,500,057</u>
Total liabilities	3,809,183	3,500,057
<b>Net assets (Exhibit B)</b>		
<b>Unrestricted</b>		
Operating	17,056,613	15,223,580
Board designated (Note 2)	4,461,578	4,494,710
	<u>21,518,191</u>	<u>19,718,290</u>
Total unrestricted	21,518,191	19,718,290
Temporarily restricted (Note 14)	2,839,293	4,435,169
Permanently restricted (Note 15)	150,000	150,000
	<u>24,507,484</u>	<u>24,303,459</u>
Total net assets	24,507,484	24,303,459
Total liabilities and net assets	\$ 28,316,667	\$ 27,803,516

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, 2016**  
**(With Summarized Financial Information**  
**for the Year Ended December 31, 2015)**

	Unrestricted		Temporarily Restricted	Permanently Restricted	Total	
	Operating	Board Designated			Total	2016
Revenues, gains and support						
Support and contributions						
Individual contributions	\$ 931,001		\$ 931,001	\$ 886,151	\$ 1,817,152	\$ 2,018,376
Foundation contributions	559,986		559,986	292,205	852,191	276,155
Corporation contributions	85,439		85,439		85,439	49,514
Government grants	20,000		20,000		20,000	95,000
Donated art	4,984		4,984		4,984	
Special events revenue - net (Note 9)	1,900,942		1,900,942		1,900,942	1,869,729
Net assets released from restrictions	2,639,628		2,639,628	(2,639,628)		
Subtotal support and contributions	6,141,980		6,141,980	(1,461,272)	4,680,708	4,308,774
Earned revenues and gains						
Educational workshop fees	143,836		143,836		143,836	182,500
Investment income (loss) (Note 3)	(11,212)		(11,212)	15,396	4,184	(402)
Gain on sale of artwork						15,500
Interest income - operating	46		46		46	4,536
Miscellaneous income	2,299		2,299		2,299	8,842
Subtotal earned revenues and gains	134,969		134,969	15,396	150,365	210,976
Total revenues, gains and support	6,276,949		6,276,949	(1,445,876)	4,831,073	4,519,750
Expenses (Exhibit C)						
Program services	3,049,979	\$ 33,132	3,083,111		3,083,111	2,376,430
Management and general	735,417		735,417		735,417	757,811
Fund raising	658,520		658,520		658,520	631,354
Total expenses	4,443,916	33,132	4,477,048		4,477,048	3,765,595
Change in net assets before bad debt loss	1,833,033	(33,132)	1,799,901	(1,445,876)	354,025	754,155
Bad debt loss from uncollectible pledges				(150,000)	(150,000)	(10,000)
Change in net assets (Exhibit D)	1,833,033	(33,132)	1,799,901	(1,595,876)	204,025	744,155
Net assets - beginning of year	15,223,580	4,494,710	19,718,290	4,435,169	\$ 150,000	24,303,459
Net assets - end of year (Exhibit A)	\$ 17,056,613	\$ 4,461,578	\$ 21,518,191	\$ 2,839,293	\$ 150,000	\$ 24,507,484

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, 2016  
(With Summarized Financial Information for  
the Year Ended December 31, 2015)

	Program Services						Supporting Services			Total	
	International	Residency	Artistic	Education	Curatorial/	Total	Management	Fund	Direct Cost	2016	2015
	Summer	Program	Resources	and	Exhibitions		and General	Raising	of Special		
Program			Outreach					Events			
Salaries	\$ 90,372	\$ 122,917	\$ 168,428	\$ 101,565	\$ 43,026	\$ 526,308	\$ 221,383	\$ 244,064	\$ 35,929	\$ 1,027,684	\$ 856,500
Payroll taxes and employee benefits	16,357	21,641	24,672	16,471	17,235	96,376	71,094	39,919	6,976	214,365	172,297
Professional fees and consultants	143,195	71,932	145,884	72,276	28,578	461,865	227,547	53,543	15,580	758,535	458,288
Occupancy (Note 10)	319,039	29,835	22,541	14,880	36,104	422,399	86,823			509,222	428,330
General production expenses	184,715	132,243	22,996	23,341	48,741	412,036	8,428	106,790	229,841	757,095	622,644
Other supplies and printing	9,369	20,990	7,961	661	701	39,682	12,715	40,487	28,133	121,017	95,472
Minor equipment and rentals (Note 10)	103,015	34,169	74,484	9,868	12,067	233,603	3,452	4,630	140,248	381,933	274,175
Travel	63,955	10,571	7,127	3,556	1,751	86,960	1,331	120,960	2,875	212,126	164,757
Postage and shipping	1,150	10,521	1,028	3,162	10,593	26,454	20,028	32,077	7,987	86,546	59,391
Telephone and Internet	4,487	1,980	1,702	897	830	9,896	22,309	251		32,456	33,830
Insurance	15,618	13,387	5,355	1,785	5,801	41,946	2,231	446		44,623	85,237
Repairs and maintenance	164,908	36,755	27,763	27,459	14,450	271,335	6,135	84	26,755	304,309	317,369
Interest	48,854	20,937				69,791	2,659			72,450	121,832
Investment fees							9,077			9,077	
Bank and credit card fees							21,741			21,741	93,284
Depreciation and amortization	141,721	121,475	48,590	16,197	52,639	380,622	20,247	4,049		404,918	381,665
Bad debt expense											26,444
Miscellaneous	757	487	139	2,368	87	3,838	7,294	11,220	4,186	26,538	22,711
<b>Total expenses</b>	<b>1,307,512</b>	<b>649,840</b>	<b>558,670</b>	<b>294,486</b>	<b>272,603</b>	<b>3,083,111</b>	<b>744,494</b>	<b>658,520</b>	<b>498,510</b>	<b>4,984,635</b>	<b>4,214,226</b>
Less expenses deducted directly from revenues											
Investment fees							(9,077)			(9,077)	
Direct costs of special events									(498,510)	(498,510)	(448,631)
<b>Total expenses reported by function on the statement of activities (Exhibit B)</b>	<b>\$ 1,307,512</b>	<b>\$ 649,840</b>	<b>\$ 558,670</b>	<b>\$ 294,486</b>	<b>\$ 272,603</b>	<b>\$ 3,083,111</b>	<b>\$ 735,417</b>	<b>\$ 658,520</b>	<b>\$ -</b>	<b>\$ 4,477,048</b>	<b>\$ 3,765,595</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, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 204,025	\$ 744,155
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	404,918	381,665
Loss (gain) on investments	58,340	402
Gain on sale of art		(15,500)
Contributed art	(4,984)	
Contributions restricted for long-term investment		(150,000)
Decrease (increase) in assets		
Accounts receivable	(94,951)	63,425
Contributions receivable	874,887	546,858
Prepaid expenses	34,740	57,199
Security deposits	5,804	(8,079)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(29,357)	121,731
Due to RW Work Ltd.	4,630	(8,247)
Deferred revenue		(200,000)
Net cash provided by operating activities	<u>1,458,052</u>	<u>1,533,609</u>
Cash flows from investing activities		
Purchases of art	(407,867)	(99,940)
Proceeds from sale of art		31,500
Purchases of investments	(5,360,204)	(3,706)
Proceeds from sales of investments	1,877,323	4,363
Capital expenditures	(2,099,148)	(445,839)
Decrease (increase) in board-designated, temporarily restricted, and endowment cash	<u>4,266,384</u>	<u>(1,114,595)</u>
Net cash used by investing activities	<u>(1,723,512)</u>	<u>(1,628,217)</u>
Cash flows from financing activities		
Proceeds on loan payable		3,250,000
Principal payments on loan payable	(162,500)	(3,263,312)
Proceeds from line of credit	727,060	
Principal payments on line of credit	(375,125)	
Contributions restricted for long-term investment	<u>25,000</u>	<u>100,000</u>
Net cash provided by financing activities	<u>214,435</u>	<u>86,688</u>
Net change in cash and cash equivalents	(51,025)	(7,920)
Cash and cash equivalents - beginning of year	<u>86,475</u>	<u>94,395</u>
Cash and cash equivalents - end of year	<u>\$ 35,450</u>	<u>\$ 86,475</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 72,450</u>	<u>\$ 121,832</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, 2016**

**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 2016, personnel costs of \$111,226 and other costs of \$4,405 were allocated from the Foundation to RW Work, Ltd. Personnel costs of \$97,902, occupancy costs of \$60,332 and other costs of \$94,086 were allocated from RW Work, Ltd. to the Foundation. RW Work, Ltd. contributed \$55,000 to the Foundation in 2016.

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, 2016**

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

The 2016, the Residency program included 24 residencies who were all featured in a series of open rehearsals to showcase these artists across multiple venues in NYC and Long Island.

In 2016 a new program, the Ingra Maren Otto Fellowship, recognizing emerging and mid-career artists was created thanks to the generosity of Inga Maren Otto. This program has been underwritten through 2020. In 2016, the Watermill Center hosted the first 3 artists in this program.

*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 is on schedule to be completed 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.

*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.

2016 saw the addition of reACT, an original performance series highlighting past resident artists. reACT provides these artists a unique opportunity to return to Watermill and present works that are intimately linked to the Center.

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

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**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. 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. This program continued in 2016 with 3 more evenings of conversation.

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 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.

***Endowment cash*** - Endowment cash consists of cash from contributions received to be held in perpetuity (see Note 15).

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

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

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

***Investments*** - Investments 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, 2016, 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, 2016**

**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. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously.

**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.

**Special events** - The Foundation conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant of the event. All proceeds received are recorded as special events revenue in the accompanying statement of activities.

**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. Deferred rent is recorded when there are material differences between the fixed payment and the rent expense.

**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.

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

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

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

***Fair Value Measurements***

*Fair Value Measurements*, ASC Topic 820, 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.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2016 as compared to those used at December 31, 2015.

***Mutual funds and exchange traded funds*** - Valued at the net asset value ("NAV") of shares held at year end.

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

***Corporate bonds and U.S. Government agencies*** - Valued using pricing models maximizing the use of observable inputs for similar securities.

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

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

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

***Fair Value Measurements (continued)***

The methods 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 methods are 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. See Note 3, which sets forth by level in the fair value hierarchy the Foundation's investments at fair value as of December 31, 2016.

***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.

***Board-designated net assets*** - The Board designated funds for the development of a 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, 2013 and subsequent remain subject to examination by applicable taxing authorities.

***Subsequent events*** - Subsequent events have been evaluated through September 27, 2017, 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, 2015, from which the summarized information was derived.

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

**DECEMBER 31, 2016**

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

*Reclassification* - Program and event supplies for 2015 have been reclassified into general production expenses and \$274,376 of 2015 minor equipment and rentals has been reclassified into occupancy on the statement of functional expenses to conform to the current year's presentation.

**NOTE 3 - INVESTMENTS**

The following are investments held at December 31, 2016 by fair value level:

	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Equities - Domestic	\$ 123,279		\$ 123,279
Mutual funds - Large cap	20,611		20,611
Exchange traded funds			
Technology	10,350		10,350
Utilities	41,817		41,817
Retail	15,513		15,513
Corporate bonds		\$ 2,752,011	2,752,011
U.S. Government agencies		66,519	66,519
Total investments as reported on the fair value hierarchy	\$ 211,570	\$ 2,818,530	3,030,100
Cash equivalents			394,441
			\$ 3,424,541

Investment income for the year ended December 31, 2016 includes:

Interest and dividend income	\$ 71,601
Net realized losses on sale of securities	(19,892)
Unrealized losses	(38,448)
Investment fees	(9,077)
Net investment income	\$ 4,184

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

**DECEMBER 31, 2016**

**NOTE 3 - INVESTMENTS (continued)**

Investments include endowment funds of \$165,396 as of December 31, 2016.

**NOTE 4 - CONTRIBUTIONS RECEIVABLE**

Contributions receivable are expected to be collected as follows:

Past due	\$ 877,807
2017	150,000
2018	<u>25,000</u>
	1,052,807
Less discount to present value (3.75%)	<u>(919)</u>
	<u>\$ 1,051,888</u>

**NOTE 5 - FIXED ASSETS**

		<u>Estimated Useful Life</u>
Land	\$ 2,227,514	
Building and improvements	13,777,100	10-40 years
Leasehold improvements	404,108	5-10 years
Furniture and equipment	376,558	5-10 years
Software	296,700	5 years
Construction in progress	<u>3,071,659</u>	
	20,153,639	
Less accumulated depreciation and amortization	<u>(4,440,675)</u>	
	<u>\$ 15,712,964</u>	

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

**DECEMBER 31, 2016**

**NOTE 6 - 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 2.37% as of December 31, 2016. 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, 2016 was \$69,791.

Future principal payments are due as follows:

<u>Year Ending</u> <u>December 31,</u>	
2017	\$ 162,500
2018	162,500
2019	162,500
2020	162,500
2021	162,500
Thereafter	<u>2,220,833</u>
	<u>\$ 3,033,333</u>

**NOTE 7 - LINE OF CREDIT PAYABLE**

The Foundation has an unsecured line of credit of \$500,000 with JP Morgan Chase. The line of credit bears interest at the prime rate, which is 3.75% as of December 31, 2016. As of December 31, 2016, there was \$351,935 outstanding on the line.

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

**DECEMBER 31, 2016**

**NOTE 8 - 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.

For the year ended December 31, 2016, contributions provided by a single donor represented approximately 19% of total support and contributions. Contributions receivable due to the Foundation includes a pledge totaling approximately 50% of total contributions receivable.

**NOTE 9 - SPECIAL EVENTS**

Special events revenue	\$ 2,399,452
Less direct costs of special events	<u>(498,510)</u>
	\$ <u>1,900,942</u>

**NOTE 10 - 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 \$28,526.
- C. The Foundation leases three vehicles for the Water Mill Center. The lease terms expire in February 2017, December 2018 and April 2019. Rent expense for the vehicles was \$13,012.
- 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, 2016. One of the leases expires in October 2017. Rent expense for the staff and program residents housing was \$333,339.

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

**DECEMBER 31, 2016**

**NOTE 10 - LEASE COSTS (continued)**

Future minimum aggregate annual rental payments are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2017	\$ 63,171
2018	7,424
2019	<u>971</u>
	\$ <u>71,566</u>

**NOTE 11 - 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, 2016 is \$7,530,503.

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, 2016 is \$164,000.

**NOTE 12 - 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 \$32,354 for the year ended December 31, 2016.

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

**DECEMBER 31, 2016**

**NOTE 13 - COMMITMENTS AND CONTINGENCIES**

The Foundation is currently in the first phase of construction of the Residence at Water Mill campus. The Foundation estimates the cost of the project to be approximately \$8 million. As of December 31, 2016, approximately \$4 million has been spent toward this project, including the purchase of the land. The project will be financed primarily by donor restricted contributions. The Project is expected to be completed by September 2018.

**NOTE 14 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes:

Water Mill capital project	\$ 1,385,853
Library of Inspiration	568,044
Summer workshops (passage of time)	60,000
Fellowship program (passage of time)	720,000
General support (passage of time)	90,000
Endowment earnings for appropriation	<u>15,396</u>
	\$ <u>2,839,293</u>

During 2016, temporarily restricted net assets were released from restriction by satisfying donor imposed timing or usage criteria as follows:

Water Mill capital project	\$ 2,078,223
Library of Inspiration	261,405
Summer workshops (passage of time)	60,000
Fellowship program (passage of time)	<u>240,000</u>
	\$ <u>2,639,628</u>

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

**DECEMBER 31, 2016**

**NOTE 15 - 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.

**Return Objectives and Strategies Employed**

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, 2016.

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

**DECEMBER 31, 2016**

**NOTE 15 - PERMANENTLY RESTRICTED NET ASSETS AND ENDOWMENT FUNDS  
(continued)**

**Endowment Net Asset Composition by Type of Fund as of December 31, 2016**

The endowment net asset composition was:

Permanently restricted	
General operations	\$ <u>150,000</u>
Temporarily restricted	
Unappropriated accumulation of investment income on endowments	\$ <u>15,396</u>

**Changes in Endowment Net Assets for the Year Ended December 31, 2016**

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 150,000	\$ 150,000
Dividends and interest	3,439		3,439
Gain on investment	12,195		12,195
Investment management fees	<u>(238)</u>		<u>(238)</u>
Endowment net assets, end of year	\$ <u>15,396</u>	\$ <u>150,000</u>	\$ <u>165,396</u>