

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

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

DECEMBER 31, 2017

**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, 2017, 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, 2017, 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, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 27, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Loeb & Troper LLP

August 17, 2018

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

BALANCE SHEET

DECEMBER 31, 2017

(With Summarized Financial Information for December 31, 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 1,461,457	\$ 35,450
Cash - board-designated (Note 2)	358,124	147,252
Construction escrow deposits (Note 2)	222,126	683,820
Investments (Note 3)	3,762,559	3,424,541
Accounts receivable	164,117	139,274
Contributions receivable (Note 4)	546,000	1,051,888
Prepaid expenses	101,786	91,709
Art - held for sale (Note 11)	164,000	164,000
Security deposits	14,139	19,086
Fixed assets - net (Note 5)	16,287,717	15,029,144
Art - collection (Note 11)	7,961,382	7,530,503
	<u>31,043,407</u>	<u>28,316,667</u>
Total assets	\$ <u>31,043,407</u>	\$ <u>28,316,667</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 161,636	\$ 256,452
Construction and retainage payable	227,327	144,418
Due to RW Work, Ltd. (Note 1)	9,427	23,045
Line of credit (Note 7)	500,000	351,935
Loan payable (Note 6)	2,870,833	3,033,333
	<u>3,769,223</u>	<u>3,809,183</u>
Total liabilities	3,769,223	3,809,183
Net assets (Exhibit B)		
Unrestricted		
Operating	17,599,354	17,056,613
Board designated (Note 2)	4,461,578	4,461,578
	<u>22,060,932</u>	<u>21,518,191</u>
Total unrestricted	22,060,932	21,518,191
Temporarily restricted (Note 14)	5,054,757	2,839,293
Permanently restricted (Note 15)	158,495	150,000
	<u>5,213,252</u>	<u>2,989,293</u>
Total net assets	27,274,184	24,507,484
Total liabilities and net assets	\$ <u>31,043,407</u>	\$ <u>28,316,667</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, 2017
(With Summarized Financial Information
for the Year Ended December 31, 2016)

	Unrestricted		Temporarily Restricted	Permanently Restricted	Total	
	Operating	Board Designated			Total	2017
Revenues, gains and support						
Support and contributions						
Contributions	\$ 1,193,643		\$ 1,193,643	\$ 4,453,450	\$ 8,495	\$ 5,655,588
Government grants	82,000		82,000			82,000
Donated art						4,984
Special events revenue - net (Note 9)	1,560,514		1,560,514			1,560,514
Donated goods	3,183		3,183			3,183
Net assets released from restrictions (Note 14)	2,010,220		2,010,220	(2,010,220)		
Subtotal support and contributions	<u>4,849,560</u>		<u>4,849,560</u>	<u>2,443,230</u>	<u>8,495</u>	<u>7,301,285</u>
Earned revenues and gains						
Educational workshop fees	111,066		111,066			111,066
Investment income (Note 3)	81,316		81,316	22,234		103,550
Interest income - operating						46
Miscellaneous income	4,259		4,259			4,259
Subtotal earned revenues and gains	<u>196,641</u>		<u>196,641</u>	<u>22,234</u>		<u>218,875</u>
Total revenues, gains and support	<u>5,046,201</u>		<u>5,046,201</u>	<u>2,465,464</u>	<u>8,495</u>	<u>7,520,160</u>
Expenses (Exhibit C)						
Program services	2,527,815		2,527,815			2,527,815
Management and general	1,083,073		1,083,073			1,083,073
Fund raising	892,572		892,572			892,572
Total expenses	<u>4,503,460</u>		<u>4,503,460</u>			<u>4,503,460</u>
Change in net assets before bad debt loss	542,741		542,741	2,465,464	8,495	3,016,700
Bad debt loss from uncollectible pledges				(250,000)		(250,000)
Change in net assets (Exhibit D)	542,741		542,741	2,215,464	8,495	2,766,700
Net assets - beginning of year	17,056,613	\$ 4,461,578	21,518,191	2,839,293	150,000	24,507,484
Net assets - end of year (Exhibit A)	<u>\$ 17,599,354</u>	<u>\$ 4,461,578</u>	<u>\$ 22,060,932</u>	<u>\$ 5,054,757</u>	<u>\$ 158,495</u>	<u>\$ 27,274,184</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, 2017
(With Summarized Financial Information for
the Year Ended December 31, 2016)

	Program Services						Supporting Services			Total	
	International Summer Program	Residency Program	Artistic Resources	Education and Outreach	Curatorial/ Exhibitions	Total	Management and General	Fund Raising	Direct Cost of Special Events	2017	2016
Salaries	\$ 81,756	\$ 140,494	\$ 191,499	\$ 28,312	\$ 71,323	\$ 513,384	\$ 317,592	\$ 381,418		\$ 1,212,394	\$ 1,027,684
Payroll taxes and employee benefits	15,272	26,924	35,800	5,153	14,974	98,123	86,133	73,552		257,808	214,365
Professional fees and consultants	83,856	31,775	226,565	9,371	11,396	362,963	196,137	39,792	\$ 34,034	632,926	758,535
Occupancy (Note 10)	289,283	18,155	20,034	1,856	38,987	368,315	107,783	27,511		503,609	509,222
General production expenses	77,747	67,232	16,133	1,233	103,203	265,548	7,971	85,272	186,215	545,006	757,095
Other supplies and printing	5,323	907	1,834	399	555	9,018	14,380	33,011	11,844	68,253	121,017
Minor equipment and rentals (Note 10)	74,596	5,498	11,248	1,094	45,308	137,744	7,993	10,914	99,144	255,795	381,933
Travel	82,046	9,611	5,889	505	2,561	100,612	15,463	15,586	16,168	147,829	212,126
Postage and shipping	1,271	15,872	510	42	7,595	25,290	3,925	26,744	11,438	67,397	86,546
Telephone and Internet	3,332	1,384	2,078	193	1,475	8,462	15,135	14,676	85	38,358	32,456
Insurance					7,300	7,300	88,085			95,385	44,623
Repairs and maintenance	119,962	37,007	56,670	5,249	104,955	323,843	6,878	77,818	29,534	438,073	304,309
Interest							92,012			92,012	72,450
Investment fees							3,011			3,011	9,077
Bank and credit card fees							20,440	1,511	4,897	26,848	21,741
Depreciation and amortization	105,747	55,453	81,388	6,736	51,609	300,933	19,020	99,847		419,800	404,918
Bad debt expense							29,066			29,066	
Miscellaneous	5,126	616	353	68	117	6,280	55,060	4,920	4,495	70,755	26,538
Total expenses	945,317	410,928	650,001	60,211	461,358	2,527,815	1,086,084	892,572	397,854	4,904,325	4,984,635
Less expenses deducted directly from revenues											
Investment fees							(3,011)			(3,011)	(9,077)
Direct costs of special events								(397,854)		(397,854)	(498,510)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 945,317	\$ 410,928	\$ 650,001	\$ 60,211	\$ 461,358	\$ 2,527,815	\$ 1,083,073	\$ 892,572	\$ -	\$ 4,503,460	\$ 4,477,048

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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 2,766,700	\$ 204,025
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	419,800	404,918
Loss on investments	9,637	58,340
Contributed art		(4,984)
Decrease (increase) in assets		
Accounts receivable	(24,843)	(94,951)
Contributions receivable	505,888	874,887
Prepaid expenses	(10,077)	34,740
Security deposits	4,947	5,804
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(94,816)	(29,357)
Due to RW Work, Ltd.	(13,618)	4,630
Net cash provided by operating activities	<u>3,563,618</u>	<u>1,458,052</u>
Cash flows from investing activities		
Purchases of art	(430,879)	(407,867)
Purchases of investments	(5,360,204)	(5,360,204)
Proceeds from sales of investments	5,012,549	1,877,323
Capital expenditures	(1,595,464)	(1,415,328)
Decrease (increase) in construction escrow deposits	461,694	(683,820)
Decrease (increase) in board-designated cash	(210,872)	4,266,384
Net cash used by investing activities	<u>(2,123,176)</u>	<u>(1,723,512)</u>
Cash flows from financing activities		
Principal payments on loan payable	(162,500)	(162,500)
Proceeds from line of credit	500,000	727,060
Principal payments on line of credit	(351,935)	(375,125)
Contributions restricted for long-term investment		25,000
Net cash provided (used) by financing activities	<u>(14,435)</u>	<u>214,435</u>
Net change in cash and cash equivalents	1,426,007	(51,025)
Cash and cash equivalents - beginning of year	<u>35,450</u>	<u>86,475</u>
Cash and cash equivalents - end of year	<u>\$ 1,461,457</u>	<u>\$ 35,450</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 92,012</u>	<u>\$ 72,450</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, 2017

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 2017, personnel costs of \$119,263 and other costs of \$25,468 were allocated from the Foundation to RW Work, Ltd. Personnel costs of \$117,106, occupancy costs of \$90,676 and other costs of \$19,657 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, five 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, 2017

NOTE 1 - NATURE OF ENTITY (continued)

The 2017 Residency program included 19 residencies who were all featured in a series of open rehearsals to showcase these artists at The Watermill Center.

The Ingra Maren Otto Fellowship recognizes emerging and mid-career artists. This program, which is underwritten through 2020, was continued in 2017 with three artist fellowships.

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 project was successfully completed on schedule 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.

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.

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

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.

Construction escrow deposit - Construction escrow deposits are funds held in escrow for future project costs.

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.

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2017, 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.

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.

Construction and retainage payable - Construction and retainage payable includes \$94,241 of fees payable to the contractors as retainage in accordance with construction contracts, as well as \$133,086 of unpaid construction charges for work that has been performed.

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

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, 2017 as compared to those used at December 31, 2016.

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.

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, 2017.

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, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2014 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through August 17, 2018, 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, 2016, from which the summarized information was derived.

Reclassification - Construction escrow deposits for 2016 have been reclassified from fixed assets to conform to current year presentation. Contributions from individuals, foundations and corporations for 2016 have been consolidated to conform to current year presentation.

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 3 - INVESTMENTS

The following are investments held at December 31, 2017 by fair value level:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Equities			
Materials	\$ 55,912		\$ 55,912
Industrials	33,487		33,487
Consumer staples	13,980		13,980
Health care	15,484		15,484
Financials	5,584		5,584
Information technology	46,094		46,094
Mutual funds and exchange traded funds			
Small growth	15,246		15,246
Mid cap blend	3,402		3,402
Large blend	9,300		9,300
Large growth	21,370		21,370
Large value	16,303		16,303
Health	3,327		3,327
Technology	5,033		5,033
Corporate bonds		\$ 2,906,113	2,906,113
U.S. Government agencies	<u> </u>	<u>134,617</u>	<u>134,617</u>
Total investments as reported on the fair value hierarchy	<u>\$ 244,522</u>	<u>\$ 3,040,730</u>	3,285,252
Cash equivalents			<u>477,307</u>
			<u>\$ 3,762,559</u>

Investment income for the year ended December 31, 2017 includes:

Interest and dividend income	\$ 116,198
Net realized gains on sale of securities	7,841
Unrealized losses	(17,478)
Investment fees	<u>(3,011)</u>
Net investment income	<u>\$ 103,550</u>

Investments include endowment funds of \$162,630 as of December 31, 2017.

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**BYRD HOFFMAN WATER MILL FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable are expected to be collected as follows:

Current	\$ 246,000
2018	<u>300,000</u>
	<u>\$ 546,000</u>

NOTE 5 - FIXED ASSETS

		<u>Estimated Useful Life</u>
Land	\$ 2,367,514	
Building and improvements	13,671,788	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 (Note 13)	<u>4,031,524</u>	
	21,148,192	
Less accumulated depreciation and amortization	<u>(4,860,475)</u>	
	<u>\$ 16,287,717</u>	

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BYRD HOFFMAN WATER MILL FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

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 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 3.11% as of December 31, 2017. 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, 2017 was \$72,450.

Future principal payments are due as follows:

<u>Year Ending</u> <u>December 31,</u>	
2018	\$ 162,500
2019	162,500
2020	162,500
2021	162,500
2022	<u>2,220,833</u>
	<u>\$ 2,870,833</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 4.5% as of December 31, 2017. As of December 31, 2017, there was \$500,000 outstanding on the line.

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BYRD HOFFMAN WATER MILL FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

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, 2017, contributions provided by two donors represented approximately 46% of total support and contributions.

NOTE 9 - SPECIAL EVENTS

Special events revenue	\$ 1,958,368
Less direct costs of special events	<u>(397,854)</u>
	<u>\$ 1,560,514</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 \$24,076.
- C. The Foundation leases three vehicles for The Watermill Center. The lease terms expire in December 2018, April 2019 and December 2019. Rent expense for the vehicles was \$11,247.
- D. The Foundation leases homes for the staff and members of the summer program near The Watermill Center. Most of the leases are short term leases which have terminated as of December 31, 2017. One of the leases expires in December 2018. Rent expense for the staff and program residents housing was \$340,616.

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BYRD HOFFMAN WATER MILL FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 10 - LEASE COSTS (continued)

Future minimum aggregate annual rental payments are as follows:

<u>Year Ending</u> <u>December 31,</u>	
2018	\$ 76,772
2019	<u>4,319</u>
	\$ <u>81,091</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, 2017 is \$7,961,382.

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, 2017 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 \$21,235 for the year ended December 31, 2017.

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BYRD HOFFMAN WATER MILL FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 13 - COMMITMENTS AND CONTINGENCIES

The Foundation is currently in the final 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, 2017, approximately \$5 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	\$ 3,301,273
Library of Inspiration	250,854
Fellowship program (passage of time)	1,440,000
General support (passage of time)	25,000
Endowment earnings for appropriation	<u>37,630</u>
	<u>\$ 5,054,757</u>

During 2017, temporarily restricted net assets were released from restriction by satisfying donor imposed timing or usage criteria as follows:

Water Mill capital project	\$ 988,030
Library of Inspiration	317,190
Art collections	340,000
Summer workshops (passage of time)	60,000
Fellowship program (passage of time)	240,000
General support (passage of time)	<u>65,000</u>
	<u>\$ 2,010,220</u>

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**BYRD HOFFMAN WATER MILL FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

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, 2017.

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**BYRD HOFFMAN WATER MILL FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

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

Endowment Net Asset Composition by Type of Fund as of December 31, 2017

The endowment net asset composition was:

Permanently restricted		
General operations	\$	<u>158,495</u>
Temporarily restricted		
Unappropriated accumulation of investment income on endowments	\$	<u>37,630</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2017

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 15,396	\$ 150,000	\$ 165,396
Contributions		8,495	8,495
Dividends and interest	2,669		2,669
Gain on investment	19,696		19,696
Investment management fees	<u>(131)</u>		<u>(131)</u>
Endowment net assets, end of year*	<u>\$ 37,630</u>	<u>\$ 158,495</u>	<u>\$ 196,125</u>

*Endowment net assets as of December 31, 2017 include investments of \$162,630, cash balances of \$8,495 and contributions receivable of \$25,000.