

THE LEHMAN COLLEGE ART GALLERY, INC.

FINANCIAL STATEMENTS

June 30, 2011

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Independent Auditors' Report

**The Board of Directors
The Lehman College Art Gallery, Inc.**

We have audited the accompanying statement of financial position of The Lehman College Art Gallery, Inc. (a not-for-profit organization) as of June 30, 2011 and the related statement of activities and changes in net assets, functional expenses and statement of cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from The Lehman College Art Gallery, Inc.'s June 30, 2010 financial statements and, in our report dated August 18, 2010, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Lehman College Art Gallery, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Lehman College Art Gallery, Inc. as of June 30, 2011 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Mt. Kisco, New York
November 29, 2011



THE LEHMAN COLLEGE ART GALLERY, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2011

(With Comparative Totals as of June 30, 2010)

	<u>ASSETS</u>	
	<u>2011</u>	<u>2010</u>
Current Assets:		
Cash and cash equivalents	\$ 186,163	\$ 174,402
Investments at fair value (Note 3)	233,403	166,176
Grants and other receivables	64,412	35,700
Prepaid expenses (Note 6)	<u>45,091</u>	<u>115,827</u>
Total Current Assets	529,069	492,105
Computer equipment, net of accumulated depreciation of \$1,245 and \$933 as of 2011 and 2010, respectively	312	624
Artwork (Note 2)	95,000	95,000
Investments – permanently restricted (Note 4)	<u>814,980</u>	<u>814,980</u>
Total Assets	\$ <u>1,439,361</u>	\$ <u>1,402,709</u>
	<u>LIABILITIES AND NET ASSETS</u>	
Current Liabilities:		
Accounts payable and accrued expenses	\$ 18,005	\$ 4,562
Deferred income	<u>14,525</u>	<u>5,600</u>
Total Current Liabilities	<u>32,530</u>	<u>10,162</u>
Net Assets:		
Unrestricted	591,851	577,567
Permanently restricted	<u>814,980</u>	<u>814,980</u>
Total Net Assets	<u>1,406,831</u>	<u>1,392,547</u>
Total Liabilities and Net Assets	\$ <u>1,439,361</u>	\$ <u>1,402,709</u>

The accompanying notes and independent auditors' report are an integral part of the financial statements.

THE LEHMAN COLLEGE ART GALLERY, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2011

(With Comparative Totals for the Year Ended June 30, 2010)

	2011			Total 2010
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenue:				
Contribution – in kind (Note 7)	\$ 239,708	\$	\$	\$ 239,708
Grant income		106,466		106,466
CUNY Research Foundation (Note 5)		65,000		65,000
Individuals	4,365			4,365
Corporations and Foundations	14,794			14,794
Herbert H. Lehman College Auxiliary Enterprises Corporations, Inc. (Note 5)		20,000		20,000
Educational program income		87,451		87,451
Fundraising income				-
Rental income	3,104			3,104
Interest and dividend income	5,275		43,082	48,357
Realized and unrealized gains/(losses)	1,946		23,626	25,572
Net Assets released from restrictions:				
Satisfaction of program restrictions	<u>345,625</u>	<u>(278,917)</u>	<u>(66,708)</u>	<u>-</u>
Total Revenue	<u>614,817</u>			<u>614,817</u>
Expenditures:				
Program expenses	508,165			508,165
Administrative expenses	92,368			92,368
Fundraising expense				-
Total Expenditures	<u>600,533</u>			<u>600,533</u>
Increase (decrease) in Net Assets	14,284			14,284
Net Assets, beginning of fiscal year	<u>577,567</u>		<u>814,980</u>	<u>1,392,547</u>
Net Assets, end of fiscal year	<u>\$ 591,851</u>	<u>\$</u>	<u>\$ 814,980</u>	<u>\$ 1,406,831</u>

The accompanying notes and independent auditors' report are an integral part of the financial statements.

THE LEHMAN COLLEGE ART GALLERY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2011

(With Comparative Totals for the Year Ended June 30, 2010)

	2011			Total 2010
	Program Expenses	Administrative Expenses	Total	
Expenditures:				
Salary and related fringe benefits (Note 6)	\$ 132,634	\$ 63,222	\$ 195,856	\$ 207,164
Occupancy-in kind (Note 7)	239,708		239,708	205,464
Outside services	66,896		66,896	63,726
Educational program expenses	29,130		29,130	15,641
Security	16,405		16,405	11,093
Exhibition expenses	16,070		16,070	24,056
Professional fees		9,925	9,925	9,925
Administrative fees (Note 6)		9,810	9,810	11,228
Investment fees		6,221	6,221	5,795
Office expenses	1,797	1,798	3,595	3,942
Insurance	1,107	1,392	2,499	3,348
Advertising	2,201		2,201	2,682
Membership events	1,303		1,303	1,374
Staff travel	602		602	518
Depreciation	<u>312</u>		<u>312</u>	<u>311</u>
Total Expenditures	\$ <u>508,165</u>	\$ <u>92,368</u>	\$ <u>600,533</u>	\$ <u>566,267</u>

The accompanying notes and independent auditors' report are an integral part of the financial statements.

THE LEHMAN COLLEGE ART GALLERY, INC.

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2011
(With Comparative Totals for the Year Ended June 30, 2010)
(Increase (Decrease) in Cash and Cash Equivalents)

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Increase (decrease) in Net Assets	\$ 14,284	\$ 49,386
Adjustments to reconcile increase decrease in Net Assets to cash provided (used) by operating activities:		
Depreciation	312	311
(Increase) decrease in grants and other receivables	(28,712)	2,807
(Increase) decrease in prepaid expenses	70,736	26,833
Increase (decrease) in accounts payable and accrued expenses	13,443	(819)
Increase (decrease) in deferred income	<u>8,925</u>	<u>(8,925)</u>
Net cash provided (used) by operating activities	<u>78,988</u>	<u>69,593</u>
Cash Flows from Investing Activities:		
(Increase) decrease in investments	<u>(67,227)</u>	<u>(82,457)</u>
Net increase (decrease) in cash and cash equivalents	11,761	(12,864)
Cash and cash equivalents, beginning of fiscal year	<u>174,402</u>	<u>187,266</u>
Cash and cash equivalents, end of fiscal year	<u>\$ 186,163</u>	<u>\$ 174,402</u>

Supplemental disclosure of cash flow information:

Cash paid during the year for:

Interest	\$ -0-	\$ -0-
Income taxes	\$ -0-	\$ -0-

The accompanying notes and independent auditors' report are an integral part of the financial statements.

THE LEHMAN COLLEGE ART GALLERY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 1 – Description of Organization:

On April 28, 1986, the Board of Trustees of the City University of New York authorized the incorporation of the Lehman College Art Gallery, Inc. (the “Organization”) pursuant to the provisions of the Not-for-Profit Corporation Law of the State of New York. The purpose of the Organization is to encourage and promote the creation of the visual arts; and to plan, develop, and promote cultural and educational activities among the students and faculty of Herbert H. Lehman College (the “College”) and the residents of the Greater New York Metropolitan Area.

Note 2 – Summary of Significant Accounting Policies:

a. Basis of Accounting:

The financial statements of the Organization have been prepared on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized as incurred. Donations are recognized when received.

b. Cash and Cash Equivalents:

The Organization considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

c. Fixed Assets:

Fixed assets are carried at cost, net of accumulated depreciation. Depreciation is recorded over five years using the straight-line method.

d. Income Taxes:

The Organization was granted 501(c)(3) status under Section 501(a) of the Internal Revenue Code of 1986. Therefore, the Organization is generally exempt from both Federal and State income taxes.

The Organization adopted the provision pertaining to uncertain tax positions (ASC Topic 740) and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

e. Use of Estimates:

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

THE LEHMAN COLLEGE ART GALLERY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

(Continued)

Note 2 – Summary of Significant Accounting Policies (continued):

f. Statement Presentation:

The Organization's financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-For-Profit Organizations". Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets, based on the existence or absence of donor imposed restrictions.

Income earned on permanently restricted net assets is designated to be utilized as follows:

In 1986, the Organization received a \$25,000 gift to establish the Edith and Herbert Lehman Endowment Fund. The income earned on this endowment is to be used for the gallery.

In 1986, the Organization received a \$50,000 gift to establish the Robert Lehman Endowment Fund. Income earned on the fund principal shall be applied solely for the expenses of special exhibitions in the Organization's art gallery or, with the permission of the Robert Lehman Foundation, Inc., to support the educational activities of the College in the field of visual arts.

For the fiscal year ended June 30, 2007 the Organization received proceeds in the amount of \$739,980, from the sale of a previously donated painting to establish the Pierre and Dorothy Brodin Endowment Fund. Income earned on the fund principal will be used to support the educational activities of the Organization.

g. Art Collection:

The Organization has adopted the policy of not capitalizing any of the works currently in its art collection. The Organization has adopted Statement of Financial Accounting Standards (SFAS) No. 116, "Accounting for Contributions Received and Contributions Made" and will capitalize all future artwork donated to the Organization.

h. Functional Expenses:

The breakdown of functional expenses into program expenses and administrative expenses is as provided by management using their best estimates as to the appropriate allocation.

THE LEHMAN COLLEGE ART GALLERY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

(Continued)

Note 2 – Summary of Significant Accounting Policies (continued):

i. Volunteers:

A substantial number of volunteers made significant contributions of their time to the Organization's programs. The value of this contributed time is not reflected in these statements since it is not susceptible to objective measurement or valuation.

j. Concentration of Credit Risks:

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalent accounts in financial institutions, which from time to time may exceed the Federal depository insurance coverage limits.

k. Reclassification of Prior Year:

Certain reclassifications may have been made to some prior year account balances in order to conform to current year presentation.

l. Subsequent events:

Subsequent events have been evaluated through November 29, 2011, which is the date the financial statements were available to be issued.

Note 3 – Investments:

Investments are stated at fair market value. Unrealized gains or losses are reflected in the statement of activities.

The Organization adopted the provisions pertaining to fair value measurements and disclosures (ASC Topic 820), previously know as Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*. Topic 820 offers a framework consisting of a three tier hierarchy of inputs (Level 1, Level 2 and Level 3) to be used in determining the fair market value of assets and liabilities for disclosed purposes. The following is a summary of the fair value hierarchy of inputs:

Fair value measurements based on Level 1 inputs: Includes quoted prices in active markets for identical assets or liabilities to which the company has access at the measurement date.

THE LEHMAN COLLEGE ART GALLERY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

(Continued)

Note 3 – Investments (continued):

Fair value measurement based on Level 2 inputs: Includes inputs other than quoted market prices that are directly or indirectly observable for the assets or liability, including quoted prices in an active market for similar assets or liabilities; quoted prices in a market that is not active for the same or similar assets or liabilities; inputs other than quoted market prices that are observable for the asset or liability.

Fair value measurements based on Level 3 inputs: Includes unobservable inputs reflecting the assumptions that a market participant would use to price the asset or liability.

The following table provides the fair value hierarchy of the Organization's financial assets as of June 30, 2011:

<u>Financial Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 29,813	\$	\$	\$ 29,813
Mutual funds	245,011			245,011
Corporate & foreign bonds	<u>773,559</u>	_____	_____	<u>773,559</u>
Total	\$ <u>1,048,383</u>	\$ _____	\$ _____	\$ <u>1,048,383</u>

Note 4 – Permanently Restricted:

Interpretation of Relevant Law

The Organization has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) 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 characterized as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard for expenditure prescribed by SPMIFA. In accordance with

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

(Continued)

Note 4 – Permanently Restricted (continued):

Interpretation of Relevant Law (continued)

SPMIFA, the Organization considers the following factors in making a determination to appropriate or calculate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The general purposes of the Organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and appreciation of investments
6. Other resources of the Organization
7. The investment policies of the Organization

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires that the Organization retain as a fund of perpetual duration.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for donor specified periods. Under this policy, as provided by the Board of Trustees, the endowment assets are invested with a moderate level of investment risk.

Note 5 – Lehman College Revenue:

The Organization received a contribution of \$65,000, for the current fiscal year, for salaries, from the Lehman College Grant Overhead Account of City University of New York (“CUNY”) Research Foundation, Inc.

Additionally, the Herbert H. Lehman College Auxiliary Enterprises Corporation, Inc. made a contribution to the Organization to cover certain operating expenses. This amount totaled \$20,000 in the current fiscal year and included \$10,000 from the Auxiliary Enterprise Fund and \$10,000 from Campus Ceremonies Monies.

THE LEHMAN COLLEGE ART GALLERY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

(Continued)

Note 6 – Payroll and Related Fringe Benefits:

The Organization's payroll and fringe benefits, including pension contributions for eligible employees, are paid directly by the CUNY Research Foundation and are reimbursed by the Organization. At June 30, 2011, prepaid expenses include \$44,438 paid to the CUNY Research Foundation which is applicable to payroll and fringe benefits for the 2012 fiscal year. The Organization paid the CUNY Research Foundation administrative fees for the fiscal year ended June 30, 2011 totaling \$9,810, which are calculated based on 7.75% of payroll and related fringe benefits.

Note 7 – Donated Space:

The Organization occupies 8,561 square feet of donated space for offices and an art gallery located at Lehman College, Bronx, New York. The estimated market value rental of the office and gallery space is \$239,708 including the Organization's share of electric, water, heat, cleaning and maintenance. This fair market value was based upon a space survey prepared for the Organization by the Real Property Manager at City University of New York Department of Space Planning and Capital Budget and is based on \$28 per square foot. The fair market value of this space is reflected in the accompanying financial statements as an in kind contribution and occupancy expense.

Note 8 – Funding Source Audits:

Pursuant to the Organization's contractual relationships with certain funding sources, outside organizations have the right to examine the books and records of the Organization involving transactions relating to those grants. The accompanying financial statements make no provisions for possible disallowances. Although such possible disallowances could be substantial in amount, in the opinion of Management, any actual disallowances would be immaterial.

Note 9 – Comparative Totals:

The amounts shown for the year ended June 30, 2010 in the accompanying financial statements are included to provide a basis for comparison with June 30, 2011 and present summarized totals only. Accordingly, the June 30, 2010 amounts are not intended to present all information necessary for a fair presentation in conformity with generally accepted accounting principles.