

THE LEHMAN COLLEGE ART GALLERY, INC.

FINANCIAL STATEMENTS

June 30, 2016

CONTENTS

Independent Auditor's Report.....	Page	1-2
Statement of Financial Position.....		3
Statement of Activities and Changes in Net Assets.....		4
Statement of Functional Expenses.....		5
Statement of Cash Flows.....		6
Notes to Financial Statements.....		7-12

Independent Auditor's Report

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

Report on Financial Statements

We have audited the accompanying financial statements of The Lehman College Art Gallery, Inc. (a not-for-profit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, 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 The Lehman College Art Gallery, Inc. as of June 30, 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 The Lehman College Art Gallery, Inc.'s June 30, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 14, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Mt. Kisco, New York
August 30, 2016



THE LEHMAN COLLEGE ART GALLERY, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2016

(With Summarized Comparative Information as of June 30, 2015)

	<u>ASSETS</u>	
	<u>2016</u>	<u>2015</u>
Current Assets:		
Cash and cash equivalents	\$ 123,043	\$ 52,551
Investments at fair value (Note 3)	324,236	334,742
Grants and other receivables	18,050	105,549
Prepaid expenses (Note 7)	<u>39,366</u>	<u>73,093</u>
Total Current Assets	504,695	565,935
Computer equipment, net of accumulated depreciation of \$3,054 in 2016 and \$2,493 in 2015	1,311	623
Artwork (Note 2)	121,200	121,200
Investments – permanently restricted (Note 3 & 9)	<u>814,980</u>	<u>814,980</u>
Total Assets	\$ <u>1,442,186</u>	\$ <u>1,502,738</u>
	<u>LIABILITIES AND NET ASSETS</u>	
Current Liabilities:		
Accounts payable and accrued expenses	\$ 8,093	\$ 8,706
Deferred income	<u>-</u>	<u>25,500</u>
Total Current Liabilities	<u>8,093</u>	<u>34,206</u>
Net Assets:		
Unrestricted	619,113	653,552
Permanently restricted	<u>814,980</u>	<u>814,980</u>
Total Net Assets	<u>1,434,093</u>	<u>1,468,532</u>
Total Liabilities and Net Assets	\$ <u>1,442,186</u>	\$ <u>1,502,738</u>

The accompanying notes and independent auditor's 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, 2016

(With Summarized Comparative Information for the Year Ended June 30, 2015)

	2016			Total 2015
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenue:				
Contributions – in kind (Note 8)	\$ 324,015	\$	\$	\$ 256,830
Educational program income	170,735			80,111
Grant income		84,000		92,633
CUNY Research Foundation (Note 6)		29,877		65,000
Herbert H. Lehman College Auxiliary Enterprises Corporations, Inc. (Note 6)		20,000		20,000
Corporation and foundation donations	26,700	21,000		47,000
Individual donations	4,792			56,257
Rental/other income	6,374			4,234
Interest and dividend income	4,465		26,773	33,267
Realized and unrealized gains/(losses)	2,165		4,044	(5,221)
Net Assets released from restrictions:				
Satisfaction of program restrictions	<u>185,694</u>	<u>(154,877)</u>	<u>(30,817)</u>	<u>-</u>
Total Revenue	<u>724,940</u>	<u> </u>	<u> </u>	<u>650,111</u>
Expenditures:				
Program expenses	667,030			546,948
Administrative expenses	<u>92,349</u>	<u> </u>	<u> </u>	<u>105,247</u>
Total Expenditures	<u>759,379</u>	<u> </u>	<u> </u>	<u>652,195</u>
Increase (decrease) in Net Assets	(34,439)			(2,084)
Net Assets, beginning of fiscal year	<u>653,552</u>	<u> </u>	<u>814,980</u>	<u>1,470,616</u>
Net Assets, end of fiscal year	<u>\$ 619,113</u>	<u>\$</u>	<u>\$ 814,980</u>	<u>\$ 1,468,532</u>

The accompanying notes and independent auditor's 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, 2016

(With Summarized Comparative Information for the Year Ended June 30, 2015)

	2016			Total 2015
	Program Expenses	Administrative Expenses	Total	
Expenditures:				
Salary and related fringe benefits (Note 7 & 8)	\$ 162,830	\$ 54,267	\$ 217,097	\$ 241,851
Occupancy-in kind (Note 8)	299,635		299,635	256,830
Educational program expenses	102,532		102,532	23,313
Outside services	58,083		58,083	48,670
Exhibition expenses	18,835		18,835	18,839
Security	17,631		17,631	16,622
Professional fees		14,800	14,800	14,625
Administrative fees (Note 7)		12,620	12,620	13,618
Investment fees		7,911	7,911	7,835
Insurance	1,695	1,282	2,977	3,312
Office expenses	1,469	1,469	2,938	2,463
Membership events	2,642		2,642	2,138
Staff travel	655		655	801
Advertising	462		462	966
Depreciation	<u>561</u>		<u>561</u>	<u>312</u>
Total Expenditures	\$ <u>667,030</u>	\$ <u>92,349</u>	\$ <u>759,379</u>	\$ <u>652,195</u>

The accompanying notes and independent auditor's 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, 2016

(With Summarized Comparative Information for the Year Ended June 30, 2015)

(Increase (decrease) in Cash and Cash Equivalents)

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Increase (decrease) in Net Assets	\$ (34,439)	\$ (2,084)
Adjustments to reconcile increase decrease in Net Assets to cash provided (used) by operating activities:		
Depreciation	561	312
(Increase) decrease in grants and other receivables	87,499	(65,761)
(Increase) decrease in prepaid expenses	33,727	(9,928)
Increase (decrease) in accounts payable and accrued expenses	(613)	5,943
Increase (decrease) in deferred income	<u>(25,500)</u>	<u>7,500</u>
Net cash provided (used) by operating activities	<u>61,235</u>	<u>(64,018)</u>
Cash Flows from Investing Activities:		
(Increase) decrease in investments	10,506	59,831
Purchase of computer equipment	<u>(1,249)</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>9,257</u>	<u>59,831</u>
Net increase (decrease) in cash and cash equivalents	70,492	(4,187)
Cash and cash equivalents, beginning of fiscal year	<u>52,551</u>	<u>56,738</u>
Cash and cash equivalents, end of fiscal year	\$ <u>123,043</u>	\$ <u>52,551</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 auditor's report are an integral part of the financial statements.

THE LEHMAN COLLEGE ART GALLERY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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. 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. The Organization considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.
- c. The accompanying financial statements present information regarding the financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. Unrestricted net assets are not subject to donor stipulations restricting their use but may be designated for specific purposes by management. Temporarily restricted net assets are subject to donor stipulations that expire by the passage of time or can be fulfilled or removed by actions pursuant to the stipulations. Permanently restricted net assets are subject to donor stipulations requiring they be maintained permanently.
- d. 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.
- e. 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.
- f. Certain reclassifications may have been made to some prior year account balances in order to conform to current year presentation.
- g. 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, 2016

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

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

The Organization adopted the provision pertaining to uncertain tax positions and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. The Organization is generally no longer subject to income tax examination by the applicable taxing jurisdiction for periods prior to 2013.

- i. Subsequent events have been evaluated through August 30, 2016, which is the date the financial statements were available to be issued.**
- j. The Organization has adopted the policy of not capitalizing any of the works currently in its art collection.**

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 which 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.**

***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 LEHMAN COLLEGE ART GALLERY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 3 – Investments (continued):

The following table provides the fair value hierarchy of the Organization's financial assets as of June 30, 2016:

<u>Financial Assets</u>	<u>Level 1</u>
Money market funds	\$ 48,727
Bond mutual funds	772,804
Stock mutual funds	<u>317,685</u>
Total	\$ <u>1,139,216</u>

Note 4 – Fixed Assets:

Fixed assets are carried at cost, net of accumulated depreciation. These amounts do not purport to represent replacement or realized values. Depreciation is recorded using the straight-line method based on the useful lives of the assets, which is estimated to be 3-5 years. Leasehold improvements are amortized over the term of the applicable lease.

Fixed assets are detailed as follows:

Computer equipment	\$ 4,365
Less: accumulated depreciation	<u>(3,054)</u>
Total Net Fixed Assets	\$ <u>1,311</u>

Note 5 – Commitments and Contingencies:

- a. 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.
- b. 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 6 – Lehman College Revenue:

The Organization received a contribution of \$29,877, for the current fiscal year, for salaries, from the Lehman College Grant Overhead Account of City University of New York ("CUNY") Research Foundation, Inc.

THE LEHMAN COLLEGE ART GALLERY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 6 – Lehman College Revenue (continued):

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.

Note 7 – 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, 2016, prepaid expenses include \$38,127 paid to the CUNY Research Foundation which is applicable to payroll and fringe benefits for the fiscal year. The Organization paid the CUNY Research Foundation administrative fees for the fiscal year ended June 30, 2016 totaling \$12,620, which are calculated based on 7.75% of payroll and related fringe benefits.

Note 8 – Donated Use of Facilities and Services:

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 \$299,635 including the Organization's share of electric, water, heat, cleaning and maintenance. This fair market value was based upon a space survey prepared in 2015 by the Real Property Manager at City University of New York Department of Space Planning and Capital Budget and is based on \$35 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.

As of May 1, 2016, the Organization has an agreement with the College to provide payroll and fringe benefits for the Art Director. During the fiscal year ended June 30, 2016, the total value of services provided of \$24,380 is recognized as an in kind contribution and salary expense by the Organization.

Note 9 – Restricted Funds:

The Organization reports gifts of cash and other assets as 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 a purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets released from restrictions.

THE LEHMAN COLLEGE ART GALLERY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 9 – Restricted Funds (continued):

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.

In 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.

Note 10 – 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.

THE LEHMAN COLLEGE ART GALLERY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 10 – Interpretation of Relevant Law (continued):

In accordance with 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 11 – Summarized Comparative 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 general accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2015, from which the summarized information was derived.