

THE LEHMAN COLLEGE ART GALLERY, INC.

FINANCIAL STATEMENTS

June 30, 2010

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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, 2010 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, 2009 financial statements and, in our report dated December 11, 2009, 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 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, 2010 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
August 18, 2010

THE LEHMAN COLLEGE ART GALLERY, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2010

(With Comparative Totals as of June 30, 2009)

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 174,402	\$ 187,266
Investments at fair value (Note 3)	166,176	83,719
Grant and other receivables	35,700	38,507
Prepaid expenses (Note 6)	<u>115,827</u>	<u>142,660</u>
Total Current Assets	492,105	452,152
Computer equipment, net of accumulated depreciation of \$933 and \$622 as of 2010 and 2009, respectively	624	935
Artwork (Note 2)	95,000	95,000
Investments – permanently restricted (Note 4)	<u>814,980</u>	<u>814,980</u>
Total Assets	<u>\$ 1,402,709</u>	<u>\$ 1,363,067</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 4,562	\$ 5,381
Deferred income	<u>5,600</u>	<u>14,525</u>
Total Current Liabilities	<u>10,162</u>	<u>19,906</u>
Net Assets:		
Unrestricted	577,567	528,181
Permanently restricted	<u>814,980</u>	<u>814,980</u>
Total Net Assets	<u>1,392,547</u>	<u>1,343,161</u>
Total Liabilities and Net Assets	<u>\$ 1,402,709</u>	<u>\$ 1,363,067</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, 2010

(With Comparative Totals for the Year Ended June 30, 2009)

	<u>2010</u>			<u>Total</u>	<u>2009</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>		
Revenue:					
Contribution – in kind (Note 7)	\$ 205,464	\$	\$	\$ 205,464	\$ 205,464
Grant income		107,049		107,049	162,777
CUNY Research Foundation (Note 5)		65,000		65,000	65,000
Individuals	5,709			5,709	5,090
Corporations and Foundations	6,000	29,575		35,575	32,200
Herbert H. Lehman College Auxiliary Enterprises Corporations, Inc. (Note 5)		20,000		20,000	20,000
Educational program income		73,440		73,440	93,075
Fundraising income	10,477			10,477	-
Rental income	4,000			4,000	-
Interest and dividend income	3,115		32,898	36,013	37,204
Realized and unrealized gains/(losses)	396		52,530	52,926	(21,313)
Net Assets released from restrictions:					
Satisfaction of program restrictions	<u>380,492</u>	<u>(295,064)</u>	<u>(85,428)</u>	<u>-</u>	<u>-</u>
Total Revenue	<u>615,653</u>	<u> </u>	<u> </u>	<u>615,653</u>	<u>599,497</u>
Expenditures:					
Program expenses	449,256			449,256	482,040
Administrative expenses	111,827			111,827	98,224
Fundraising expense	<u>5,184</u>	<u> </u>	<u> </u>	<u>5,184</u>	<u>-</u>
Total Expenditures	<u>566,267</u>	<u> </u>	<u> </u>	<u>566,267</u>	<u>580,264</u>
Increase (decrease) in Net Assets	49,386			49,386	19,233
Net Assets, beginning of fiscal year	<u>528,181</u>	<u> </u>	<u>814,980</u>	<u>1,343,161</u>	<u>1,323,928</u>
Net Assets, end of fiscal year	<u>\$ 577,567</u>	<u>\$</u>	<u>\$ 814,980</u>	<u>\$1,392,547</u>	<u>\$1,343,161</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, 2010

(With Comparative Totals for the Year Ended June 30, 2009)

	<u>2010</u>			<u>Total</u>	<u>2009</u>
	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>		
	<u>Expenses</u>	<u>Expenses</u>	<u>Expenses</u>	<u>Total</u>	
Expenditures:					
Salary and related fringe benefits (Note 6)	\$ 208,649	\$ 62,241	\$	\$ 270,890	\$ 277,617
Occupancy-in kind (Note 7)	184,918	20,546		205,464	205,464
Exhibition expenses	18,872		5,184	24,056	19,724
Educational program expenses	15,641			15,641	24,159
Administrative fees (Note 6)		11,228		11,228	16,404
Security	11,093			11,093	13,352
Professional fees		9,925		9,925	9,425
Investment fees		5,795		5,795	4,023
Office expenses	3,942			3,942	2,951
Insurance	1,256	2,092		3,348	3,335
Advertising	2,682			2,682	1,451
Membership events	1,374			1,374	1,510
Dues and subscriptions				-	300
Staff travel	518			518	238
Depreciation	<u>311</u>			<u>311</u>	<u>311</u>
Total Expenditures	\$ <u>449,256</u>	\$ <u>111,827</u>	\$ <u>5,184</u>	\$ <u>566,267</u>	\$ <u>580,264</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, 2010
(With Comparative Totals for the Year Ended June 30, 2009)
(Increase (Decrease) in Cash and Cash Equivalents)

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities:		
Increase (decrease) in Net Assets	\$ 49,386	\$ 19,233
Adjustments to reconcile increase decrease in Net Assets to cash provided (used) by operating activities:		
Depreciation	311	311
(Increase) decrease in grants and other receivables	2,807	29,402
(Increase) decrease in prepaid expenses	26,833	41,976
Increase (decrease) in accounts payable and accrued expenses	(819)	(16,083)
Increase (decrease) in deferred income	<u>(8,925)</u>	<u>(60,331)</u>
Net cash provided (used) by operating activities	<u>69,593</u>	<u>14,508</u>
Cash Flows from Investing Activities:		
(Increase) decrease in investments	<u>(82,457)</u>	<u>(9,924)</u>
Net increase (decrease) in cash and cash equivalents	(12,864)	4,584
Cash and cash equivalents, beginning of fiscal year	<u>187,266</u>	<u>182,682</u>
Cash and cash equivalents, end of fiscal year	\$ <u>174,402</u>	\$ <u>187,266</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, 2010

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.

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, 2010

(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, 2010

(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 have been made to some prior year account balances in order to conform to current year presentation.

Note 3 – Investments:

The Organization adopted the provisions of FASB Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*. FAS 157 establishes a fair value hierarchy for the inputs used to measure fair value based on the nature of the data input, which generally range from quoted prices for identical instruments in a principal trading market (Level 1) to estimates determined using related market data (Level 3). Multiple inputs may be used to measure fair value; however, the level of fair value of each financial asset or liability presented below is based on the lower significant input level within this fair value hierarchy. The following table provides the fair value hierarchy of the Organization's financial assets as of June 30, 2010:

<u>Financial Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 26,167	\$	\$	\$ 26,167
Mutual funds	87,941			87,941
Corporate & foreign bonds	<u>867,048</u>	_____	_____	<u>867,048</u>
Total	\$ <u>981,156</u>	\$ _____	\$ _____	\$ <u>981,156</u>

Details on the methods and assumptions used to determine the fair values of the financial assets and liabilities are as follows:

THE LEHMAN COLLEGE ART GALLERY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

(Continued)

Note 3 – Investments (continued):

Fair value measurements based on Level 1 inputs: Measurements that are most observable are based on quoted prices of identical instruments obtained from the principal markets in which they are traded. Closing prices are both readily available and representative of fair value. Market transactions occur with sufficient frequency and volume to ensure liquidity.

Fair value measurement based on Level 2 inputs: Measurements derived indirectly from observable inputs or from quoted prices from markets that are less liquid are considered Level 2. Measurements may consider inputs that other market participants would use in valuing a portfolio, quoted market prices for similar securities, interest rates, credit risks, and others.

Fair value measurements based on Level 3 inputs: Measurements that are least observable are estimated from related market data, determined from sources with little or no market activity for comparable contracts, or are positions with longer durations.

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 Organization 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 measurements at the reporting date.

Note 4 – Endowment Funds – Permanently Restricted:

Interpretation of Relevant Law

The Organization has interpreted the State of New York Uniform Management of Institutional Funds Act (“UMIFA”) 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 LEHMAN COLLEGE ART GALLERY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

(Continued)

Note 4 – Endowment Funds – Permanently Restricted (continued):

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 UMIFA. In accordance with UMIFA, 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

The changes in endowment Net Assets for the year ended June 30, 2010, follow:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Assets, beginning of year	\$ 32,596	\$	\$ 814,980	\$ 847,576
Investment return:				
Investment income			32,898	32,898
Net realized and unrealized (loss)			52,530	52,530
Fees	(5,176)		-	(5,176)
Appropriation of endowment assets for expenditure	<u>22,180</u>	<u>_____</u>	<u>(85,428)</u>	<u>(63,248)</u>
Endowment Assets, end of year	\$ <u>49,600</u>	\$ <u>_____</u>	\$ <u>814,980</u>	\$ <u>864,580</u>

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 the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets. There were no deficiencies resulted from unfavorable market fluctuations.

THE LEHMAN COLLEGE ART GALLERY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

(Continued)

Note 4 – Endowment Funds – Permanently Restricted (continued):

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 in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The endowments are to be thought of as a permanent fund. As such, the investment objectives require disciplined and consistent management philosophies that accommodate all those events which are relevant, reasonable, and probable. Therefore, periodic review of total rate of return and spending rate objectives is required.

Note 5 – 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, 2010

(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, 2010, prepaid expenses include \$115,025 paid to the CUNY Research Foundation which is applicable to payroll and fringe benefits for the 2011 fiscal year. The Organization paid the CUNY Research Foundation administrative fees for the fiscal year ended June 30, 2010 totaling \$11,228, 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 \$205,464 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 \$24 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, 2009 in the accompanying financial statements are included to provide a basis for comparison with June 30, 2010 and present summarized totals only. Accordingly, the June 30, 2009 amounts are not intended to present all information necessary for a fair presentation in conformity with generally accepted accounting principles.