

**KATONAH MUSEUM OF ART**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**DYLEWSKY, GOLDBERG & BRENNER, LLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

## **KATONAH MUSEUM OF ART**

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**Dylewsky, Goldberg & Brenner, LLC**  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Katonah Museum of Art

We have audited the accompanying financial statements of Katonah Museum of Art, which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, change in net assets (deficit), and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 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 opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Katonah Museum of Art as of June 30, 2017 and 2016, and the change in its net assets (deficit) and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

# Dylewsky, Goldberg & Brenner, LLC

## Other Matters

Our audits were made for the purpose of forming an opinion on the financial statements as a whole. The other financial information on pages 22-25 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Dylewsky, Goldberg & Brenner, LLC  
Stamford, Connecticut

October 30, 2017

**KATONAH MUSEUM OF ART  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 568,756	\$ 458,725
Investments	4,960,441	5,030,341
Pledges receivable	129,422	62,337
Inventory	2,484	12,817
Prepaid expenses	25,833	40,760
Other current assets	<u>4,000</u>	<u>4,000</u>
Total Current Assets	5,690,936	5,608,980
 Property and Equipment, net	 <u>905,466</u>	 <u>1,022,511</u>
	 <u>\$ 6,596,402</u>	 <u>\$ 6,631,491</u>
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 99,677	\$ 66,352
Capital leases payable, current portion	1,111	6,117
Deferred revenue	-	50
Other current liabilities	<u>-</u>	<u>1,942</u>
Total Current Liabilities	<u>100,788</u>	<u>74,461</u>
 Capital leases payable, net of current portion	 <u>-</u>	 <u>1,111</u>
 <b>Net Assets (Deficit)</b>		
Unrestricted	(344,598)	(218,182)
Temporarily restricted	732,017	665,906
Permanently restricted	<u>6,108,195</u>	<u>6,108,195</u>
Total Net Assets	<u>6,495,614</u>	<u>6,555,919</u>
	 <u>\$ 6,596,402</u>	 <u>\$ 6,631,491</u>

See accompanying notes to financial statement.

**KATONAH MUSEUM OF ART**  
**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS (DEFICIT)**  
**YEAR ENDED JUNE 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>				
<b>Direct Support</b>				
Contributions	\$ 502,394	\$ 333,378	\$ -	\$ 835,772
In-kind contributions	92,212	-	-	92,212
Admissions, rentals, and exhibition fees	40,017	-	-	40,017
Retail sales	5,841	-	-	5,841
Program income	59,416	-	-	59,416
Special events revenue	333,071	-	-	333,071
Special events expenses	(269,115)	-	-	(269,115)
Net assets released from restrictions	751,574	(751,574)	-	-
Total Direct Support	<u>1,515,410</u>	<u>(418,196)</u>	<u>-</u>	<u>1,097,214</u>
<b>Other Income</b>				
Government support	60,500	-	-	60,500
Investment income	-	484,307	-	484,307
Other income (expense)	(8,219)	-	-	(8,219)
Total Other Income	<u>52,281</u>	<u>484,307</u>	<u>-</u>	<u>536,588</u>
<b>Total Support and Revenue</b>	<u>1,567,691</u>	<u>66,111</u>	<u>-</u>	<u>1,633,802</u>
<b>FUNCTIONAL EXPENSES</b>				
Exhibitions	640,330	-	-	640,330
Education	441,806	-	-	441,806
Total Program Services	<u>1,082,136</u>	<u>-</u>	<u>-</u>	<u>1,082,136</u>
Management and general	335,463	-	-	335,463
Fund development	276,508	-	-	276,508
Total Support Services	<u>611,971</u>	<u>-</u>	<u>-</u>	<u>611,971</u>
<b>Total Functional Expenses</b>	<u>1,694,107</u>	<u>-</u>	<u>-</u>	<u>1,694,107</u>
<b><u>CHANGE IN NET ASSETS</u></b>	(126,416)	66,111	-	(60,305)
Net assets (deficit) - beginning of year	<u>(218,182)</u>	<u>665,906</u>	<u>6,108,195</u>	<u>6,555,919</u>
Net assets (deficit) - end of year	<u>\$ (344,598)</u>	<u>\$ 732,017</u>	<u>\$ 6,108,195</u>	<u>\$ 6,495,614</u>

See accompanying notes to financial statement.

**KATONAH MUSEUM OF ART**  
**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS (DEFICIT)**  
**YEAR ENDED JUNE 30, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>				
<b>Direct Support</b>				
Contributions	\$ 493,731	\$ 333,395	\$ -	\$ 827,126
In-kind contributions	2,681	-	-	2,681
Admissions, rentals, and exhibition fees	39,599	-	-	39,599
Retail sales	11,190	-	-	11,190
Program income	57,812	-	-	57,812
Special events revenue	380,642	-	-	380,642
Special events expenses	(207,335)	-	-	(207,335)
Net assets released from restrictions	584,709	(584,709)	-	-
<b>Total Direct Support</b>	<u>1,363,029</u>	<u>(251,314)</u>	<u>-</u>	<u>1,111,715</u>
<b>Other Income</b>				
Government support	33,322	-	-	33,322
Investment income	(106,577)	-	-	(106,577)
Other income	1,782	-	-	1,782
<b>Total Other Income</b>	<u>(71,473)</u>	<u>-</u>	<u>-</u>	<u>(71,473)</u>
<b>Total Support and Revenue</b>	<u>1,291,556</u>	<u>(251,314)</u>	<u>-</u>	<u>1,040,242</u>
<b>FUNCTIONAL EXPENSES</b>				
Exhibitions	587,902	-	-	587,902
Education	404,088	-	-	404,088
<b>Total Program Services</b>	<u>991,990</u>	<u>-</u>	<u>-</u>	<u>991,990</u>
Management and general	414,607	-	-	414,607
Fund development	199,711	-	-	199,711
<b>Total Support Services</b>	<u>614,318</u>	<u>-</u>	<u>-</u>	<u>614,318</u>
<b>Total Functional Expenses</b>	<u>1,606,308</u>	<u>-</u>	<u>-</u>	<u>1,606,308</u>
<b><u>CHANGE IN NET ASSETS</u></b>	(314,752)	(251,314)	-	(566,066)
Net assets - beginning of year	<u>96,570</u>	<u>917,220</u>	<u>6,108,195</u>	<u>7,121,985</u>
Net assets (deficit) - end of year	<u>\$ (218,182)</u>	<u>\$ 665,906</u>	<u>\$ 6,108,195</u>	<u>\$ 6,555,919</u>

See accompanying notes to financial statement.

**KATONAH MUSEUM OF ART  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2017**

	<u>PROGRAM SERVICES</u>			<u>SUPPORTING SERVICES</u>			<u>TOTAL FUNCTIONAL EXPENSES</u>
	<u>Exhibitions</u>	<u>Education</u>	<u>Total</u>	<u>Management and General</u>	<u>Fund Development</u>	<u>Total</u>	
Salaries	\$ 301,685	\$ 223,240	\$ 524,925	\$ 125,796	\$ 188,330	\$ 314,126	\$ 839,051
Employee benefits and taxes	<u>40,017</u>	<u>26,680</u>	<u>66,697</u>	<u>46,610</u>	<u>20,299</u>	<u>66,909</u>	<u>133,606</u>
Payroll and Related Expenditures	341,702	249,920	591,622	172,406	208,629	381,035	972,657
Professional fees	853	65,499	66,352	88,070	19,553	107,623	173,975
Utilities	14,445	6,894	21,339	3,313	1,283	4,596	25,935
Public relations, marketing, and advertising	1,039	6,299	7,338	1,121	2,046	3,167	10,505
Office expenses	11,433	14,285	25,718	27,522	28,934	56,456	82,174
Education and program expenses	3,923	16,296	20,219	-	-	-	20,219
Scholarships	-	11,000	11,000	-	-	-	11,000
Exhibition expenses	140,958	3,264	144,222	-	-	-	144,222
Merchant and bank fees	2,925	20	2,945	6,156	2,969	9,125	12,070
Insurance	9,217	9,217	18,434	1,025	1,024	2,049	20,483
Interest	192	243	435	721	125	846	1,281
Maintenance and repairs	16,852	4,704	21,556	23,449	932	24,381	45,937
Postage, shipping, and printing	1,506	3,803	5,309	5,561	6,214	11,775	17,084
Telephone, fax, and internet	<u>4,376</u>	<u>4,908</u>	<u>9,284</u>	<u>3,278</u>	<u>1,958</u>	<u>5,236</u>	<u>14,520</u>
Total Expenses before Depreciation	549,421	396,352	945,773	332,622	273,667	606,289	1,552,062
Depreciation expense	<u>90,909</u>	<u>45,454</u>	<u>136,363</u>	<u>2,841</u>	<u>2,841</u>	<u>5,682</u>	<u>142,045</u>
Total Functional Expenses	<u>\$ 640,330</u>	<u>\$ 441,806</u>	<u>\$ 1,082,136</u>	<u>\$ 335,463</u>	<u>\$ 276,508</u>	<u>\$ 611,971</u>	<u>\$ 1,694,107</u>

See accompanying notes to financial statement.



**KATONAH MUSEUM OF ART  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2016**

	<u>PROGRAM SERVICES</u>			<u>SUPPORTING SERVICES</u>			<u>TOTAL FUNCTIONAL EXPENSES</u>
	<u>Exhibitions</u>	<u>Education</u>	<u>Total</u>	<u>Management and General</u>	<u>Fund Development</u>	<u>Total</u>	
Salaries	\$ 284,532	\$ 175,688	\$ 460,220	\$ 202,501	\$ 121,891	\$ 324,392	\$ 784,612
Employee benefits and taxes	<u>40,072</u>	<u>22,152</u>	<u>62,224</u>	<u>44,493</u>	<u>23,530</u>	<u>68,023</u>	<u>130,247</u>
Payroll and Related Expenditures	324,604	197,840	522,444	246,994	145,421	392,415	914,859
Professional fees	938	108,461	109,399	77,262	583	77,845	187,244
Utilities	13,888	4,845	18,733	4,296	1,211	5,507	24,240
Public relations, marketing, and advertising	435	-	435	16,428	450	16,878	17,313
Office expenses	16,186	11,074	27,260	26,706	18,392	45,098	72,358
Education and program expenses	5,268	12,239	17,507	7,092	10,686	17,778	35,285
Scholarships	-	6,000	6,000	-	-	-	6,000
Exhibition expenses	106,795	-	106,795	-	-	-	106,795
Merchant and bank fees	2,571	-	2,571	6,881	761	7,642	10,213
Insurance	8,460	8,460	16,920	940	940	1,880	18,800
Interest	-	-	-	1,529	-	1,529	1,529
Maintenance and repairs	17,397	5,685	23,082	9,011	1,494	10,505	33,587
Postage, shipping, and printing	4,143	4,563	8,706	6,647	11,176	17,823	26,529
Telephone, fax, and internet	<u>3,799</u>	<u>3,212</u>	<u>7,011</u>	<u>3,870</u>	<u>1,646</u>	<u>5,516</u>	<u>12,527</u>
Total Expenses before Depreciation	504,484	362,379	866,863	407,656	192,760	600,416	1,467,279
Depreciation expense	<u>83,418</u>	<u>41,709</u>	<u>125,127</u>	<u>6,951</u>	<u>6,951</u>	<u>13,902</u>	<u>139,029</u>
Total Functional Expenses	<u>\$ 587,902</u>	<u>\$ 404,088</u>	<u>\$ 991,990</u>	<u>\$ 414,607</u>	<u>\$ 199,711</u>	<u>\$ 614,318</u>	<u>\$ 1,606,308</u>

See accompanying notes to financial statement.

**KATONAH MUSEUM OF ART  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ (60,305)	\$ (566,066)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	142,045	139,029
Realized and unrealized gain on investments	(399,215)	147,729
Changes in Operating Assets and Liabilities:		
Pledges receivable	(67,085)	124,010
Inventory	10,333	(1,981)
Prepaid expenses	14,927	(17,138)
Accounts payable and accrued expenses	33,325	(43,074)
Deferred revenue	(50)	-
Deposits	-	(3,186)
Other current liabilities	(1,942)	1,942
 Total Adjustments	 <u>(267,662)</u>	 <u>347,331</u>
 Net Cash Used by Operating Activities	 <u>(327,967)</u>	 <u>(218,735)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	1,257,216	1,365,691
Purchases of investments	(788,101)	(925,333)
Purchases of property and equipment	(25,000)	(46,584)
 Net Cash Provided by Investing Activities	 <u>444,115</u>	 <u>393,774</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on capital lease obligations	(6,117)	(5,266)
 Net Cash Used by Financing Activities	 <u>(6,117)</u>	 <u>(5,266)</u>
 <b><u>NET INCREASE IN CASH AND CASH EQUIVALENTS</u></b>	 <u>110,031</u>	 <u>169,773</u>
 Cash and cash equivalents - beginning of year	 <u>458,725</u>	 <u>288,952</u>
 Cash and cash equivalents - end of year	 <u>\$ 568,756</u>	 <u>\$ 458,725</u>

See accompanying notes to financial statement.

**KATONAH MUSEUM OF ART**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**NOTE 1 OPERATIONS**

The Katonah Museum of Art (the “Museum” or “Organization”), founded in 1956, originates three to four exhibitions annually covering a broad range of art and humanities topics. Offering lectures, films, workshops, concerts, and other events for a general audience, the Katonah Museum of Art also presents innovative programs for over 100 member schools. The Museum’s outreach programs for the local Hispanic immigrant population are at the forefront of community-based education programs in the United States. The Katonah Museum of Art is accredited by the American Association of Museums.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Accounting Basis**

Katonah Museum of Art’s financial statements are presented on the accrual basis of accounting and in accordance with Financial Accounting Standards Board (“FASB”) guidance on reporting information regarding its financial position and activities for not-for-profit organizations. Under that guidance, 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.

**Revenue Recognition**

*Contributions:* Contributions are recognized as unrestricted support unless their use is specifically restricted by the donor. When a donor restriction expires, the stipulated time restriction ends, or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Change in Net Assets as net assets released from restrictions. Contributions that are permanently restricted by the donor, from which the Organization may utilize only the income, are recognized as permanently restricted net assets.

*Promises to Give:* Unconditional promises to give are recognized as revenue in the period the promise is made and recorded as assets, or as decreases of liabilities or expenses, depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

*Government Grants:* Certain grants and contracts are on a fee-for-service basis where revenue is recognized when earned. Other grants used to pay operating expenses based on budgeted cost levels are recognized ratably over the lives of the grants. Expenditure-driven grant revenue (i.e., the Organization must first incur the expenditure as a basis for reimbursement) is recognized when the related expenditure is incurred.

*Program and Other Fees:* Program and other fees are recognized in the period services are performed in accordance with the terms of the contract or agreement.

**KATONAH MUSEUM OF ART  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

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

**Non-cash Contributions**

A significant number of volunteers have donated their time in the furtherance of the Organization's programs and activities. However, the value of these services is not recognized in the financial statements unless the donated service received creates or enhances non-financial assets or requires specialized skills that would typically need to be purchased if not provided by contribution. In addition, the Organization receives in-kind contributions and recognizes the fair value thereof to the extent it would have purchased the merchandise.

**Property and Equipment**

Expenditures for property and equipment are capitalized at cost, if purchased, or at estimated fair values on dates donated. Purchases of \$1,000 or more are capitalized as incurred. Repairs and maintenance to existing facilities are expensed as incurred. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used are reported as restricted support. Property and equipment are depreciated using the straight-line method based on the following estimated useful lives of the assets:

Buildings	31.5 years
Improvements	7 to 39 years
Furniture and fixtures	5 to 7 years
Equipment	3 to 7 years

**Investments**

Katonah Museum of Art measures certain financial assets and liabilities at fair value on a recurring basis. Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. An entity is required to classify certain assets and liabilities measured at fair value based on the following fair value hierarchy that prioritizes the inputs used to measure fair value:

*Level 1:* Unadjusted quoted prices in active markets for identical assets and liabilities.

*Level 2:* Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or other inputs that are observable or can be corroborated by observable market data.

*Level 3:* Unobservable inputs that are supported by little or no market activity and may be derived from internally developed methodologies based on management's best estimates.

**KATONAH MUSEUM OF ART**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

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

**Investments** (continued)

Katonah Museum of Art values its investments using Level 1 and Level 3 inputs. The Organization reports investment income and gains and losses as increases or decreases in unrestricted net assets in the Statements of Activities and Change in Net Assets unless a donor or law temporarily or permanently restricts their use. Investments are managed in accordance with board-approved investment and spending policy.

**Inventory**

Inventories consist of gift shop items. The Organization values inventories at the lower of cost or market as determined primarily by the retail method of accounting, using the first-in, first-out (“FIFO”) method.

**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. The Organization regularly assesses these estimates and, while actual results may differ from these estimates, management believes that material changes will not occur in the near term.

**Functional Expenses**

The costs of providing various programs and other activities have been summarized in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Pledges and Accounts Receivable**

The Organization carries accounts receivable at cost and uses the specific write-off method for doubtful accounts. Experience and management’s estimation indicate an allowance for such accounts is immaterial. On a periodic basis, the Organization evaluates its accounts receivable and whether the balances are collectible.

**Advertising Costs**

Advertising costs are expensed as incurred.

**Cash and Cash Equivalents**

For purposes of the Statements of Cash Flows, the Organization considers all dollar-denominated, highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

**KATONAH MUSEUM OF ART  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

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

**Uncertainty in Income Taxes**

The Organization evaluates all significant tax provisions as required by accounting practices generally accepted in the United States of America. As of June 30, 2017, the Organization does not believe that it has taken any positions that would require recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next year.

**Recently Issued Accounting Standards**

In May 2014, the FASB issued accounting standards update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. According to the new revenue recognition standards promulgated by the FASB, revenue recognition will follow a five-step process, which may or may not apply to the Organization. The five steps for revenue recognition are as follows: 1) Identify a contract, 2) Identify the performance obligation(s) in the contract, 3) Determine the sales price, 4) Allocate the transaction price to the performance obligations in the contract, and 5) Recognize revenue when, or as, the organization satisfies a performance obligation. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Organization the year ended June 30, 2020. The Organization has not yet determined the impact of the new standard on its ongoing financial reporting.

In February 2016, the FASB issued a new ASU 2016-02, *Leases (ASC 842)*, which requires an entity to recognize all leases on the balance sheet. The guidance significantly changes lessee accounting for leases, and impacts financial statement presentation and financial metrics, including many that relate directly to debt covenants, key performance indicators, and perhaps compensation arrangements. The ASU will replace most existing lease accounting guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Organization for the year ended June 30, 2020. The Organization has not yet determined the impact of the new standard on its ongoing financial reporting.

In August 2016, the FASB issued a new ASU 2016-14, *Not-for-Profit Entities (ASC 958)*. The accounting standards update addresses the areas which affect both key qualitative and quantitative measurements such as: net asset class presentation, investment return, liquidity and availability of resources, presentation of operating cash flow, and presentation of “underwater” endowments. The new accounting standard becomes effective for fiscal years beginning after December 15, 2017. Not-for-profit entities are required to adopt the standard using a modified retrospective transition approach which requires application of the new guidance at the beginning of the earliest comparative period presented in the year of adoption. Early application is permitted. The Organization is evaluating the effect that ASU 2016-14 will have on the financial statements and related disclosures. The Organization has not yet determined the impact of the new standard on its ongoing financial reporting.

**KATONAH MUSEUM OF ART  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

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

**Reclassifications**

Certain reclassifications were made to the presentation of the 2016 financial statements to conform to the 2017 financial statement presentation.

**NOTE 3 PLEDGES RECEIVABLE**

The Museum raises funds for various projects and programs. Unconditional pledges receivable due within the year at June 30, 2017 and 2016 were \$129,422 and \$62,337, respectively.

**NOTE 4 INVESTMENTS**

The following table presents the Museum's fair value hierarchy for those investments measured at fair value as of June 30, 2017:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 3</u>
Financial assets:			
Equity funds	\$ 2,598,575	\$ 2,598,575	\$ -
Bond funds	1,644,581	1,644,581	-
Alternative assets	<u>717,285</u>	<u>330,712</u>	<u>386,573</u>
Total Investments	\$ <u>4,960,441</u>	\$ <u>4,573,868</u>	\$ <u>386,573</u>

The following table presents the Museum's fair value hierarchy for those investments measured at fair value as of June 30, 2016:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 3</u>
Financial assets:			
Equity funds	\$ 2,508,589	\$ 2,508,589	\$ -
Bond funds	1,432,838	1,432,838	-
Alternative assets	<u>1,088,914</u>	<u>393,920</u>	<u>694,994</u>
Total Investments	\$ <u>5,030,341</u>	\$ <u>4,335,347</u>	\$ <u>694,994</u>

**KATONAH MUSEUM OF ART  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**NOTE 4 INVESTMENTS (continued)**

The following table presents a reconciliation of all Level 3 assets measured at fair value for the periods ending June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Financial assets:		
Beginning balance, July 1	\$ 694,994	\$ 745,994
Net realized and unrealized losses	(4,845)	(35,260)
Purchases	-	-
Sales	(301,426)	(8,750)
Management fees	(2,150)	(5,931)
Other losses	<u>-</u>	<u>(1,059)</u>
Ending Balance, June 30	\$ <u>386,573</u>	\$ <u>694,994</u>

The components of investment return as of June 30 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 108,049	\$ 73,527
Net realized and unrealized gains (losses) on investments	399,215	(147,729)
Net investment expenses	<u>(22,957)</u>	<u>(32,375)</u>
Total Investment Return	\$ <u>484,307</u>	\$ <u>(106,577)</u>

Investments are managed in accordance with the Organization's board-approved investment and spending policies. The primary investment objective is to preserve and enhance the endowment fund by earning a competitive return from a combination of investment income and capital appreciation over the long term without exposing the assets to undue risk.



**KATONAH MUSEUM OF ART  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**NOTE 5      PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land	\$ 162,567	\$ 162,567
Building and improvements	3,933,770	3,908,770
Furniture and equipment	<u>412,660</u>	<u>412,660</u>
	4,508,997	4,483,997
Less: accumulated depreciation	<u>(3,603,531)</u>	<u>(3,461,486)</u>
 Total Property and Equipment, net	 \$ <u>905,466</u>	 \$ <u>1,022,511</u>

**NOTE 6      NET ASSETS**

*Temporarily Restricted:* Amounts temporarily restricted at June 30, 2017 and 2016 are primarily purpose restricted and are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Building Fund	\$ 152,022	\$ 152,022
Improvement Fund	5,000	5,000
Education Bus Fund	6,626	10,768
Betty Himmel Fund	65,000	137,470
Kai Brouard Fund	8,562	6,575
John Jay Scholarship Fund	7,957	5,970
Rosalie Dolmatch Fund	11,330	85,000
Outreach Program	145,705	140,318
Bridge Fund	242,341	120,926
Sally Righter Fund	9,817	862
Beitzel Fund	8,616	751
Learning Center Fund	1,061	-
Education Fund	2,940	244
Other operating restrictions	<u>65,040</u>	<u>-</u>
 Total Temporarily Restricted Net Assets	 \$ <u>732,017</u>	 \$ <u>665,906</u>

**KATONAH MUSEUM OF ART**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**NOTE 6**      **NET ASSETS** (continued)

Net assets of \$751,574 and \$584,709 were released from restrictions during the years ended June 30, 2017 and 2016, respectively, when expenses were incurred to satisfy the time and purpose restrictions specified by donors.

*Permanently Restricted:* Income generated from the permanently restricted net assets of \$6,108,195 is available to support special programs, exhibitions, and education activities of the Organization.

All permanently restricted net assets are endowed. Any income earned on the endowment funds is available for temporarily restricted or operational purposes.

The Museum's board of trustees has interpreted New York's Prudent Management of Institutional Funds Act ("NYPMIFA") 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 (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, if any, to the permanent endowment made in accordance with the direction of the applicable 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 as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by the NYPMIFA.

In accordance with the NYPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund,
- 2) The purposes of the Museum and the donor-restricted fund,
- 3) General economic conditions,
- 4) The possible effect of inflation and deflation,
- 5) The expected total return from income and the appreciation of investments,
- 6) Other resources of the Museum,
- 7) The investment policies of the Museum, and
- 8) Where appropriate and circumstances would otherwise warrant, alternatives to expenditures of the endowment fund giving due consideration to the effect that such alternatives may have on the Museum.

**KATONAH MUSEUM OF ART  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**NOTE 6**      **NET ASSETS** (continued)

Endowment net asset composition by type of fund as of June 30, 2017:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 6,108,195	\$ 6,108,195
Board-designated endowment funds	(876,042)	-	(876,042)
<b>Total Funds</b>	<b>\$ (876,042)</b>	<b>\$ 6,108,195</b>	<b>\$ 5,232,153</b>

Endowment net asset composition by type of fund as of June 30, 2016:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 6,108,195	\$ 6,108,195
Board-designated endowment funds	(802,566)	-	(802,566)
<b>Total Funds</b>	<b>\$ (802,566)</b>	<b>\$ 6,108,195</b>	<b>\$ 5,305,629</b>

Changes in endowment net assets for the years ended June 30, 2017 and 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Endowment net assets, beginning of year July 1, 2015</b>	<b>\$ (307,589)</b>	<b>\$ -</b>	<b>\$ 6,108,195</b>	<b>\$ 5,800,606</b>
Investment return:				
Investment income	-	73,527	-	73,527
Net depreciation (realized and unrealized)	(106,577)	(41,152)	-	(147,729)
Investment fees	-	(32,375)	-	(32,375)
<b>Total Investment Return</b>	<b>(106,577)</b>	<b>-</b>	<b>-</b>	<b>(106,577)</b>
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	(388,400)	-	-	(388,400)
<b>Endowment net assets, year ended June 30, 2016</b>	<b>\$ (802,566)</b>	<b>\$ -</b>	<b>\$ 6,108,195</b>	<b>\$ 5,305,629</b>

**KATONAH MUSEUM OF ART**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**NOTE 6**      **NET ASSETS** (continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Endowment net assets, year beginning of year July 1, 2016</b>	\$ <b>(802,566)</b>	\$ _____ -	\$ <b>6,108,195</b>	\$ <b>5,305,629</b>
Investment return:				
Investment income	-	108,049	-	108,049
Net depreciation (realized and unrealized)	-	399,215	-	399,215
Investment fees	_____ -	<u>(22,957)</u>	_____ -	<u>(22,957)</u>
Total Investment Return	-	484,307	-	484,307
Contributions	-	21,689	-	21,689
Appropriation of endowment assets for expenditure	<u>(73,476)</u>	<u>(505,996)</u>	_____ -	<u>(579,472)</u>
<b>Endowment net assets, year ended June 30, 2017</b>	\$ <b>(876,042)</b>	\$ _____ -	\$ <b>6,108,195</b>	\$ <b>5,232,153</b>

**NOTE 7**      **COMMITMENTS**

The Museum has an operating lease agreement for office equipment that expires in fiscal year 2018. The rental expenses related to leases were \$24,693 and \$31,616 for the years ended June 30, 2017 and 2016, respectively. The minimum lease payments for 2018 are \$15,390 under the non-cancellable lease agreement.

**KATONAH MUSEUM OF ART  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**NOTE 7            COMMITMENTS (continued)**

During 2015, the Museum purchased office equipment subjected to capital lease obligations. The equipment is included in property and equipment. As of June 30, 2017, the cost of the office equipment was \$16,318. Amortization expense related to the leased equipment for the year ended June 30, 2017 was \$2,331 and is included with depreciation of property and equipment.

Capital lease obligations consisted of the following at June 30, 2017:

Office server, 15.07% implicit rate of interest, payable in monthly payments of \$566, due in full in August 2017	\$ 1,111
Less: current maturities	(1,111)
Total Capital Lease Obligations	\$ <u>      -</u>

As of June 30, 2017, future minimum lease payments under the capital lease obligations and the net present value of the future minimum lease payments are as follows:

2018	\$ <u>1,132</u>
Total future minimum lease payments	1,132
Amount representing interest	<u>(21)</u>
Present Value of Future Minimum Lease Payments	\$ <u>1,111</u>

**NOTE 8            CONCENTRATIONS**

The Organization maintains its cash and cash equivalents in bank deposit accounts and in federal government obligation money market funds at high-credit, quality financial institutions. The balances in cash accounts may at times exceed federally insured limits.

**NOTE 9            SIMPLE IRA PLAN**

The Organization maintains a SIMPLE IRA plan under section 408(p) of the Internal Revenue Code. The plan covers all employees who are reasonably expected to receive at least \$5,000 in compensation for the calendar year. For each calendar year, the Museum will contribute a matching contribution up to a limit of 3% of the employee's compensation for the calendar year. Pension expense was \$17,455 and \$18,590 for the years ended June 30, 2017 and 2016, respectively.

**KATONAH MUSEUM OF ART  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**NOTE 10      INCOME TAXES**

The Organization is exempt from federal income taxes under Internal Revenue Code section 501(c)(3). Contributions made to the Organization are qualified for the maximum tax deductions allowable under the United States Internal Revenue Code.

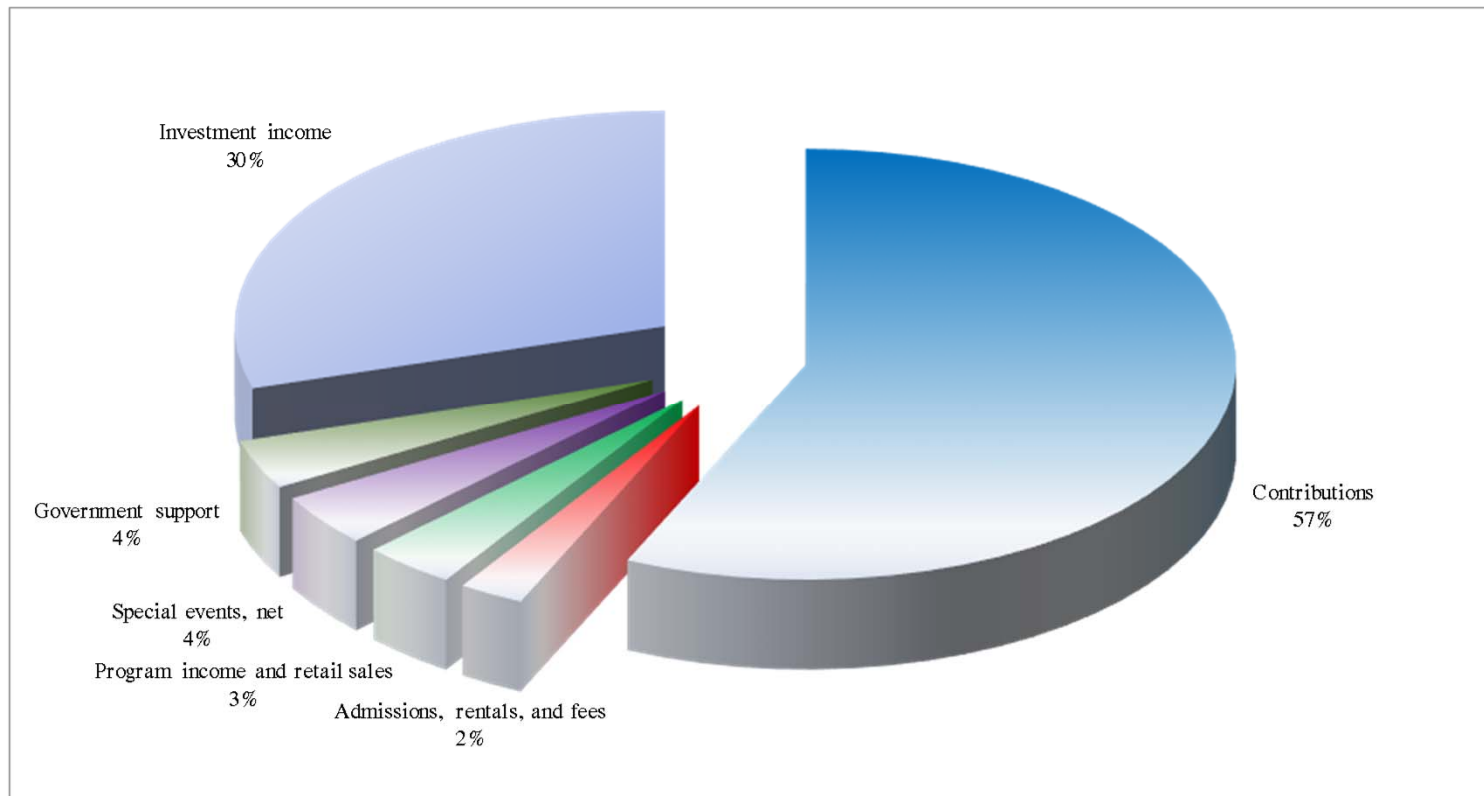
**NOTE 11      SUBSEQUENT EVENTS**

The Organization has evaluated subsequent events through October 30, 2017, the date that the financial statements were available to be issued.

## **OTHER FINANCIAL INFORMATION**

# Katonah Museum of Art

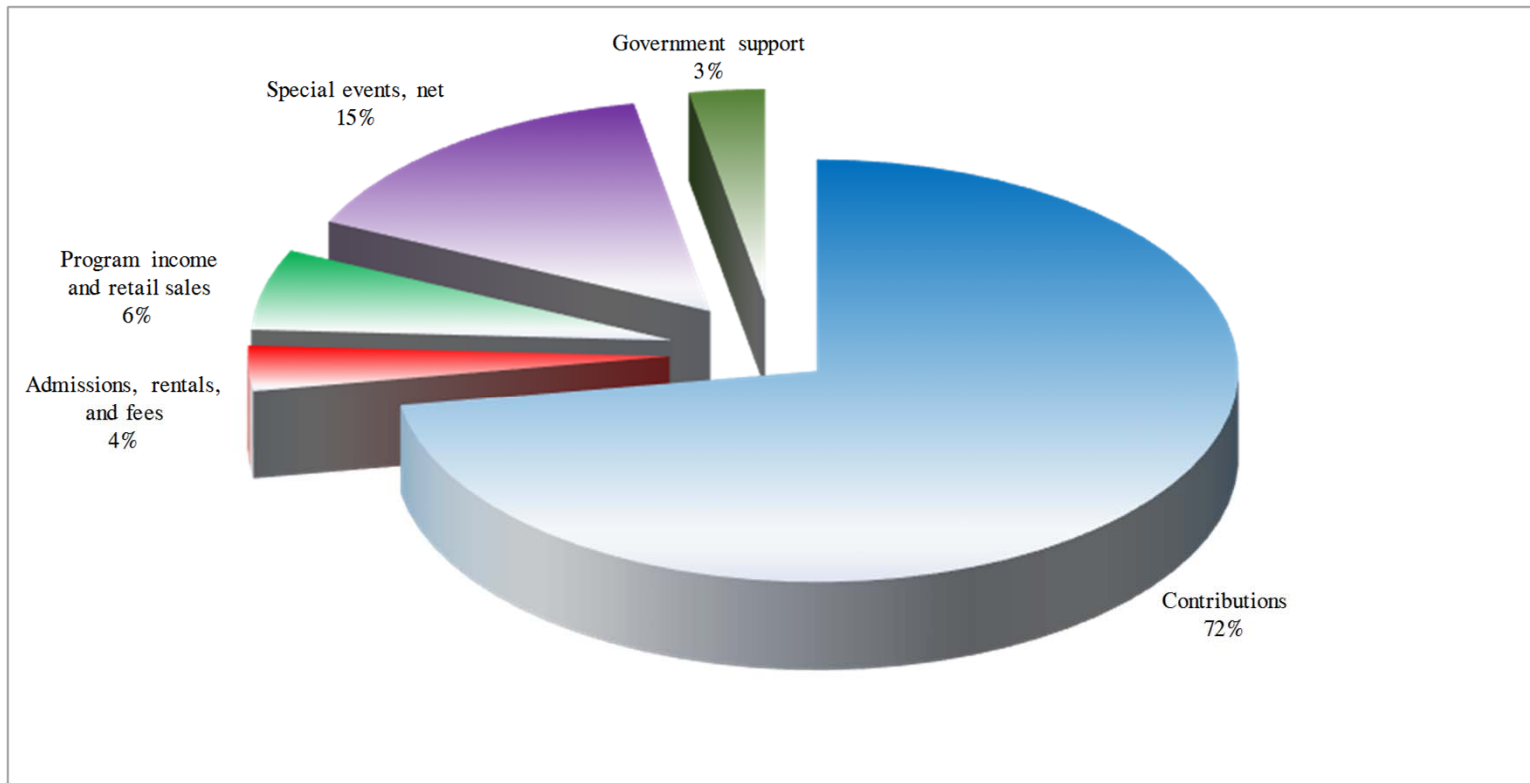
Support and Revenue  
Year Ended June 30, 2017





# Katonah Museum of Art

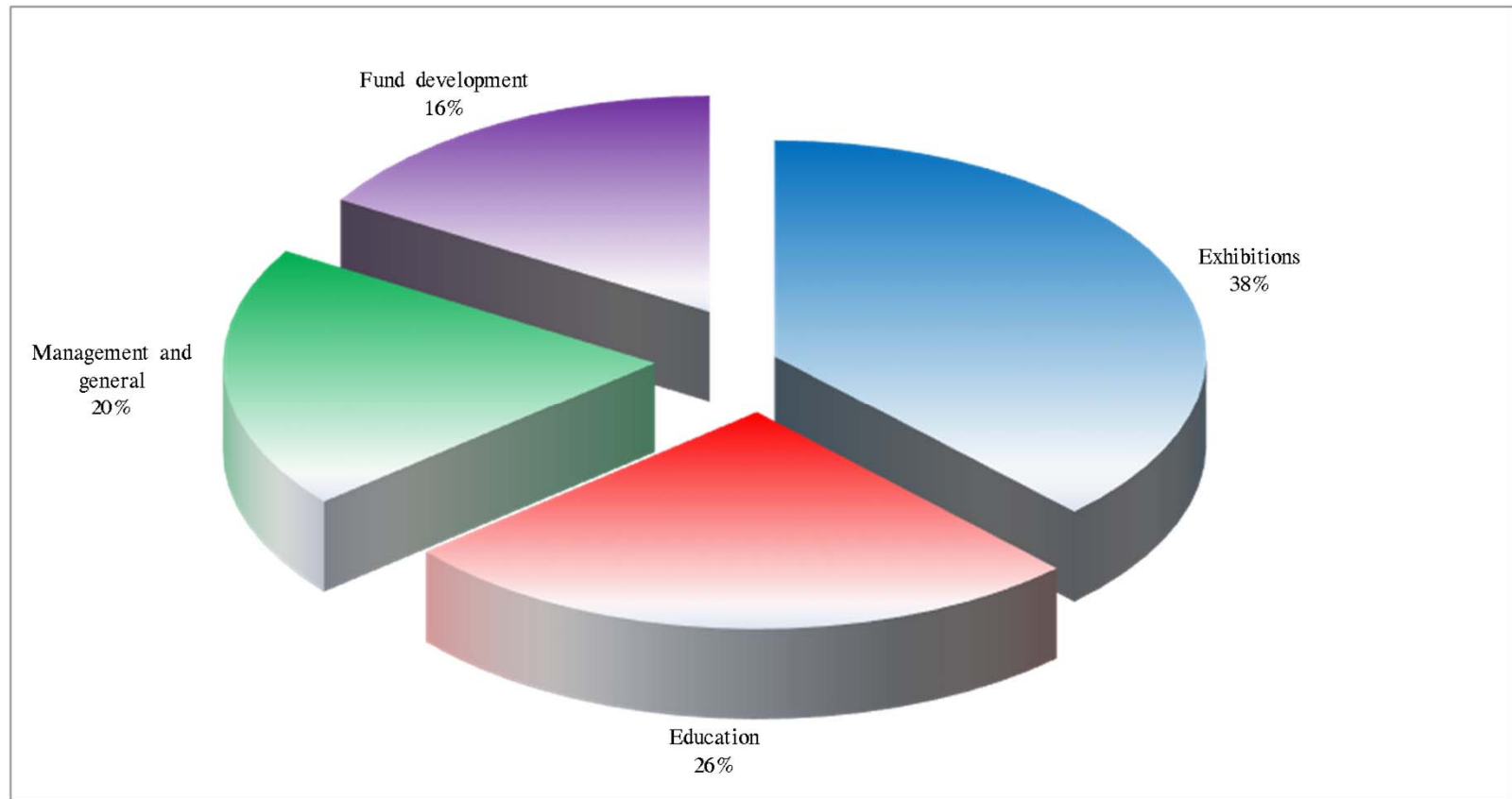
## Support and Revenue Year Ended June 30, 2016



\* Investment return was (\$106,577) and was not included in this chart.

# Katonah Museum of Art

Expenses  
Year Ended June 30, 2017



# Katonah Museum of Art

Expenses  
Year Ended June 30, 2016

