

EISNERAMPER

**COLLEGE ART ASSOCIATION
OF AMERICA, INC.**

FINANCIAL STATEMENTS

JUNE 30, 2018 and 2017



INDEPENDENT AUDITORS' REPORT

Board of Directors
College Art Association of America, Inc.
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the College Art Association of America, Inc. (the "Association"), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Association's 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 from material misstatement.

An audit involves performing procedures to obtain 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 organization'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 organization'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 College Art Association of America, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.



EISNERAMPER LLP
New York, New York
November 7, 2018



COLLEGE ART ASSOCIATION OF AMERICA, INC.

Statements of Financial Position

| | June 30, | |
|---|----------------------|----------------------|
| | <u>2018</u> | <u>2017</u> |
| ASSETS | | |
| Cash and cash equivalents | \$ 447,141 | \$ 122,499 |
| Grants receivable, net | 290,107 | 514,714 |
| Accounts and other receivables | 81,295 | 61,134 |
| Investments | 9,514,314 | 9,993,515 |
| Prepaid expenses and other current assets | 79,175 | 66,784 |
| Property and equipment, net | 12,836 | 34,824 |
| Security deposits | 4,000 | 4,000 |
| | <u>\$ 10,428,868</u> | <u>\$ 10,797,470</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 306,016 | \$ 492,647 |
| Deferred rent obligation | 207,363 | 196,989 |
| Deferred revenue | 923,561 | 1,065,935 |
| | <u>1,436,940</u> | <u>1,755,571</u> |
| Commitments (See Note K) | | |
| Net assets: | | |
| Unrestricted | 3,904,579 | 4,205,081 |
| Temporarily restricted | 3,971,299 | 3,720,768 |
| Permanently restricted | 1,116,050 | 1,116,050 |
| | <u>8,991,928</u> | <u>9,041,899</u> |
| Total net assets | <u>\$ 10,428,868</u> | <u>\$ 10,797,470</u> |

COLLEGE ART ASSOCIATION OF AMERICA, INC.

Statements of Activities

| | Year Ended June 30, | | | | | | | |
|--|---------------------|------------------------|------------------------|---------------------|---------------------|------------------------|------------------------|---------------------|
| | 2018 | | | 2017 | | | | |
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Operating activities: | | | | | | | | |
| Public support and revenue: | | | | | | | | |
| Contributions (including in-kind legal services of \$180,169 and \$92,814 for 2018 and 2017, respectively) | \$ 357,710 | \$ 324,800 | | \$ 682,510 | \$ 162,165 | \$ 651,410 | | \$ 813,575 |
| Membership fees | 1,020,391 | | | 1,020,391 | 1,046,810 | | | 1,046,810 |
| Annual conference | 777,809 | | | 777,809 | 886,525 | | | 886,525 |
| Career development activities | 417,342 | | | 417,342 | 447,741 | | | 447,741 |
| Advertising: <i>Art Journal, The Art Bulletin and C.A.A. News</i> | 67,697 | | | 67,697 | 115,173 | | | 115,173 |
| Mailing list rentals | 3,200 | | | 3,200 | 8,314 | | | 8,314 |
| Publications | 579,423 | | | 579,423 | 584,563 | | | 584,563 |
| Investment income, spending policy | 479,424 | | | 479,424 | 481,394 | | | 481,394 |
| Miscellaneous income | 107 | | | 107 | 30,172 | | | 30,172 |
| Total public support and revenue before net assets released from restrictions | 3,703,103 | 324,800 | | 4,027,903 | 3,762,857 | 651,410 | | 4,414,267 |
| Net assets released from restrictions | 430,242 | (430,242) | | 0 | 661,768 | (661,768) | | 0 |
| Total public support and revenue | 4,133,345 | (105,442) | | 4,027,903 | 4,424,625 | (10,358) | | 4,414,267 |
| Expenses: | | | | | | | | |
| Program costs | 3,573,993 | | | 3,573,993 | 3,854,438 | | | 3,854,438 |
| General and administration | 543,741 | | | 543,741 | 591,596 | | | 591,596 |
| Board and committees | 183,741 | | | 183,741 | 211,017 | | | 211,017 |
| Fund-raising | 158,463 | | | 158,463 | 183,650 | | | 183,650 |
| Total expenses | 4,459,938 | | | 4,459,938 | 4,840,701 | | | 4,840,701 |
| Change in net assets before non-operating activities | (326,593) | (105,442) | | (432,035) | (416,076) | (10,358) | | (426,434) |
| Non-operating activities: | | | | | | | | |
| Earnings in excess of spending policy | 26,091 | 355,973 | | 382,064 | 142,745 | 428,214 | | 570,959 |
| Change in net assets | (300,502) | 250,531 | | (49,971) | (273,331) | 417,856 | | 144,525 |
| Net assets, beginning of year | 4,205,081 | 3,720,768 | \$ 1,116,050 | 9,041,899 | 4,478,412 | 3,302,912 | \$ 1,116,050 | 8,897,374 |
| Net assets, end of year | \$ 3,904,579 | \$ 3,971,299 | \$ 1,116,050 | \$ 8,991,928 | \$ 4,205,081 | \$ 3,720,768 | \$ 1,116,050 | \$ 9,041,899 |

See notes to financial statements.

COLLEGE ART ASSOCIATION OF AMERICA, INC.

Statements of Functional Expenses

| | Year Ended June 30, | | | | | | | | | |
|---|---------------------|----------------------------|---------------------|-------------------|---------------------|---------------------|----------------------------|---------------------|-------------------|---------------------|
| | 2018 | | | | | 2017 | | | | |
| | Program | General and Administration | Board and Committee | Fund-Raising | Total | Program | General and Administration | Board and Committee | Fund-Raising | Total |
| Salary, payroll taxes and employee benefits | \$ 1,685,840 | \$ 262,666 | \$ 147,942 | \$ 139,005 | \$ 2,235,453 | \$ 2,118,791 | \$ 333,250 | \$ 187,709 | \$ 176,424 | \$ 2,816,174 |
| Temporary help | 38,589 | | | | 38,589 | 18,857 | | | | 18,857 |
| Printing | 54,370 | | | 634 | 55,004 | 61,034 | | | | 61,034 |
| Postage, messenger and shipping | 17,899 | 932 | 313 | 279 | 19,423 | 22,941 | 1,578 | 377 | | 24,896 |
| Mailing services | 428 | 62 | 12 | | 502 | 879 | 84 | 79 | | 1,042 |
| Editorial | 136,121 | | | | 136,121 | 123,793 | | | | 123,793 |
| Design | 125,478 | | | | 125,478 | 53,051 | | | | 53,051 |
| Storage and moving | | 6,052 | | | 6,052 | | 3,336 | | | 3,336 |
| Travel, catering and meetings | 182,090 | 7,037 | 16,592 | | 205,719 | 148,834 | 5,538 | 12,223 | | 166,595 |
| Publication grants | 138,746 | | | | 138,746 | 195,835 | | | | 195,835 |
| Fellowship stipends | 20,035 | | | | 20,035 | 20,000 | | | | 20,000 |
| Training and recruiting | 250 | 10,309 | | | 10,559 | 100 | 1,800 | | | 1,900 |
| Hospitality | 11,297 | 2,118 | | 709 | 14,124 | | 7,792 | | 500 | 8,292 |
| Rent and utilities | 202,493 | 105,919 | 3,115 | | 311,527 | 199,977 | 108,717 | 1,924 | 2 | 310,620 |
| Insurance | 18,288 | 7,980 | 332 | | 26,600 | 16,018 | 6,989 | 291 | | 23,298 |
| Telephone | 8,677 | 4,044 | 758 | | 13,479 | 9,085 | 4,234 | 793 | | 14,112 |
| Website and internet | 21,170 | 526 | 526 | 1,170 | 23,392 | 15,833 | 394 | 394 | 875 | 17,496 |
| Equipment maintenance and rental | 21,398 | 8,201 | 2,346 | 2,205 | 34,150 | 21,407 | 9,404 | 2,346 | 2,205 | 35,362 |
| Office expense | 103,535 | 56,286 | 997 | | 160,818 | 110,265 | 59,945 | 1,062 | | 171,272 |
| Dues, subscriptions, and seminars | 225 | 11,872 | | 3,749 | 15,846 | 4,696 | 10,136 | | | 14,832 |
| Accounting and legal | 182,220 | 29,985 | 9,226 | 9,226 | 230,657 | 130,650 | 5,963 | 1,868 | 1,833 | 140,314 |
| Advertising | 6,714 | | | | 6,714 | 23,110 | | | | 23,110 |
| Professional fees | 137,047 | 21,695 | | | 158,742 | 164,731 | 23,724 | | | 188,455 |
| Bank and credit card fees | 68,876 | 5,248 | | | 74,124 | 71,362 | 5,248 | | | 76,610 |
| Direct conference expenses | 374,186 | | | | 374,186 | 300,936 | | | | 300,936 |
| Total expenses before depreciation and amortization | 3,555,972 | 540,932 | 182,159 | 156,977 | 4,436,040 | 3,832,185 | 588,132 | 209,066 | 181,839 | 4,811,222 |
| Depreciation and amortization | 18,021 | 2,809 | 1,582 | 1,486 | 23,898 | 22,253 | 3,464 | 1,951 | 1,811 | 29,479 |
| | <u>\$ 3,573,993</u> | <u>\$ 543,741</u> | <u>\$ 183,741</u> | <u>\$ 158,463</u> | <u>\$ 4,459,938</u> | <u>\$ 3,854,438</u> | <u>\$ 591,596</u> | <u>\$ 211,017</u> | <u>\$ 183,650</u> | <u>\$ 4,840,701</u> |

See notes to financial statements.

COLLEGE ART ASSOCIATION OF AMERICA, INC.

Statements of Cash Flows

| | Year Ended June 30, | |
|---|--------------------------|--------------------------|
| | <u>2018</u> | <u>2017</u> |
| Cash flows from operating activities: | | |
| Change in net assets | \$ (49,971) | \$ 144,525 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation and amortization | 23,898 | 29,479 |
| Net realized and unrealized gains on investments | (663,855) | (888,706) |
| Amortization of deferred rent obligation | 10,374 | 16,526 |
| Changes in: | | |
| Contributions receivable | 224,607 | (164,153) |
| Accounts and other receivables | (20,161) | 22,160 |
| Prepaid expenses and other current assets | (12,391) | (5,286) |
| Accounts payable and accrued expenses | (186,631) | 106,173 |
| Deferred revenue | <u>(142,374)</u> | <u>23,604</u> |
| Net cash used in operating activities | <u>(816,504)</u> | <u>(715,678)</u> |
| Cash flows from investing activities: | | |
| Proceeds from sales of investments | 4,048,983 | 1,409,178 |
| Purchases of investments | (2,905,927) | (1,090,996) |
| Purchases of property and equipment | <u>(1,910)</u> | <u>(10,176)</u> |
| Net cash provided by investing activities | <u>1,141,146</u> | <u>308,006</u> |
| Net change in cash and cash equivalents | 324,642 | (407,672) |
| Cash and cash equivalents, beginning of year | <u>122,499</u> | <u>530,171</u> |
| Cash and cash equivalents, end of year | <u>\$ 447,141</u> | <u>\$ 122,499</u> |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the year for income taxes | <u>\$ 48,860</u> | <u>\$ 83,708</u> |
| Donated services | <u>\$ 180,169</u> | <u>\$ 92,814</u> |

COLLEGE ART ASSOCIATION OF AMERICA, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Organization:

The College Art Association of America, Inc. (the "Association"), incorporated in New York in 1911, is a not-for-profit organization founded to promote excellence in scholarship and teaching, in the history and criticism of the visual arts, and in creativity and technical skills and practices of art through:

- facilitating the exchange of ideas and information among those interested in art and the history of art;
- advocating comprehensive and inclusive education in the visual arts;
- speaking for the Association's membership on issues affecting the visual arts and humanities;
- providing opportunities for publication of scholarship, criticism, and artists' writings;
- fostering career development and professional advancement in the visual arts and humanities;
- identifying and developing sources of funding for the practice of art and for scholarship in the arts and humanities;
- honoring accomplishments of artists, art historians, and critics; and
- articulating and affirming the highest ethical standards in the conduct of the profession.

The Association includes among its members those who by vocation or avocation are concerned about and/or are committed to the practice of art, teaching, and research of and about the visual arts and humanities. Over 9,000 artists, art historians, scholars, curators, collectors, educators, art publishers, and other visual-arts professionals are individual members. Another 3,000 university art and art-history departments, museums, libraries, and professional and commercial organizations hold institutional memberships or subscriptions.

The Association is exempt from federal income tax pursuant to Section 501(c)(3) of the U.S. Internal Revenue Code (the "Code") and from state and local taxes under comparable laws, except for certain types of income subject to unrelated business income tax.

[2] Basis of accounting:

The accompanying financial statements of the Association have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America ("U.S. GAAP"), as applicable to not-for-profit organizations.

[3] Use of estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, public support and revenue and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

[4] Cash equivalents:

For financial-reporting purposes, the Association considers all highly liquid investments, with maturities of three months or less when purchased, to be cash equivalents. Cash equivalents considered to be part of the Association's investment portfolio are reported as investments in the statements of financial position.

COLLEGE ART ASSOCIATION OF AMERICA, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[5] Investments:

The Association's investments in equity securities, mutual funds, and fixed income securities are reported at their fair values in accompanying statements of financial position based on quoted market prices. Cash equivalents held as part of the Association's investment portfolio are also included in the balances reported as investments.

The Associations' investments, in general, are subject to various risks, such as interest-rate, market, and credit risks. Due to the level of risk associated with certain investment vehicles, it is at least reasonably possible that changes in the values of those securities could occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Investment transactions are recorded on a trade-date basis. Realized gains and losses on investments sold, and unrealized appreciation and depreciation on investments held, are reported in the statements of activities as increases or decreases in unrestricted net assets unless their use is restricted on a temporary or permanent basis through donor stipulation. Realized gains and losses on investments are determined by comparison of the cost of acquisition to proceeds at the time of disposition. Unrealized gains and losses on investments are determined by comparing the investment's cost to the fair value at the end of each year. The earnings from dividends and interest are recognized when earned.

Donated securities are recorded at their estimated fair values, as determined by the proceeds received on the dates of donation or by their net asset values as determined by the Association's management. The Association's policy is to sell the donated securities immediately, and, accordingly, for purposes of the statement of cash flows, donated securities and the proceeds generated from their sale are included within operating activities.

Investment expenses include the services of bank trustees, investment managers and custodians. The balances of investment management fees disclosed in Note C are those specific fees charged by the Association's various investment managers in each fiscal year; however, they do not include those fees that are embedded in various other investment accounts and transactions.

The Association has a spending-rate policy to manage the earnings from its portfolio (see Notes C and G).

[6] Property and equipment:

Property and equipment are stated at their original costs at the date of acquisition, or, if contributed, at their fair values at the dates of donation. The Association capitalizes items of property and equipment that have a cost of \$500 or more and useful lives greater than one year. Minor costs of repairs and maintenance are expensed as incurred. Depreciation is provided using the straight-line method over three to eight years, the estimated useful lives of the related assets. Leasehold improvements are amortized over the remaining lease term, or the useful lives of the improvements, whichever is shorter.

Management evaluates the recoverability of the investment in long-lived assets on an on-going basis and recognizes any impairment in the year of determination. Long-lived assets were tested for impairment as of June 30, 2018 and 2017, respectively, and, in the opinion of management, there were no impairments. However, it is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

COLLEGE ART ASSOCIATION OF AMERICA, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[7] Accrued vacation:

Accrued vacation is included as a liability in the accompanying financial statements and represents the Association's obligation for the cost of unused employee vacation time payable in the event of employee terminations; the obligation is recalculated every year. At June 30, 2018 and 2017, the accrued vacation obligation was approximately \$58,000 and \$70,000, respectively, and was reported as part of accounts payable and accrued expenses in the accompanying statements of financial position.

[8] Grant and fellowship awards:

Awards for research grants and fellowships are recorded as an expense and liability subsequent to annual reviews and approval by the Board of Directors. Grants and fellowship awards generally cover a period of one year, subject to renewal for an additional year after certain conditions have been met.

[9] Deferred revenue:

Amounts received in advance of the Association's providing a related service are deferred until the service is provided.

[10] Net assets:

(i) *Unrestricted:*

Unrestricted net assets represent those resources that are not subject to donor restrictions and are available for current operations. The Board of Directors has designated a portion of unrestricted net assets to serve as an endowment of the Association to provide reserves for programs and operations.

(ii) *Temporarily restricted:*

Temporarily restricted net assets represent those resources that are subject to the requirements of the New York Prudent Management of Institutional Funds Act ("NYPMIFA") and those resources for which the use has been restricted by donors to specific purposes and/or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends, or a purpose restriction is accomplished or funds are appropriated through an action of the Board of Directors, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying statements of activities as "net assets released from restrictions."

(iii) *Permanently restricted:*

Permanently restricted net assets represent those resources the principal of which is originally restricted into perpetuity by its donors. The purposes for which the income and net capital appreciation arising from the underlying assets may be used depend on the wishes of that donor. Under the terms of NYPMIFA, those earnings will be classified as temporarily restricted in the accompanying statements of activities, pending appropriation by the Board of Directors.

COLLEGE ART ASSOCIATION OF AMERICA, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[11] Revenue recognition:

(i) *Contributions and grants:*

Contributions and grants made to the Association are recognized as revenue upon the receipt of cash or other assets, or of unconditional pledges. Contributions are recorded as either temporarily or permanently restricted if they are received with donor stipulations or time considerations as to their use. Conditional contributions are recorded when the conditions have been met, and, if received in advance, are recognized in the statements of financial position as funds received in advance. The Association records bequest income at the time it has an established right to a bequest and the proceeds are measurable. Contributions to be received over periods longer than a single year are discounted at an interest rate commensurate with the risk involved.

(ii) *Other revenues:*

The Association offers various services and benefits, and the amounts received in return are recorded as revenue or deferred revenue in the accompanying financial statements as follows:

- Membership fees are recorded when payment is received in the applicable membership period. The portion applicable to the subsequent year is reported as deferred revenue.
- Annual conference fees are recorded as revenue in the applicable period when the conference takes place.
- Position listings fees are recorded when the services have been rendered.
- Subscription revenue is recognized over the term of the subscription. The portion applicable to a subsequent period is reported as deferred revenue.
- Advertising revenue is recognized when the particular periodical is ready for distribution.

[12] Measure of operations:

The Association includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities including an authorized investment allocation. Investment income, including net realized and unrealized gains and losses earned in excess or deficit of the Association's authorized spending limit, is recognized as a part of non-operating activities.

[13] Donated services:

Donated services are recognized in the financial statements if the services (i) create or enhance non-financial assets or require specialized skills, (ii) are provided by individuals possessing these skills, and (iii) would typically need to be acquired if not provided by donation. Accordingly, donated services are recorded as support at their estimated fair value at the dates of donation and are reported as unrestricted support. Donated services are reported as both contributions and offsetting expenses in the accompanying statements of activities.

COLLEGE ART ASSOCIATION OF AMERICA, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[14] Functional allocation of expenses:

The cost of providing the various programs and supporting services have been summarized on a functional basis in the accompanying statements of activities and functional expenses. Accordingly, certain costs have been allocated by management among the program, management and general, and fund-raising categories, using appropriate measurement methodologies. Management considers "board and committee" expenses to be included in the "management and general" functional classification.

[15] Income taxes:

The Association is subject to the provisions of the Financial Accounting Standards Board's (the "FASB") Accounting Standards Codification ("ASC") Topic 740, *Income Taxes*, as it relates to accounting and reporting for uncertainty in income taxes. Because the Association has always recorded the potential liability for unrelated business income taxes, and due to its general not-for-profit status, ASC Topic 740 has not had, and is not anticipated to have, a material impact on the Association's financial statements.

Unrelated business taxable income ("UBIT") tax expense reported in the statements of activities was \$98,413 and \$76,881 during fiscal-years 2018 and 2017, respectively. Included in the fiscal-year 2018 UBIT expense is \$7,331, which represents the Association's accrued tax on transportation benefits as required by the Tax Cuts and Jobs Act of 2017.

[16] Upcoming accounting change:

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 amends financial-statement presentations and disclosures, with the goal of assisting not-for-profit organizations in providing more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. ASU 2016-14 includes qualitative and quantitative requirements in the following areas: (i) net asset classifications, (ii) investment returns, (iii) expense categorizations, (iv) liquidity and the availability of resources, and (v) the presentation of operating cash flows. The new standard will be effective for annual reporting periods beginning after December 15, 2017. The Association will adopt the new standard in fiscal-year 2019.

[17] Reclassification:

Certain amounts included in the prior year's financial statements have been reclassified to conform to the current year's presentation. This reclassification had no effect on the previously reported change in net assets.

[18] Subsequent events:

The Association evaluated subsequent events through November 7, 2018, the date on which the financial statements were available to be issued.

COLLEGE ART ASSOCIATION OF AMERICA, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE B - RECEIVABLES

[1] Grants receivable:

At each fiscal year-end, grants receivable were estimated to be due as follows:

| | <u>June 30,</u> | |
|---|-------------------|-------------------|
| | <u>2018</u> | <u>2017</u> |
| One year | \$ 201,754 | \$ 274,687 |
| One to five years | <u>91,086</u> | <u>248,098</u> |
| | 292,840 | 522,785 |
| Reduction of pledges due in excess of one year to present value, at a rate of 3% | <u>(2,733)</u> | <u>(8,071)</u> |
| | <u>\$ 290,107</u> | <u>\$ 514,714</u> |

Management believes that all grants are fully collectible, and, accordingly, no allowance for doubtful accounts has been recorded.

[2] Accounts and other receivables:

At each fiscal year-end, accounts and other receivables consisted of amounts due to the Association from unrelated parties for exchange-type transactions. All amounts are due within one year. Management believes that all accounts and other receivables are fully collectible, and, accordingly, no allowance for doubtful accounts has been recorded.

NOTE C - INVESTMENTS

At each fiscal year-end, investments consisted of the following:

| | <u>Year Ended June 30,</u> | | | |
|-----------------------------|----------------------------|---------------------|-----------------------|---------------------|
| | <u>2018</u> | | <u>2017</u> | |
| | <u>Fair Value</u> | <u>Cost</u> | <u>Fair Value</u> | <u>Cost</u> |
| Money-market funds | \$ 617,398 | \$ 626,001 | \$ 449,886 | \$ 449,886 |
| Government agency bonds | 64,590 | 54,457 | 1,280,340 | 1,275,170 |
| Corporate debt | 1,139,611 | 1,173,727 | 530,211 | 527,315 |
| Equity securities | 458,149 | 482,632 | 7,650,669 | 3,650,656 |
| Equity mutual funds | 7,215,439 | 3,253,481 | 59,212 | 55,822 |
| Accrued interest receivable | <u>19,127</u> | <u>19,127</u> | <u>23,197</u> | <u>23,197</u> |
| | <u>\$ 9,514,314</u> | <u>\$ 5,609,425</u> | <u>\$ 9,993,515</u> | <u>\$ 5,982,046</u> |

COLLEGE ART ASSOCIATION OF AMERICA, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE C - INVESTMENTS (CONTINUED)

During each fiscal year, investment income consisted of the following:

| | Year Ended June 30, 2018 | | |
|---|--------------------------|------------------------|-------------------|
| | Unrestricted | Temporarily Restricted | Total |
| Interest and dividends | \$ 150,680 | \$ 103,334 | \$ 254,014 |
| Net realized gains on sales of investments | 457,810 | 312,625 | 770,435 |
| Net unrealized losses on investments | (69,434) | (37,146) | (106,580) |
| Investment fees | <u>(33,541)</u> | <u>(22,840)</u> | <u>(56,381)</u> |
| | 505,515 | 355,973 | 861,488 |
| Less investment income recognized under spending policy | <u>(479,424)</u> | | <u>(479,424)</u> |
| Earnings in excess of spending policy | <u>\$ 26,091</u> | <u>\$ 355,973</u> | <u>\$ 382,064</u> |
| | Year Ended June 30, 2017 | | |
| | Unrestricted | Temporarily Restricted | Total |
| Interest and dividends | \$ 126,610 | \$ 92,394 | \$ 219,004 |
| Net realized gains on sales of investments | 199,906 | 122,412 | 322,318 |
| Net unrealized losses on investments | 331,517 | 234,871 | 566,388 |
| Investment fees | <u>(33,894)</u> | <u>(21,463)</u> | <u>(55,357)</u> |
| | 624,139 | 428,214 | 1,052,353 |
| Less investment income recognized under spending policy | <u>(481,394)</u> | | <u>(481,394)</u> |
| Earnings in excess of spending policy | <u>\$ 142,745</u> | <u>\$ 428,214</u> | <u>\$ 570,959</u> |

The FASB's ASC Topic 820, *Fair Value Measurements*, establishes a three-level valuation hierarchy of fair-value measurements. These valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. These two types of inputs create the following fair-value hierarchy:

- Level 1: Valuations are based on observable inputs that reflect quoted market prices in active markets for those investments, at the reporting date.
- Level 2: Valuations are based on (i) quoted prices for similar investments in active markets, or (ii) quoted prices for those investments, or similar investments, in markets that are not active or (iii) pricing inputs other than quoted prices that are directly or indirectly observable at the reporting date.
- Level 3: Valuations are based on pricing inputs that are unobservable and include situations where (i) there is little, if any, market activity for the investments, or (ii) the investments cannot be independently valued.

The availability of market data is monitored to assess the appropriate classification of financial instruments within the fair-value hierarchy. Changes in economic conditions or valuation techniques may require the transfer of financial instruments from one level to another. In such instances, the transfer is reported at the beginning of the reporting period. For fiscal-years 2018 and 2017, there were no transfers among the fair-value hierarchy levels.

COLLEGE ART ASSOCIATION OF AMERICA, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE C - INVESTMENTS (CONTINUED)

The following table summarizes the fair values of the Association's assets at each fiscal year-end, in accordance with the ASC Topic 820 valuation levels:

| | June 30, | | | | | |
|--------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2018 | | | 2017 | | |
| | Level 1 | Level 2 | Total | Level 1 | Level 2 | Total |
| Money-market funds | \$ 617,398 | | \$ 617,398 | \$ 449,886 | | \$ 449,886 |
| Government agency bonds | | \$ 1,139,611 | 1,139,611 | | \$1,280,340 | 1,280,340 |
| Corporate debt | | 458,149 | 458,149 | | 530,211 | 530,211 |
| Equity securities | 7,215,439 | | 7,215,439 | 7,650,669 | | 7,650,669 |
| Equity mutual funds | 64,590 | | 64,590 | 59,212 | | 59,212 |
| Accrued interest receivable | | 19,127 | 19,127 | | 23,197 | 23,197 |
| | <u>\$ 7,897,427</u> | <u>\$ 1,616,887</u> | <u>\$ 9,514,314</u> | <u>\$ 8,159,767</u> | <u>\$ 1,833,748</u> | <u>\$ 9,993,515</u> |

NOTE D - PROPERTY AND EQUIPMENT

At each fiscal year-end, property and equipment consisted of the following:

| | June 30, | |
|---|--------------------|--------------------|
| | 2018 | 2017 |
| Furniture and fixtures | \$ 156,385 | \$ 156,385 |
| Equipment | 540,640 | 540,640 |
| Database equipment | 555,010 | 553,100 |
| Leasehold improvements | <u>42,795</u> | <u>42,795</u> |
| | 1,294,830 | 1,292,920 |
| Less accumulated depreciation and amortization | <u>(1,281,994)</u> | <u>(1,258,096)</u> |
| | <u>\$ 12,836</u> | <u>\$ 34,824</u> |

COLLEGE ART ASSOCIATION OF AMERICA, INC.

**Notes to Financial Statements
June 30, 2018 and 2017**

NOTE E - TEMPORARILY RESTRICTED NET ASSETS

At each fiscal year-end, temporarily restricted net assets (including allocation of investment gains and losses) were categorized as follows:

| | <u>June 30,</u> | |
|---|---------------------|---------------------|
| | <u>2018</u> | <u>2017</u> |
| Meiss publications | \$ 247,144 | \$ 199,103 |
| Artists' fellowships | 117,672 | 93,529 |
| Art history fellowships | 158,788 | 135,576 |
| Mellon grants | 108,109 | 968 |
| Publication grants | 337,504 | 441,071 |
| Other programs/fellowships | 779,974 | 748,125 |
| Time | <u>8,332</u> | <u>8,332</u> |
| | 1,757,523 | 1,626,704 |
| Accumulated endowment income reserved for appropriation | <u>2,213,776</u> | <u>2,094,064</u> |
| | <u>\$ 3,971,299</u> | <u>\$ 3,720,768</u> |

During each fiscal year, net assets released from restrictions were for the following:

| | <u>June 30,</u> | |
|----------------------------|-------------------|-------------------|
| | <u>2018</u> | <u>2017</u> |
| Meiss publications | \$ 53,091 | \$ 79,318 |
| Artists' fellowships | 14,248 | 14,021 |
| Art history fellowships | 10,000 | 15,000 |
| Mellon grants | 42,897 | 196,150 |
| Publication grants | 103,603 | 111,821 |
| Other programs/fellowships | <u>206,403</u> | <u>245,458</u> |
| | <u>\$ 430,242</u> | <u>\$ 661,768</u> |

NOTE F - PERMANENTLY RESTRICTED NET ASSETS

At each fiscal year-end, net assets were permanently restricted to support the following:

| | <u>June 30,</u> | |
|-------------------------|---------------------|---------------------|
| | <u>2018</u> | <u>2017</u> |
| Art Bulletin | \$ 15,000 | \$ 15,000 |
| Meiss publications | 500,000 | 500,000 |
| Artists' fellowships | 340,930 | 340,930 |
| Art history fellowships | 210,120 | 210,120 |
| Travel fellowships | <u>50,000</u> | <u>50,000</u> |
| | <u>\$ 1,116,050</u> | <u>\$ 1,116,050</u> |

COLLEGE ART ASSOCIATION OF AMERICA, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE G - ACCOUNTING AND REPORTING FOR ENDOWMENTS

[1] The endowments:

The Association's endowment consists of both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowment.

[2] Interpretation of relevant law:

NYPMIFA is applicable to all of the Association's institutional funds, including its donor-restricted and Board-designated endowment funds. The Board of Directors adheres to NYPMIFA's requirements.

[3] Endowment net-asset composition, by type of fund, at each fiscal year-end:

| | June 30, 2018 | | | |
|----------------------------------|----------------------|-------------------------------|-------------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor-restricted endowment funds | | \$ 2,213,776 | \$ 1,116,050 | \$ 3,329,826 |
| Board-designated funds | <u>\$ 6,555,040</u> | _____ | _____ | <u>6,555,040</u> |
| Total funds | <u>\$ 6,555,040</u> | <u>\$ 2,213,776</u> | <u>\$ 1,116,050</u> | <u>\$ 9,884,866</u> |
| | June 30, 2017 | | | |
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor-restricted endowment funds | | \$ 2,094,064 | \$ 1,116,050 | \$ 3,210,114 |
| Board-designated funds | <u>\$ 6,356,210</u> | _____ | _____ | <u>6,356,210</u> |
| Total funds | <u>\$ 6,356,210</u> | <u>\$ 2,094,064</u> | <u>\$ 1,116,050</u> | <u>\$ 9,566,324</u> |

Temporarily restricted endowment represents that portion of allocated investment income derived from permanently restricted endowment assets that has not been appropriated by the Board of Directors for expenditure.

[4] Funds with deficiencies:

Due to unfavorable market fluctuations, from time-to-time the fair value of assets associated with individual donor-restricted endowment funds may decline below the historical dollar value of the donor's original, permanently restricted contribution. Under the terms of NYPMIFA, the Association has no responsibility to restore such decreases in value.

COLLEGE ART ASSOCIATION OF AMERICA, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE G - ACCOUNTING AND REPORTING FOR ENDOWMENTS (CONTINUED)

[5] Changes in endowment net assets, by type of fund, during each fiscal year:

| | Year Ended June 30, 2018 | | | Total |
|---|--------------------------|------------------------|------------------------|---------------------|
| | Board-Designated | Temporarily Restricted | Permanently Restricted | |
| Net assets, beginning of year | \$ 6,356,210 | \$ 2,094,064 | \$ 1,116,050 | \$ 9,566,324 |
| Investment income | 505,518 | 296,400 | | 801,918 |
| Appropriation of endowment assets for expenditure | <u>(306,688)</u> | <u>(176,688)</u> | | <u>(483,376)</u> |
| Net assets, end of year | <u>\$ 6,555,040</u> | <u>\$ 2,213,776</u> | <u>\$ 1,116,050</u> | <u>\$ 9,884,866</u> |

During 2018, the Board approved an additional release of \$3,952 in excess of the approved spending policy for travel grants.

| | Year Ended June 30, 2017 | | | Total |
|---|--------------------------|------------------------|------------------------|---------------------|
| | Board-Designated | Temporarily Restricted | Permanently Restricted | |
| Net assets, beginning of year | \$ 6,017,466 | \$ 1,905,505 | \$ 1,116,050 | \$ 9,039,021 |
| Investment income | 647,338 | 361,359 | | 1,008,697 |
| Appropriation of endowment assets for expenditure | <u>(308,594)</u> | <u>(172,800)</u> | | <u>(481,394)</u> |
| Net assets, end of year | <u>\$ 6,356,210</u> | <u>\$ 2,094,064</u> | <u>\$ 1,116,050</u> | <u>\$ 9,566,324</u> |

[6] Return objectives and risk parameters:

The Association's overall financial objective for the endowment assets is to provide the operations of the Association with a relatively stable stream of spendable revenue that increases over time. If this is to be achieved over the long term, the real (inflation-adjusted) value of the endowment assets must be preserved net of an annual distribution to programs. Endowment assets include those assets of donor-restricted funds that the Association must hold in perpetuity, as well as board-designated funds. The detailed guidelines monitored closely by the Investment Committee include:

- There is asset diversification sufficient to provide reasonable assurance that no single security or class of security will have a disproportionate impact on the total endowment assets.
- Endowment assets are divided into a "fixed-income fund" and an "equity fund," to ensure that the overall allocation between these two asset classes remains under the regular review of the Investment Committee:
 - i. The "fixed-income fund" should on average represent approximately 35% of the total endowment assets at market value, to provide a hedge against severe deflation, reduce the overall volatility of the endowment assets' market value, and produce current income.
 - ii. The "equity fund" should on average represent approximately 65% of the total endowment assets at market value and is to provide an average annual total return.
- The Investment Committee will define the Association's "acceptable risk" profile in cooperation with the fund manager.

COLLEGE ART ASSOCIATION OF AMERICA, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE G - ACCOUNTING AND REPORTING FOR ENDOWMENTS (CONTINUED)

[6] Return objectives and risk parameters: (continued)

The long-term investment objective for the endowment assets is to attain a total return (net of investment management fees) of at least 6.5% per year in excess of inflation, as measured by the Consumer Price Index. This objective assumes that withdrawals from the endowment assets will average, long term, no more than 5.5% of the endowment assets value over time. Actual returns in any given year may vary from this amount.

[7] Strategies employed for achieving objectives:

The Association maintains an investment pool for long-term investments. This pool had a fair value of \$9,514,314 and \$9,993,515 on June 30, 2018 and 2017, respectively. The Board of Directors has established an investment objective of achieving an average real return (i.e., after inflation and net of management fees) of at least 6.5% per year, measured over rolling five-year periods. In pursuing this objective, the Association selects investment managers who are rigorous in the discipline they utilize to produce returns at acceptable levels of risk.

[8] Spending policy and how the investment objectives relate to the spending policy:

The Association's annual operating budgets include support from the investment pool. Accordingly, the Association's Board of Directors has established a policy of permitting annual spending in an amount up to 4.5%, subsequent to October 2009 through fiscal-year 2011, and 5.5%, from fiscal-year 2012 through fiscal-year 2018, of the average market value of the investment portfolio at the five preceding year-ends, with the potential for additional amounts being approved to support operations or to meet other unanticipated requirements. The policy limits were \$479,424 and \$481,394 in fiscal-years 2018 and 2017, respectively, representing an appropriation of 5.5% for each fiscal-year, respectively.

NOTE H - PUBLISHING AGREEMENT

In October 2013, the Association entered into an agreement with an independent publisher, Taylor and Francis (the "Publisher"), to jointly publish the Association's *Art Journal*, *Art Bulletin*, and *Caa Reviews* beginning January 2014. The Association retains full responsibility for acquisition of content and editorial quality. The agreement remains in effect through December 31, 2018 and the Association is in the process of negotiating a five year extension of the agreement.

Under the agreement, the Association is entitled to an annual advance royalty of \$495,000 for journal subscriptions. In addition, the publisher will pay the Association \$50,000 annually to defray the Association's expenses in copy-editing and proofreading. The Publisher will also pay the Association \$5,000 annually for the costs of image permissions for the *Art Journal* and *Art Bulletin*. The Association and the Publisher have also agreed on separate royalty fees regarding specific volumes of the *Art Journal* and *Art Bulletin*.

NOTE I - EMPLOYEE-BENEFIT PLAN

The Association sponsors a defined-contribution retirement plan, established under Section 403(b) of the Code. All employees who have completed two years of service are eligible to participate, and the Association's contributions are 5% of each employee's salary for both fiscal-years 2018 and 2017, respectively. Plan expense for fiscal-years 2018 and 2017 was approximately \$72,000 and \$73,000, respectively.

COLLEGE ART ASSOCIATION OF AMERICA, INC.

Notes to Financial Statements June 30, 2018 and 2017

NOTE J - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Association to concentrations of credit risk consist principally of cash and cash-equivalent accounts deposited in high-credit-quality financial institutions, the balances of which, from time-to-time, may exceed federal insurance limits. However, management believes that the Association does not face a significant risk of loss on these accounts due to the failure of these institutions.

NOTE K - COMMITMENTS

[1] Lease agreements:

During fiscal-year 2011, the Association entered into a new office lease. The Association is obligated for its office space and certain equipment under operating leases that expire through June 2027. The office lease is subject to escalation clauses based on real estate taxes. For financial-reporting purposes, the aggregate minimum lease payments are being amortized using the straight-line method over the term of the lease. The cumulative difference between rent expense and amounts paid amounted to \$207,363 and \$196,989 for fiscal-years 2018 and 2017, respectively, and has been reported as a deferred rent obligation in the accompanying statements of financial position.

Minimum annual future rental commitments under the lease agreements, excluding escalation charges, for years subsequent to fiscal-year 2018, are as follows:

| <u>Year Ending June 30,</u> | <u>Amount</u> |
|---------------------------------|---------------------|
| 2019 | \$ 303,990 |
| 2020 | 292,286 |
| 2021 | 298,862 |
| 2022 | 305,586 |
| 2023 | 312,462 |
| Thereafter | <u>1,321,752</u> |
| | <u>\$ 2,834,938</u> |

The Association entered into a \$61,156 letter-of-credit agreement in lieu of a security deposit. The agreement is collateralized by cash equivalents of a similar amount held by a bank.

[2] Career center agreement:

The Association has agreed to pay a monthly fee of \$4,000 to an unrelated party to provide Internet services for operating and supporting its on-line career site.

[3] Grants and fellowships:

As of June 30, 2018 and 2017, the Association was conditionally committed to provide publishing grants and fellowship awards of \$251,538 and \$125,284, respectively. The underlying funds are to be disbursed when, and if, grantees meet certain conditions, as outlined in the grant awards. Accordingly, these grants have not been reported as liabilities in the accompanying financial statements.

[4] Software agreement:

The Association is obligated for its use of certain software under a long-term agreement that expires June 30, 2018. The minimum annual future commitment under this agreement is \$61,689 through 2019.

[5] Other contracts:

In the normal course of business, the Association enters into various contracts for professional and other services, which are typically renewable on a year-to-year basis.