

# **AMERICAN FOLK ART MUSEUM**



## **FINANCIAL STATEMENTS (Together with Independent Auditors' Report)**

**YEARS ENDED JUNE 30, 2020 AND 2019**

**M A R K S P A N E T H**

ACCOUNTANTS & ADVISORS

**AMERICAN FOLK ART MUSEUM**

**FINANCIAL STATEMENTS**  
**(Together with Independent Auditors' Report)**

**YEARS ENDED JUNE 30, 2020 AND 2019**

**CONTENTS**

	<b><u>Page</u></b>
Independent Auditors' Report .....	1
Statements of Financial Position .....	2
Statements of Activities .....	3
Statements of Functional Expenses .....	4-5
Statements of Cash Flows .....	6
Notes to Financial Statements .....	7-17

## INDEPENDENT AUDITORS' REPORT

The Board of Trustees of  
the American Folk Art Museum

We have audited the accompanying financial statements of the American Folk Art Museum (the "Museum") which comprise the statements of financial position as of June 30, 2020 and 2019, 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***

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.

### ***Auditors' 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the American Folk Art Museum as of June 30, 2020 and 2019, 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.

*Marks Paneth LLP*

New York, NY  
May 17, 2021

**AMERICAN FOLK ART MUSEUM  
STATEMENTS OF FINANCIAL POSITION  
AS OF JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Cash and cash equivalents (Note 2E)	\$ 399,168	\$ 133,865
Accounts and government grants receivable (Note 2G)	170,906	273,571
Pledges receivable, net (Notes 2G and 5)	306,400	506,400
Investments (Notes 2F and 6)	7,276,773	7,306,117
Prepaid expenses and other assets (Note 2K)	239,255	334,163
Property and equipment, net (Notes 2D and 4)	695,448	808,707
Bequest held in perpetual trust (Notes 6 and 11)	952,372	969,457
Collections (Note 2C)	<u>-</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u>\$ 10,040,322</u>	<u>\$ 10,332,280</u>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 35,139	\$ 189,418
Accrued salaries and vacation	63,559	43,228
Deferred rent (Note 2M)	<u>95,537</u>	<u>102,921</u>
<b>TOTAL LIABILITIES</b>	<u>194,235</u>	<u>335,567</u>
<b>COMMITMENTS AND CONTINGENCIES</b> (Note 9)		
<b>NET ASSETS</b> (Note 2B)		
Without donor restrictions:		
Investment in property and equipment	695,448	808,707
Operational net deficit (Note 12)	<u>(10,431)</u>	<u>(444,829)</u>
Total without donor restrictions	<u>685,017</u>	<u>363,878</u>
With donor restrictions:		
Time and purpose restricted (Note 11)	3,908,046	4,362,726
Perpetual in nature (Note 11)	<u>5,253,024</u>	<u>5,270,109</u>
Total with donor restrictions	<u>9,161,070</u>	<u>9,632,835</u>
<b>TOTAL NET ASSETS</b>	<u>9,846,087</u>	<u>9,996,713</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 10,040,322</u>	<u>\$ 10,332,280</u>

**AMERICAN FOLK ART MUSEUM  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	For the Year Ended June 30, 2020			For the Year Ended June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total 2020	Total 2019	Without Donor Restrictions	With Donor Restrictions
<b>OPERATING REVENUE, SUPPORT AND OTHER:</b>						
Contributions and membership (Notes 2I and 2J)	\$ 1,549,216	\$ 54,857	\$ 1,604,073	\$ 1,145,436	\$ 1,021,435	\$ 124,001
Support from foundations and corporations	354,000	80,000	434,000	854,813	471,785	383,028
Special events and benefits, net of direct expense of \$170,624 in 2020 and \$148,591 in 2019	352,984	-	352,984	548,973	548,973	-
Museum's 5% spending policy (Note 2F)	355,407	-	355,407	340,293	340,293	-
Government support (Note 2Q)	197,770	49,440	247,210	375,195	222,451	152,744
Paycheck Protection Program support (Note 9D)	425,916	-	425,916	-	-	-
Auxiliary activities (Note 7)	671,056	-	671,056	925,971	925,971	-
Other income	106,884	-	106,884	97,702	97,702	-
Net assets released from restrictions (Note 11)	465,022	(465,022)	-	-	653,229	(653,229)
<b>TOTAL OPERATING REVENUE, SUPPORT AND OTHER</b>	<b>4,478,255</b>	<b>(280,725)</b>	<b>4,197,530</b>	<b>4,288,383</b>	<b>4,281,839</b>	<b>6,544</b>
<b>OPERATING EXPENSES:</b>						
Programs (Note 8)	2,094,932	-	2,094,932	2,596,057	2,596,057	-
Auxiliary activities (Note 7)	600,228	-	600,228	738,924	738,924	-
Management and general	688,961	-	688,961	573,325	573,325	-
Fundraising	691,305	-	691,305	713,115	713,115	-
<b>TOTAL OPERATING EXPENSES</b>	<b>4,075,426</b>	<b>-</b>	<b>4,075,426</b>	<b>4,621,421</b>	<b>4,621,421</b>	<b>-</b>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	<b>402,829</b>	<b>(280,725)</b>	<b>122,104</b>	<b>(333,038)</b>	<b>(339,582)</b>	<b>6,544</b>
<b>NON-OPERATING REVENUE, (EXPENSES) AND OTHER (Note 2O):</b>						
Perpetual contributions	-	-	-	250,000	-	250,000
Change in value of bequest held in perpetual trust	-	(17,085)	(17,085)	(584)	-	(584)
Purchases of art and other publications (Note 2C)	(15,000)	-	(15,000)	(51,888)	(51,888)	-
Investment activity, net (Note 6)	130,864	114,645	245,509	384,373	179,178	205,195
Board appropriation of perpetual earnings (Note 11)	288,600	(288,600)	-	-	253,200	(253,200)
Museum's 5% spending policy (Note 2F)	(355,407)	-	(355,407)	(340,293)	(340,293)	-
Depreciation and amortization (Note 4)	(130,747)	-	(130,747)	(148,674)	(148,674)	-
<b>TOTAL NON-OPERATING REVENUE, (EXPENSES) AND OTHER</b>	<b>(81,690)</b>	<b>(191,040)</b>	<b>(272,730)</b>	<b>92,934</b>	<b>(108,477)</b>	<b>201,411</b>
<b>CHANGE IN NET ASSETS</b>	<b>321,139</b>	<b>(471,765)</b>	<b>(150,626)</b>	<b>(240,104)</b>	<b>(448,059)</b>	<b>207,955</b>
Net assets - beginning of year	363,878	9,632,835	9,996,713	10,236,817	811,937	9,424,880
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 685,017</b>	<b>\$ 9,161,070</b>	<b>\$ 9,846,087</b>	<b>\$ 9,996,713</b>	<b>\$ 363,878</b>	<b>\$ 9,632,835</b>

The accompanying notes are an integral part of these financial statements.

**AMERICAN FOLK ART MUSEUM**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2020**  
**(With Comparative Totals For June 30, 2019)**

	For the Year Ended June 30, 2020					
	<u>Programs</u>	<u>Auxiliary Activities</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total 2020</u>	<u>Total 2019</u>
Salaries	\$ 1,042,591	\$ 199,501	\$ 364,791	\$ 433,388	\$ 2,040,271	\$ 1,972,162
Payroll taxes and fringe benefits (Note 10)	217,750	38,642	78,687	93,526	428,605	431,843
<b>Total Personnel Costs</b>	1,260,341	238,143	443,478	526,914	2,468,876	2,404,005
Occupancy (Note 9B)	242,673	9,100	20,364	31,437	303,574	367,050
Supplies	90,092	5,858	10,909	220	107,079	163,388
Inventory purchases	-	310,865	-	-	310,865	424,760
Travel and transportation	16,445	2,316	3,360	12,236	34,357	57,709
Conferences, meetings and events	10,165	251	552	190,404	201,372	198,659
Insurance	17,144	-	30,286	-	47,430	84,178
Repairs and maintenance	63,785	46	3,373	4,873	72,077	31,592
Professional fees	133,629	875	82,172	57,292	273,968	335,451
Dues, memberships and other fees	6,149	12,946	43,918	5,423	68,436	73,204
Equipment rental and maintenance	34,460	6,086	34,206	22,809	97,561	97,342
Advertising	2,691	-	1,148	1,996	5,835	19,259
Security	81,283	-	708	1,023	83,014	141,140
Printing, publications and postage	107,694	12,739	2,127	4,742	127,302	312,241
Miscellaneous	28,381	1,003	12,360	2,560	44,304	60,034
Direct costs of special events	-	-	-	(170,624)	(170,624)	(148,591)
<b>TOTAL OPERATING EXPENSES</b>	2,094,932	600,228	688,961	691,305	4,075,426	4,621,421
Depreciation and amortization (Note 4)	75,833	37,917	8,498	8,499	130,747	148,674
Purchases of art and other publications	15,000	-	-	-	15,000	51,888
<b>TOTAL EXPENSES</b>	<u>\$ 2,185,765</u>	<u>\$ 638,145</u>	<u>\$ 697,459</u>	<u>\$ 699,804</u>	<u>\$ 4,221,173</u>	<u>\$ 4,821,983</u>

The accompanying notes are an integral part of these financial statements.

**AMERICAN FOLK ART MUSEUM**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2019**

	For the Year Ended June 30, 2019				
	<u>Programs</u>	<u>Auxiliary Activities</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total 2019</u>
Salaries	\$ 1,092,258	\$ 193,635	\$ 273,854	\$ 412,415	\$ 1,972,162
Payroll taxes and fringe benefits (Note 10)	239,171	42,400	59,966	90,306	431,843
<b>Total Personnel Costs</b>	1,331,429	236,035	333,820	502,721	2,404,005
Occupancy (Note 9B)	275,287	11,012	33,034	47,717	367,050
Supplies	136,651	11,908	12,557	2,272	163,388
Inventory purchases	-	424,760	-	-	424,760
Travel and transportation	24,725	2,014	9,826	21,144	57,709
Conferences, meetings and events	18,415	753	7,017	172,474	198,659
Insurance	61,754	10,576	11,848	-	84,178
Repairs and maintenance	25,709	5,883	-	-	31,592
Professional fees	241,760	986	57,458	35,247	335,451
Dues, memberships and other fees	2,463	16,536	35,609	18,596	73,204
Equipment rental and maintenance	30,097	-	47,238	20,007	97,342
Advertising	15,407	-	-	3,852	19,259
Security	141,140	-	-	-	141,140
Printing, publications and postage	259,915	16,166	2,863	33,297	312,241
Miscellaneous	31,305	2,295	22,055	4,379	60,034
Direct costs of special events	-	-	-	(148,591)	(148,591)
<b>TOTAL OPERATING EXPENSES</b>	2,596,057	738,924	573,325	713,115	4,621,421
Depreciation and amortization (Note 4)	86,231	43,788	9,328	9,327	148,674
Purchases of art and other publications	51,888	-	-	-	51,888
<b>TOTAL EXPENSES</b>	<u>\$ 2,734,176</u>	<u>\$ 782,712</u>	<u>\$ 582,653</u>	<u>\$ 722,442</u>	<u>\$ 4,821,983</u>

The accompanying notes are an integral part of these financial statements.

**AMERICAN FOLK ART MUSEUM  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (150,626)	\$ (240,104)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	130,747	148,674
Change in value of bequest	17,085	584
Realized loss (gain) on investment	386	(604)
Unrealized gains on investment	(46,653)	(260,551)
Perpetual contributions	<u>-</u>	<u>(250,000)</u>
Subtotal	(49,061)	(602,001)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts and government grants receivable	102,665	(170,383)
Prepaid expenses and other assets	94,908	22,519
Pledges receivable	200,000	825,295
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(154,279)	85,561
Deferred rent	(7,384)	40,196
Accrued salaries and vacation	<u>20,331</u>	<u>(62,001)</u>
<b>Net Cash Provided by Operating Activities</b>	<u>207,180</u>	<u>139,186</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Property and equipment acquisitions	(17,488)	(81,939)
Purchase of investments	(263,028)	(343,057)
Proceeds from the sale of investments	<u>338,639</u>	<u>72,204</u>
<b>Net Cash Provided by (Used in) Investing Activities</b>	<u>58,123</u>	<u>(352,792)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Perpetual contributions	<u>-</u>	<u>250,000</u>
<b>Net Cash Provided by Financing Activities</b>	<u>-</u>	<u>250,000</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	265,303	36,394
Cash and cash equivalents - beginning of year	<u>133,865</u>	<u>97,471</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 399,168</u>	<u>\$ 133,865</u>

The accompanying notes are an integral part of these financial statements.



**AMERICAN FOLK ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES**

The American Folk Art Museum (the “Museum”) was founded in 1961 and is organized under the New York State Education Department. The Museum has been granted exemption as an educational institution from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code.

The Museum is devoted principally to preserving and interpreting the rich and diverse folk art heritage of the United States through the development of a permanent collection and the presentation of exhibitions, educational programs, special events and publications of the highest quality. Recognizing that American folk art can be best understood in a global context, the Museum also presents programs related to folk art and related traditions from elsewhere in the world.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. *Basis of Accounting***

The Museum's financial statements have been prepared on the accrual basis of accounting. The Museum adheres to accounting principles generally accepted in the United States of America (“U.S. GAAP”).

**B. *Basis of Presentation***

The Museum's net assets and revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, the net assets of the Museum and changes therein are classified and reported as follows:

- a) Without donor restrictions – includes the net assets that do not have donor-imposed restrictions. The Museum's net assets without donor restrictions have been further classified as follows:
  - Investment in property and equipment - represents the net book value of property and equipment less any liabilities related to those assets.
  - Operational net deficit – represents the net assets without donor restrictions available for daily operations.
- b) With donor restrictions - includes gifts of cash and other assets received with donor stipulations that limit the use of donated assets. The Museum's net assets with donor restrictions have been further classified as follows:
  - Time and purpose restricted – represents the net assets subject to donor imposed stipulations that will be met either by actions of the Museum or the passage of time, and also the unappropriated endowment earnings.
  - Perpetual in nature – represents assets that must remain intact in perpetuity.

Revenues are reported as increases in net assets without donor restrictions unless their use is limited by donor imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

**AMERICAN FOLK ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. *Accounting for Collections***

The Museum is dedicated to preserving the rich folk art heritage of America through the presentation of exhibitions, educational programs, and publications of the highest quality. Works of folk art from the Museum's permanent collection are displayed in the Museum facility. Temporary exhibitions, featuring objects from the permanent collection, as well as from important museum and private collections across the country, are organized for presentation at the Museum. The collections are maintained for public exhibition, education and research in furtherance of public service, rather than for financial gain. Each of the items is catalogued, preserved, and cared for, and activities verifying their existence and assessing their condition are performed periodically.

In conformity with accounting policies generally followed by art museums, the collections, which were acquired through purchases and contributions since the Museum's inception, are not recognized as assets. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired. Proceeds from de-accessions or insurance recoveries are reflected as increases in net assets without donor restrictions. Proceeds from the sale of collections are used to acquire other items for collections.

Purchases of collection items in the amount of \$15,000 and \$51,888 were made during the years ended June 30, 2020 and 2019, respectively, and are included in program expenses in the accompanying statements of activities.

**D. *Property and Equipment***

The Museum records property and equipment at cost less accumulated depreciation and amortization. These amounts do not purport to be at fair value. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of their useful life or the term of the applicable lease. Assets with a useful life greater than one year and a cost of \$5,000 or more are capitalized by the Museum.

**E. *Cash and Cash Equivalents***

The Museum considers all highly liquid instruments purchased with original maturities of 90 days or less to be cash equivalents. Certain cash equivalents held in the investment portfolio are classified as investments in the statements of financial position.

**F. *Investments and Fair Value Measurements***

Investments are stated at fair value. Fair value measurements are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels, as described in Note 6. The fair value of alternative investments is based upon values provided by the investment manager, which are reviewed for reasonableness by management. Investment transactions are accounted for on the date the investments are purchased or sold (trade date).

Realized gains and losses are determined as the difference between the sales proceeds of an investment and the cost. Unrealized gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Interest income and dividend income are recorded as earned. The Museum has a spending policy of up to 5% of the fair value of the investments over a trailing period of three years. The amount, up to 5%, is allotted to operations.

**AMERICAN FOLK ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G. *Allowance for Doubtful Accounts and Pledges Receivable***

The Museum's allowance for doubtful accounts for: pledges, accounts receivable and government grants receivable is based on management's estimates of the creditworthiness of its contributors, current economic conditions and historical information. The allowance for doubtful pledges amounted to \$10,000 as of both June 30, 2020 and 2019. There was no allowance for accounts and government grants receivable as of June 30, 2020 and 2019. Pledges that are expected to be collected in future years are computed using risk-adjusted interest rates applicable to the years in which the pledges are received unless such discount is immaterial.

The Museum received conditional pledges that are not recognized as income since the conditions were not met. Such conditional pledges amounted to \$500,000 as of both June 30, 2020 and 2019.

**H. *Donated Goods and Services***

A number of unpaid volunteers have made significant contributions of their time in furtherance of the Museum's programs covering most phases of the Museum's activities, except maintenance and art handling. Volunteers provide administrative assistance in various areas of the Museum and support the visitor information desk. The Museum does not reflect the value of such services since they do not meet the criteria for recognition. In addition, the Museum's Lincoln Square gallery license provides for a nominal annual fee. The fair rental value of the space is not recorded as income and expense.

**I. *Membership Dues***

The Museum receives revenue from membership dues which are accounted for under Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09. Revenue is reported at the amount that reflects the consideration to which the Museum expects to be entitled in exchange for providing the contracted services. Membership dues for individual membership categories are recognized as revenue in the year in which they are earned.

All performance obligations relate to membership contracts with a duration of less than one year, therefore, there are no performance obligations or contract balances that are unsatisfied as of June 30, 2020 and 2019. Membership dues amounted to \$103,879 and \$158,111 for the years ended June 30, 2020 and 2019, respectively.

**J. *Traveling Exhibitions***

The Museum receives revenue from traveling exhibitions which are accounted for under FASB ASU 2014-09. The traveling exhibition fees are sponsorships recognized as income when the exhibition opens. Amounts received in advance are considered deferred revenue. Traveling exhibitions amounted to approximately \$21,000 and \$15,000 for the years ended June 30, 2020 and 2019, respectively, and are included in contributions and membership dues on the statements of activities.

**K. *Inventory***

Inventory amounted to \$151,474 and \$146,226 as of June 30, 2020 and 2019, respectively. Inventory is valued at the lower of cost or net realizable value, as determined on the first-in first-out method. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predicable costs of completion, disposal and transportation.

**L. *Bequests and Other***

The Museum recognizes bequests when the cash or donated assets are received. Donated noncash assets are recorded at fair value in the period received.

**AMERICAN FOLK ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**M. *Deferred Rent***

The Museum records rent expense for operating leases with scheduled rent increases on a straight-line basis over the term of the lease with the difference between the expense and rental payments recorded as an increase or decrease to the deferred rent liability on the statements of financial position.

**N. *Functional Allocation of Expenses***

The cost of providing the programs, auxiliary activities, management and general and fundraising has been summarized on a functional basis in the statements of functional expenses. Accordingly, expenses that are not directly charged to the programs, auxiliary activities, management and general and fundraising have been allocated. The expenses that are allocated include salaries, payroll taxes, and benefits which are allocated on the basis of estimates of time and effort as well as occupancy and depreciation and amortization which is allocated on a square footage basis.

**O. *Statements of Activities – Non-Operating***

The Museum reflects in non-operating activities:

- Perpetual contributions
- Purchases of artworks and any corresponding release of net assets pertaining to such purchases
- Investment activity, net and a corresponding reduction to such amount representing its 5% (up to) spending policy to operations
- Board appropriation of perpetual earnings
- Depreciation and amortization
- Change in value of bequests

**P. *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 revenues and expenses during the reported period. Actual results could differ from those estimates.

**Q. *Government Support***

Government grants and contracts are nonexchange transactions and accounted for under FASB ASU 2018-08. Grants and contracts are recognized as revenue when barriers within the contract are overcome, and there is no right of return. Government grants revenue amounted to \$247,210 and \$375,195 for the years ended June 30, 2020 and 2019, respectively.

As of June 30, 2020, and 2019, the Museum received conditional grants and contracts from government agencies in the aggregate amount of approximately \$519,600 and \$105,000 for future years, respectively. Such grants have not been recognized in the accompanying financial statements as they are for future periods and will be recognized when contract barriers are overcome. Such barriers include expending these funds in accordance with their agreements. If such services are not provided, the governmental entities are not obligated to expend the funds allotted under the grants and contracts and the Museum may be required to return the funds already remitted.

**R. *Recent Accounting Pronouncements***

The FASB issued ASU 2018-08, "Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made" (Topic 958) which was adopted by the Museum for the year ended June 30, 2020. The core guidance is to assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and determining whether a contribution or government grant is conditional as described in Note 2Q. The adoption of the ASU did not affect net assets as previously reported.

**AMERICAN FOLK ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The FASB also issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)”. The core guidance in ASU 2014-09 is to recognize revenue to depict the transfer of services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. The adoption of this ASU did not affect net assets as previously reported.

**S. Reclassifications**

Certain line items in the June 30, 2019 financial statements have been reclassified to conform to the June 30, 2020 presentation. These changes had no impact on the change in net assets for the year ended June 30, 2019.

**NOTE 3 – LIQUIDITY AND AVAILABILITY**

The Museum regularly monitors liquidity required to meet its needs and general expenditures, while also striving to maximize the investment of its available funds. The Museum defines general expenditures as all costs to operate the Museum and the Museum’s shop and are funded by net assets without donor restrictions and net assets with purpose restrictions. The Museum has various sources of liquidity at its disposal, including cash and cash equivalents, accounts and government grants receivable, pledges receivable, and investments.

Financial assets available for needs and general expenditures within one year of the balance sheet date comprise the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 399,168	\$ 133,865
Accounts and government grant receivable	170,906	273,571
Pledges receivable, net	306,400	506,400
Investments	<u>7,276,773</u>	<u>7,306,117</u>
	8,153,247	8,219,953
Less: Investments held in perpetuity	(5,253,024)	(5,270,109)
Less: Pledges between 1 and 5 years	<u>(150,000)</u>	<u>(225,000)</u>
	<u>\$ 2,750,223</u>	<u>\$ 2,724,844</u>

**NOTE 4 – PROPERTY AND EQUIPMENT**

Property and equipment consists of the following as of June 30:

	<u>2020</u>	<u>2019</u>	<u>Estimated Useful Lives</u>
Leasehold improvements	\$ 1,281,216	\$ 1,265,328	5-18 years
Furniture and equipment	<u>486,199</u>	<u>484,599</u>	5-10 years
Total cost	1,767,415	1,749,927	
Less: accumulated depreciation and amortization	<u>(1,071,967)</u>	<u>(941,220)</u>	
Net book value	<u>\$ 695,448</u>	<u>\$ 808,707</u>	

Depreciation and amortization expense amounted to \$130,747 and \$148,674 for the years June 30, 2020 and 2019, respectively.

**AMERICAN FOLK ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**NOTE 5 – PLEDGES RECEIVABLE**

Pledges are expected to be collected as follows as of June 30:

	<u>2020</u>	<u>2019</u>
In less than one year	\$ 166,400	\$ 291,400
Between one and five years	<u>150,000</u>	<u>225,000</u>
	316,400	516,400
Less: Allowance for doubtful pledges	<u>(10,000)</u>	<u>(10,000)</u>
	<u>\$ 306,400</u>	<u>\$ 506,400</u>

**NOTE 6 – INVESTMENTS AND FAIR VALUE MEASUREMENTS**

Investments consist of the following as of June 30:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 82,013	\$ 121,067
Fixed income	1,777,989	1,297,094
Equity	4,555,509	5,037,152
Alternative investments	<u>861,262</u>	<u>850,804</u>
Total Investments	7,276,773	7,306,117
Beneficial Interest in Perpetual Trust	<u>952,372</u>	<u>969,457</u>
Total	<u>\$ 8,229,145</u>	<u>\$ 8,275,574</u>

The Museum's Board has established a finance and investment committee, chaired by the Treasurer. The committee's terms of reference for investment matters, and an investment policy, have been approved by the Board. Investments are subject to market volatility that could substantially change their value in the near term. Investment activity consists of the following for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 239,856	\$ 161,985
Realized (loss) gain on investment sales	(386)	604
Unrealized gains on investments	46,653	260,551
Change in value of bequest	<u>(17,085)</u>	<u>(584)</u>
	269,038	422,556
Less: investment expenses	<u>(40,614)</u>	<u>(38,767)</u>
	<u>\$ 228,424</u>	<u>\$ 383,789</u>

The fair value hierarchy defines three levels as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Museum has the ability to access.

Level 2 - Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the assets or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

**AMERICAN FOLK ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**NOTE 6 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)**

Financial assets measured at fair value on a recurring basis as of June 30, 2020 are presented in the following table:

	<u>Level 1</u>	<u>Level 2</u>	<u>Valued at NAV</u>	<u>Total 2020</u>
Investments:				
Cash and money market funds	\$ 82,013	\$ -	\$ -	\$ 82,013
US fixed income funds	1,274,126	-	-	1,274,126
Non-US fixed income funds	503,863	-	-	503,863
Equity funds:				
US Large Cap	3,108,438	-	-	3,108,438
Europe Asia and Far East Equity	1,035,930	-	-	1,035,930
European Large Cap Equity	187,602	-	-	187,602
Japanese Large Cap Equity	159,318	-	-	159,318
Asia Ex-Japan Equity	64,221	-	-	64,221
Alternative investments	-	-	861,262	861,262
Beneficial interest in perpetual trust	-	952,372	-	952,372
Total Assets at Fair Value	<u>\$ 6,415,511</u>	<u>\$ 952,372</u>	<u>\$ 861,262</u>	<u>\$ 8,229,145</u>

Financial assets measured at fair value on a recurring basis as of June 30, 2019 are presented in the following table:

	<u>Level 1</u>	<u>Level 2</u>	<u>Valued at NAV</u>	<u>Total 2019</u>
Investments:				
Cash and money market funds	\$ 121,067	\$ -	\$ -	\$ 121,067
US fixed income funds	943,443	-	-	943,443
Non-US fixed income funds	353,651	-	-	353,651
Equity funds:				
US Large Cap	3,234,374	-	-	3,234,374
Europe Asia and Far East Equity	1,465,076	-	-	1,465,076
European Large Cap Equity	72,589	-	-	72,589
Japanese Large Cap Equity	189,711	-	-	189,711
Asia Ex-Japan Equity	75,402	-	-	75,402
Alternative investments	-	-	850,804	850,804
Beneficial interest in perpetual trust	-	969,457	-	969,457
Total Assets at Fair Value	<u>\$ 6,455,313</u>	<u>\$ 969,457</u>	<u>\$ 850,804</u>	<u>\$ 8,275,574</u>

Investments in money market funds, equity funds, US fixed income securities, and non-US fixed income securities are valued using the closing prices on the active market in which they are traded (Level 1). The investment in beneficial interest in perpetual trust is classified as Level 2 as the underlying investments of the trust are mutual funds that are actively traded.

As of June 30, 2020 and 2019, the Museum's alternative investment in a hedge fund was recorded at fair value as reported by investment managers, in an amount equal to the net asset value ("NAV") of shares of units held by the Museum at year-end. The financial statements of this hedge fund are prepared in accordance with U.S. GAAP and are audited annually by independent auditors. As of June 30, 2020 and 2019, the Museum had no unfunded commitments to invest in this hedge fund. The hedge fund's investment strategies include diversified portfolio allocations across a broad range of equity and limited liability company investments, and may include long and short positions in publicly traded equity securities across various industries and geographies.

**AMERICAN FOLK ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**NOTE 6 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)**

Redemptions, at NAV, of shares in these investments range from quarterly to annually, generally with 30 to 90 days' redemption notice, and typically after the expiration of a defined lock-up period. The Board reviews and approves the Museum's fair value measurement policies and procedures annually. At least annually, the finance committee and the Board determine if the valuation techniques used in fair value measurements are still appropriate. The table below presents information about fair value measurements at June 30 that are measured at NAV:

	<u>2020</u>	<u>2019</u>
Beginning balance	\$ 850,804	\$ 833,438
Gains/losses (realized/unrealized)	<u>10,458</u>	<u>17,366</u>
Ending balance	<u>\$ 861,262</u>	<u>\$ 850,804</u>

The Museum recognizes transfers between levels in the fair value hierarchy at the end of the reporting period. There were no such transfers during the years ended June 30, 2020 and 2019.

**NOTE 7 – AUXILIARY ACTIVITIES**

Auxiliary activities consist primarily of goods sold at the Museum's shop located at Lincoln Square in New York City and are accounted for under FASB ASU 2014-09. The Museum has a number of licensing agreements with various companies (generally for up to three years), for which it receives royalties from the sale of reproductions of items in the Museum's collection made by the licensees. Revenue and expenses for auxiliary activities consist of the following for the years ended June 30:

	<u>2020</u>		<u>2019</u>	
	<u>Revenues</u>	<u>Expenses</u>	<u>Revenues</u>	<u>Expenses</u>
Book and gift shops	\$ 651,759	\$ 600,228	\$ 903,440	\$ 738,924
Reproduction rights	<u>19,297</u>	<u>-</u>	<u>22,531</u>	<u>-</u>
	<u>\$ 671,056</u>	<u>\$ 600,228</u>	<u>\$ 925,971</u>	<u>\$ 738,924</u>

**NOTE 8 – PROGRAM EXPENSES**

Program expenses result primarily from costs associated with the Museum's gallery, exhibitions and education, as well as the Museum's library, including a proportionate share of insurance, rent, utilities and maintenance costs and the purchase of art works.

**NOTE 9 – COMMITMENTS AND CONTINGENCIES**

- A. The Museum has a license agreement to occupy space in a public area at Lincoln Square and to provide access to works of art and items related thereto. The licensing agreement requires a nominal annual fee and expires in 2075. If the Museum vacates the area earlier than the end of the license term, the Museum may be obligated to pay approximately \$400,000 to the landlord. If the Museum were to negotiate the assignment of the license, the Museum would be exempt from such obligation.
- B. The minimum annual lease payments for the Museum's Long Island City location are as follows for the five years ending subsequent to June 30, 2020 and thereafter:

2021	\$ 180,010
2022	186,395
2023	190,442
2024	194,695
2025	<u>81,123</u>
	<u>\$ 832,665</u>



**AMERICAN FOLK ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**NOTE 9 – COMMITMENTS AND CONTINGENCIES (Continued)**

Rent expense (including real estate tax escalation charges and the effects of straight-lining) amounted to \$249,352 and \$266,584, for the years ended June 30, 2020 and 2019, respectively and is included in occupancy expense in the accompanying financial statements.

- C. The Museum believes it has no uncertain tax positions as of June 30, 2020 and 2019 as defined in Accounting Standards Codification (“ASC”) Topic 740, *Income Taxes*, which provides standards for establishing and classifying tax expense for uncertain tax positions.
- D. The COVID-19 pandemic disrupted activities of the Museum and remains an evolving situation. The extent of the impact of COVID-19 on the Museum’s business and financial results will depend on future developments, including the duration and spread of the outbreak and government’s response to it, all of which are highly uncertain. The Museum continues to monitor evolving economic and general business conditions and the actual and potential impacts on its financial position and results of operations.

On March 27, 2020, in response to the pandemic, the federal government passed the Coronavirus Aid, Relief, and Economic Stability Act (“CARES Act”). Among many other provisions, to help businesses retain employees, the CARES Act provides relief to qualifying businesses through a program called the Paycheck Protection Program (“PPP”). Participating in the PPP enabled the Museum to obtain a loan from the Small Business Administration (“SBA”) sector of the government. The Museum received the PPP loan in the amount of \$425,916 on April 13, 2020. For the year ended June 30, 2020, the Museum accounted for the PPP loan under FASB ASC 958-605 and concluded that loan forgiveness is imminent as all barriers to overcome the forgiveness conditions have been met. Therefore, in substance, the PPP loan is revenue resulting from the expected forgiveness and legal release from the SBA as all conditions have been met. In February 2021, the loan was forgiven by the SBA.

- E. The Museum is subject to legal proceedings and claims that have recently been filed, and is unable to anticipate the impact, if any, these will have on the financial statements.

**NOTE 10 – PENSION PLANS**

The Museum maintains two pension plans under Internal Revenue Code Section 403(b) for all eligible employees. Under the tax deferred annuity plan, there is no employer match of employee contributions by the Museum. Under the defined contribution retirement plan, the Museum matches employee contributions to this plan up to a maximum of the greater of 3% of gross compensation of the employee or their contribution. For the years ended June 30, 2020 and 2019, the Museum contributed to this plan \$44,282 and \$46,050, respectively. Employees become eligible upon completing three months of service to the Museum.

**NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions include the following as of June 30:

	<u>2020</u>	<u>2019</u>
Program restricted	\$ 3,036,671	\$ 3,277,092
Unappropriated endowment earnings (see below)	258,935	432,890
Time restricted for future periods	<u>612,440</u>	<u>652,744</u>
Total time and purpose restricted	<u>3,908,046</u>	<u>4,362,726</u>
Museum’s 50% beneficial interest in a trust	952,372	969,457
Investments held in perpetuity	<u>4,300,652</u>	<u>4,300,652</u>
Perpetual in nature	<u>5,253,024</u>	<u>5,270,109</u>
Total	<u>\$ 9,161,070</u>	<u>\$ 9,632,835</u>

**AMERICAN FOLK ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS (Continued)**

Time and purpose restricted net assets of \$465,022 and \$653,229 for the years ended June 30, 2020 and 2019, respectively, were released from donor restrictions by incurring costs (or through the passage of time), thereby satisfying the restrictions specified by the donors.

The Museum receives annual income without restrictions (dividends and interest) from the investment assets pertaining to its 50% beneficial interest in a trust. These funds are held in perpetuity by a third party trustee. Realized and unrealized gains or losses remain in the fund assets as net assets with donor restrictions held in perpetuity. The assets of the trust consist primarily of fixed income securities and money market funds, and the Museum's ownership interest is stated at fair value. All other funds' earnings are without restrictions by the donor during the year ended June 30, 2020.

The change in the beneficial interest in the perpetual trust for the years ended June 30, 2020 and 2019 relates to the change in the value of such trust. All other net assets held in perpetuity are included in investments on the statements of financial position as of June 30, 2020 and 2019, respectively.

The Museum adheres to the New York Prudent Management of Institutional Funds Act ("NYPMIFA"). NYPMIFA contains a rebuttable presumption of imprudence if an organization appropriates more than 7% of a donor-restricted perpetual endowment fund's fair value (averaged over a period not less than the preceding five years) in any year. In addition, in accordance with U.S. GAAP, any unappropriated earnings on endowment funds that would otherwise be considered without restrictions by the donor are reflected as net assets with donor restrictions until appropriated by the Board of Trustees. The policy for valuing the Museum's investments is described in Note 2F.

The Board of Trustees of the Museum has interpreted New York State law as allowing the Museum to appropriate for expenditure or accumulate so much of an endowment fund as the Museum determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless restricted by donor in the gift instrument, the earnings (realized and unrealized gains/losses, dividends and interest) in the endowment fund shall be net assets with donor restriction until appropriated for expenditure by the Board of Trustees. See Note 2B for how the Museum maintains its net assets.

The Museum's endowment investment policy is to invest primarily in equities, fixed income and alternative investments based on an asset allocation, approved by the Board of Trustees, to satisfy overall endowment financial and investment objectives such as to preserve the principal, protect against inflation, receive stable returns and achieve long-term growth. The Museum 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).

Changes in endowment net assets including net assets perpetual in nature for the year ended June 30, 2020 are as follows:

	Unappropriated endowment earnings	Perpetual In nature	2020 Total
Endowment net assets, beginning of year	\$ 432,890	\$ 4,300,652	\$ 4,733,542
Contributions	-	-	-
Investment activity	114,645	-	114,645
Board appropriation for expenditures	<u>(288,600)</u>	<u>-</u>	<u>(288,600)</u>
Endowment net assets, end of year	<u>\$ 258,935</u>	<u>\$ 4,300,652</u>	<u>\$ 4,559,587</u>

**AMERICAN FOLK ART MUSEUM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS (Continued)**

Changes in endowment net assets including net assets perpetual in nature for the year ended June 30, 2019 are as follows:

	Unappropriated endowment earnings	Perpetual in nature	2019 Total
Endowment net assets, beginning of year	\$ 480,895	\$ 4,050,652	\$ 4,531,547
Contributions	-	250,000	250,000
Investment activity	205,195	-	205,195
Board appropriation for expenditures	<u>(253,200)</u>	<u>-</u>	<u>(253,200)</u>
Endowment net assets, end of year	<u>\$ 432,890</u>	<u>\$ 4,300,652</u>	<u>\$ 4,733,542</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor required the Museum to retain as a fund of perpetual duration due to appropriation for expenditure or unfavorable market fluctuations. In accordance with the Museum's policy, deficiencies of this nature are reported in net assets either with or without donor restrictions. As of June 30, 2020 and 2019, there were no such deficiencies.

**NOTE 12 – DEFICIT NET ASSETS**

Without donor restricted net assets available for operations increased by approximately \$430,000 from (\$444,829) as of June 30, 2019 to \$(10,431) as of June 30, 2020. Management is committed to creating and maintaining a break-even budget going forward, in order to stabilize the use of such net assets. Additionally, management is working to improve the net assets available for operations in the next few years, by increasing revenues and decreasing expenses.

**NOTE 13 – SUBSEQUENT EVENTS**

The Museum participated in the second round of PPP, which enabled the Museum to obtain a loan from the Small Business Administration sector of the government. The Museum received the PPP loan in the amount of \$420,557 on March 16, 2021.

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the statement of financial position through May 17, 2021, the date the financial statements were available to be issued.