

AMERICAN FOLK ART MUSEUM



Financial Statements
(Together with Independent Auditors' Report)

YEARS ENDED JUNE 30, 2015 AND 2014

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, 2015 AND 2014

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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, 2015 and 2014, and the related statements of activities 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 State 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit 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, 2015 and 2014, 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
December 21, 2015



**AMERICAN FOLK ART MUSEUM
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2015 AND 2014**

	2015	2014
ASSETS		
Cash and cash equivalents (Notes 2E and 12)	\$ 705,038	\$ 805,942
Accounts and government grants receivable (Note 2G)	56,837	95,556
Prepaid expenses and other assets (Note 2K)	343,676	346,606
Pledges receivable, net (Notes 2G and 4)	1,387,000	383,933
Investments (Notes 2F, 2N, 5 and 11)	5,237,431	6,659,156
Property and equipment, net (Notes 2D and 3)	1,154,721	175,472
Bequest held in perpetual trust - permanently restricted (Notes 2N, 10 and 11)	984,980	1,032,008
TOTAL ASSETS	\$ 9,869,683	\$ 9,498,673
LIABILITIES		
Accounts payable and accrued expenses	\$ 184,660	\$ 129,354
Deferred rent (Note 2M)	83,154	49,157
Deferred revenue (Note 2P)	31,550	-
Accrued salaries and vacation	104,184	92,991
TOTAL LIABILITIES	403,548	271,502
COMMITMENTS AND CONTINGENCIES (Note 8)		
NET ASSETS (Note 2B)		
Unrestricted	2,487,124	2,988,443
Temporarily restricted (Note 10)	4,233,380	4,446,069
Permanently restricted (Note 10)	2,745,631	1,792,659
TOTAL NET ASSETS	9,466,135	9,227,171
TOTAL LIABILITIES AND NET ASSETS	\$ 9,869,683	\$ 9,498,673

**AMERICAN FOLK ART MUSEUM
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	For the Year Ended June 30, 2015				For the Year Ended June 30, 2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2014
OPERATING REVENUE, SUPPORT AND OTHER (Note 2Q) :								
Contributions	\$ 636,020	\$ 302,717	\$ -	\$ 938,737	\$ 787,183	\$ 312,335	\$ -	\$ 1,099,518
Support from foundations and corporations	175,000	861,000	-	1,036,000	145,501	350,500	-	496,001
Special events and benefits, net of direct expense of \$173,548 in 2015 and \$101,978 in 2014 (Note 2O)	822,824	-	-	822,824	377,889	-	-	377,889
Investment activity - 5% spending policy (Note 2F)	270,617	-	-	270,617	-	-	-	-
Government support	205,800	-	-	205,800	322,445	-	-	322,445
Membership (Note 2I)	199,543	-	-	199,543	205,714	-	-	205,714
Auxiliary activities (Note 6)	895,783	-	-	895,783	777,164	-	-	777,164
Other income	175,598	-	-	175,598	128,661	-	-	128,661
Net assets released from restrictions (Note 10)	1,383,588	(1,383,588)	-	-	1,870,345	(1,870,345)	-	-
TOTAL OPERATING REVENUE, SUPPORT AND OTHER	4,764,773	(219,871)	-	4,544,902	4,614,902	(1,207,510)	-	3,407,392
OPERATING EXPENSES (Notes 2O and 2Q):								
Programs (Note 7)	3,095,403	-	-	3,095,403	2,578,476	-	-	2,578,476
Auxiliary activities (Note 6)	676,767	-	-	676,767	634,489	-	-	634,489
Membership	142,078	-	-	142,078	156,566	-	-	156,566
Management and general	416,340	-	-	416,340	562,852	-	-	562,852
Fundraising	430,320	-	-	430,320	451,662	-	-	451,662
TOTAL OPERATING EXPENSES	4,760,908	-	-	4,760,908	4,384,045	-	-	4,384,045
CHANGE IN NET ASSETS FROM OPERATIONS	3,865	(219,871)	-	(216,006)	230,857	(1,207,510)	-	(976,653)
NON-OPERATING REVENUE, EXPENSES AND OTHER (Note 2Q):								
Contributions - permanently restricted	-	-	1,000,000	1,000,000	-	-	-	-
Purchases of artwork (Note 2C)	(46,875)	-	-	(46,875)	(106,325)	-	-	(106,325)
Net assets released from restrictions for purchases of artwork	46,875	-	-	46,875	106,325	-	-	106,325
Moving expenses and non-capital facility planning (Note 8A)	(272,666)	-	-	(272,666)	-	-	-	-
Investment activity, net (Notes 5 and 10)	92,587	7,182	(47,028)	52,741	773,830	99,289	87,190	960,309
Investment activity to operations - 5% spending policy (Note 2F)	(270,617)	-	-	(270,617)	-	-	-	-
Depreciation and amortization	(54,488)	-	-	(54,488)	(54,912)	-	-	(54,912)
TOTAL NON-OPERATING REVENUE, EXPENSES AND OTHER	(505,184)	7,182	952,972	454,970	718,918	99,289	87,190	905,397
CHANGE IN NET ASSETS	(501,319)	(212,689)	952,972	238,964	949,775	(1,108,221)	87,190	(71,256)
Net assets - beginning of year	2,988,443	4,446,069	1,792,659	9,227,171	2,038,668	5,554,290	1,705,469	9,298,427
NET ASSETS - END OF YEAR	\$ 2,487,124	\$ 4,233,380	\$ 2,745,631	\$ 9,466,135	\$ 2,988,443	\$ 4,446,069	\$ 1,792,659	\$ 9,227,171

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, 2015 AND 2014**

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 238,964	\$ (71,256)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization of property and equipment	54,489	54,912
Amortization of pledge discount	(67)	(2,052)
Change in value of bequest held in perpetual trust	47,028	(87,190)
Realized (gain) loss on investment	(44)	5,534
Unrealized loss (gain) on investment	27,957	(726,903)
Contribution permanently restricted	(1,000,000)	-
Subtotal	(631,673)	(826,955)
Changes in operating assets and liabilities:		
Decrease (increase) in assets:		
Accounts and government grants receivable	38,719	(32,571)
Prepaid expenses and other assets	2,930	(105,294)
Pledges receivable	(1,003,000)	1,996,000
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	55,306	45,117
Deferred rent	33,997	(2,158)
Deferred revenue	31,550	-
Accrued salaries and vacation	11,193	2,905
Net Cash (Used in) Provided by Operating Activities	(1,460,978)	1,077,044
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and equipment acquisitions	(1,033,738)	(74,876)
Purchase of investments	(256,726)	(791,937)
Proceeds from the sale of investments	1,650,538	239,822
Net Cash Provided by (Used in) Investing Activities	360,074	(626,991)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contribution permanently restricted	1,000,000	-
Net Cash Provided by Financing Activities	1,000,000	-
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(100,904)	450,053
Cash and cash equivalents - beginning of year	805,942	355,889
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 705,038	\$ 805,942

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

**AMERICAN FOLK ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

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 Presentation*

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:

- Unrestricted – represents resources available for support of the Museum's operations over which the Board of Trustees (the "Board") has discretionary control.
- Temporarily restricted net assets – 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.
- Permanently restricted – represents assets that must remain intact in perpetuity.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary 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.

C. *Accounting for Collections*

The Museum is the leading museum for folk art scholarship in the nation. 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 highlighted in a dramatic installation in the present 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.

**AMERICAN FOLK ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 unrestricted net assets in the year in which the items are acquired. Proceeds from de-accessions or insurance recoveries are reflected as increases in unrestricted net assets.

Purchases of collection items in the amount of \$46,875 and \$106,325 were made during the years ended June 30, 2015 and 2014, 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 and calculates depreciation 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 \$1,000 or more are capitalized by the Museum.

E. *Cash Equivalents*

The Museum considers all highly liquid instruments purchased with 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 Investment Income*

Investments are stated at fair value. 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 its investments over a trailing period of 5 years. The amount up to 5% is allotted to operations and any remaining positive or negative amount remains in non-operating. During the year ended June 30, 2014, the Museum decided not to allocate any amount to operations.

G. *Allowance for Doubtful Accounts*

The Museum's allowance for doubtful 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 and \$10,000 as of June 30, 2015 and 2014, respectively. There was no allowance for accounts and government grants receivable as of June 30, 2015 and 2014.

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*

Membership dues for individual membership categories are recognized as revenue in the year in which they are earned.

**AMERICAN FOLK ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. *Traveling Exhibitions*

Revenue fees for traveling exhibitions are recognized as income when the exhibition opens. Amounts received in advance are considered deferred revenue.

K. *Inventory*

Inventory amounted to \$98,623 and \$97,190 as of June 30, 2015 and 2014, respectively. Such amounts are included in prepaid expenses and other assets in the accompanying financial statements. Inventory consists primarily of goods sold at the Museum's shop. Such inventories are carried at the lower of cost or market, using the retail method.

L. *Bequests*

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

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. *Fair Value Measurements*

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 11.

O. *Expenses*

The Museum reflects depreciation and amortization expenses and certain non-recurring expenses separately in its statements of activities. Under U.S GAAP, such expenses must be allocated to the appropriate functional expenses. Accordingly, the Museum's functional expenses for the years ended June 30, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Programs	\$ 3,140,083	\$ 2,623,504
Auxiliary activities	676,767	637,784
Membership	142,078	158,213
Management and general	698,814	565,598
Fundraising	<u>430,320</u>	<u>453,858</u>
	<u>\$ 5,088,062</u>	<u>\$ 4,438,957</u>

Certain costs in the above functional expenses have been allocated among the program and supporting services benefited. In addition, the direct costs of special events include expenses for the benefit of the donor. For example, meals and facilities rental are considered direct costs of special events. These costs amounted to approximately \$174,000 and \$102,000 for the years ended June 30, 2015 and 2014, respectively. Lastly, advertising costs, included in management and general expense, are expensed as incurred and amounted to approximately \$54,000 and \$107,000 for the years ended June 30, 2015 and 2014, respectively.

**AMERICAN FOLK ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. *Deferred Revenue*

The Museum defers revenues for funds received in advance of the period intended for use.

Q. *Statements of Activities – Operating and Non-Operating*

The Museum reflects in non-operating activities:

- Depreciation and amortization
- Permanently restricted 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
- Infrequently occurring items

R. *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.

S. *Reclassifications*

Certain line items in the June 30, 2014 financial statements have been reclassified to conform to the June 30, 2015 presentation.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>	<u>Estimated Useful Lives</u>
Leasehold improvements	\$ 1,175,422	\$ 346,577	5-18 years
Furniture and equipment	<u>555,768</u>	<u>350,875</u>	5-10 years
Total cost	1,731,190	697,452	
Less: accumulated depreciation and amortization	<u>(576,469)</u>	<u>(521,980)</u>	
Net book value	<u>\$ 1,154,721</u>	<u>\$ 175,472</u>	

Depreciation and amortization expense amounted to \$54,489 and \$54,912 for the years ended June 30, 2015 and 2014, respectively.

**AMERICAN FOLK ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 4 – PLEDGES RECEIVABLE

If material, pledges are recorded at their present value of future cash flows using discount factors ranging from 0.05% to 0.14%, after providing an allowance for uncollectibility. Amortization of the discount is reflected as a component of contribution income in the accompanying financial statements and amounted to \$67 and \$2,052 for the years ended June 30, 2015 and 2014, respectively. As of June 30, 2015 and 2014, pledges are expected to be collected as follows:

	<u>2015</u>	<u>2014</u>
In less than one year	\$ 372,000	\$ 372,000
Between one and five years	<u>1,025,000</u>	<u>22,000</u>
	1,397,000	394,000
Less:		
Allowance for doubtful pledges	(10,000)	(10,000)
Unamortized discount for present value	<u>-</u>	<u>(67)</u>
	<u>\$ 1,387,000</u>	<u>\$ 383,933</u>

NOTE 5 – INVESTMENTS

Investments consist of the following as of June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 204,068	\$ 222,333
Fixed income	275,481	449,845
Equity	3,511,233	4,444,376
Alternative investments		
Hedge funds – fund of funds	1,135,975	1,342,162
Hard assets – commodity index	<u>110,674</u>	<u>200,440</u>
	<u>\$ 5,237,431</u>	<u>\$ 6,659,156</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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 162,101	\$ 188,136
Realized gain (loss) on investment sales	44	(5,534)
Unrealized (loss) gain on investments	(27,957)	726,903
Change in value of bequest	<u>(47,029)</u>	<u>87,190</u>
	87,159	996,695
Less: investment expenses	<u>(34,418)</u>	<u>(36,386)</u>
	<u>\$ 52,741</u>	<u>\$ 960,309</u>

**AMERICAN FOLK ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 6 – AUXILIARY ACTIVITIES

Auxiliary activities consist primarily of goods sold at the Museum's shop located at Lincoln Square in New York City. 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, 2015 and 2014:

	2015		2014	
	Revenues	Expenses	Revenues	Expenses
Book and gift shops	\$ 870,775	\$ 676,767	\$ 750,987	\$ 637,784
Reproduction rights	25,008	-	26,177	-
	\$ 895,783	\$ 676,767	\$ 777,164	\$ 637,784

NOTE 7 – 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 8 – 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.

As of June 30, 2015, the Museum has a lease agreement for its administrative office which includes its storage facility to house its collections. This space is in Long Island City, NY, and was occupied during the year ended June 30, 2015. There were moving costs (and related) of approximately \$273,000 incurred during the year ended June 30, 2015 and they are shown as non-operating expenses in the accompanying financial statements. The lease agreement expires in December 2024.

Rent expense (including real estate tax escalation charges) for the years ended June 30, 2015 and 2014 amounted to \$354,127 and \$388,472, respectively.

The minimum annual lease payments for the Long Island City location are as follows for the years ending subsequent to June 30, 2015:

2016	\$ 154,847
2017	159,492
2018	164,277
2019	169,205
2020	174,281
2021-2024	832,665
	\$ 1,654,767

- B. The Museum believes it has no uncertain tax positions as of June 30, 2015 and 2014 as defined in Accounting Standards Codification ("ASC") Topic 740, *Income Taxes*, which provides standards for establishing and classifying tax expense for uncertain tax positions. The Museum believes it is no longer subject to federal or state or local income tax examinations by tax authorities for years before 2012.

**AMERICAN FOLK ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 9 – PENSION PLAN

The Museum maintains a pension plan under Internal Revenue Code Section 403(b) for all eligible employees. The Museum matches employee contributions to this plan up to a maximum of the greater of 3 percent of gross compensation of the employee or their contribution. For the years ended June 30, 2015 and 2014, the Museum contributed \$41,022 and \$36,818 respectively, to this plan. Employees become eligible upon completing three months of service to the Museum.

NOTE 10 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes as of June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Program restricted	\$ 3,894,548	\$ 4,002,780
Unappropriated endowment earnings	66,832	99,289
Time Restricted:		
Period ending June 30, 2015	-	322,000
Period ending June 30, 2016	<u>272,000</u>	<u>22,000</u>
	<u>\$ 4,233,380</u>	<u>\$ 4,446,069</u>

Temporarily restricted net assets of \$1,283,588 and \$1,870,345 for the years ended June 30, 2015 and 2014, respectively, were released from donor restrictions by incurring costs (or through the passage of time), thereby satisfying the restrictions specified by the donors.

Permanently restricted net assets consist of the following as of June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Museum's 50% beneficial interest in trust	\$ 984,980	\$ 1,032,008
All other funds	<u>1,760,651</u>	<u>760,651</u>
	<u>\$ 2,745,631</u>	<u>\$ 1,792,659</u>

The Museum receives unrestricted annual income (dividends and interest) from the investment assets pertaining to its 50% beneficial interest in trust. These funds are held in perpetuity by a third party trustee. Realized and unrealized gains or losses remain in the fund assets as permanently restricted. 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 unrestricted by the donor including those on the additional \$1,000,000 received during the year ended June 30, 2015.

The change in the permanently restricted beneficial interest in perpetual trusts for the years ended June 30, 2015 and 2014 relates to the change in the value of such trusts. Other permanently restricted net assets of \$760,651 are included in investments (excepting a \$1 million dollar pledge contained in pledges receivable as of June 30, 2015) in the statements of financial position as of June 30, 2015 and 2014, 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 permanent 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 unrestricted by the donor are reflected as temporarily restricted until appropriated by the Board of Trustees. The policy for valuing the Museums investments is described in Note 2F.

**AMERICAN FOLK ART MUSEUM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 10 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (Continued)

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 permanently or otherwise temporarily restricted in the gift instrument, the earnings (realized and unrealized gains/losses, dividends and interest) in the endowment fund shall be temporarily restricted assets 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 permanently restricted net assets for the year ended June 30, 2015 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2015 Total</u>
Endowment net assets, beginning of year	\$ 99,289	\$ 760,651	\$ 859,940
Contributions	-	1,000,000	1,000,000
Investment income	7,182	-	7,182
Board appropriation for expenditures	<u>(39,639)</u>	<u>-</u>	<u>(39,639)</u>
Endowment net assets, end of year	<u>\$ 66,832</u>	<u>\$ 1,760,651</u>	<u>\$ 1,827,483</u>

Changes in endowment net assets including permanently restricted net assets for the year ended June 30, 2014 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014 Total</u>
Endowment net assets, beginning of year	\$ -	\$ 760,651	\$ 760,651
Investment income	<u>99,289</u>	<u>-</u>	<u>99,289</u>
Endowment net assets, end of year	<u>\$ 99,289</u>	<u>\$ 760,651</u>	<u>\$ 859,940</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 either restricted or unrestricted net assets. As of June 30, 2015 and 2014, there were no such deficiencies.

NOTE 11 – FAIR VALUE MEASUREMENTS

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

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NOTE 11 – FAIR VALUE MEASUREMENTS (Continued)

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.

Financial assets measured at fair value on a recurring basis as of June 30, 2015 are presented in the following table:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total 2015</u>
Investments:				
Cash and money market funds	\$ 204,068	\$ -	\$ -	\$ 204,068
US fixed income funds	275,481	-	-	275,481
Equity funds				
US Large Cap	1,462,746	-	-	1,462,746
US Mid Cap	407,492	-	-	407,492
Europe, Australia and Far East	869,395	-	-	869,395
Non-US	24,975	-	-	24,975
Japanese Large Cap Equity	51,946	-	-	51,946
Asia ex-Japan	240,308	-	-	240,308
Emerging Market	47,016	-	-	47,016
Global	407,355	-	-	407,355
Commodity index	110,674	-	-	110,674
Hedge fund – fund of funds	-	-	1,135,975	1,135,975
Beneficial interest in perpetual trust	-	984,980	-	984,980
Total Assets at Fair Value	<u>\$ 4,101,456</u>	<u>\$ 984,980</u>	<u>\$ 1,135,975</u>	<u>\$ 6,222,411</u>

Financial assets measured at fair value on a recurring basis as of June 30, 2014 are presented in the following table:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total 2014</u>
Investments:				
Cash and money market funds	\$ 222,333	\$ -	\$ -	\$ 222,333
US fixed income funds	449,845	-	-	449,845
Equity funds				
US Large Cap	1,573,901	-	-	1,573,901
US Mid Cap	536,948	-	-	536,948
Europe, Australia and Far East	1,523,960	-	-	1,523,960
European Large Cap	133,344	-	-	133,344
Japanese Large Cap Equity	69,798	-	-	69,798
Asia ex-Japan	209,635	-	-	209,635
Emerging Market	57,106	-	-	57,106
Global	339,684	-	-	339,684
Commodity index	200,440	-	-	200,440
Hedge fund – fund of funds	-	-	1,342,162	1,342,162
Beneficial interest in perpetual trust	-	1,032,008	-	1,032,008
Total Assets at Fair Value	<u>\$ 5,316,994</u>	<u>\$ 1,032,008</u>	<u>\$ 1,342,162</u>	<u>\$ 7,691,164</u>

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NOTE 11 – FAIR VALUE MEASUREMENTS (Continued)

Investments in equity funds, government fixed income securities and corporate bonds 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, 2015 and 2014, the Museum's investment in the hedge fund was recorded at fair value as reported by investment managers, in an amount equal to the 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, 2015 and 2014, 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. Redemptions, at NAV, of shares in these investments range from quarterly to annually, generally with thirty to ninety days' redemption notice, and typically after the expiration of a defined lock-up period. The investment is classified as Level 3 by management due to the redemption features.

The Board of Trustees 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 that use significant unobservable inputs (level 3):

	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 1,342,162	\$ 859,027
(Sales) Purchases	(218,249)	400,000
Gains (realized/unrealized)	<u>12,062</u>	<u>83,135</u>
Ending balance	<u>\$ 1,135,975</u>	<u>\$ 1,342,162</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, 2015 and 2014.

NOTE 12 – CONCENTRATIONS

Cash and cash equivalents that potentially subject the Museum to a concentration of credit risk include cash accounts with banks that exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limit of \$250,000. As of June 30, 2015 and 2014, there was approximately \$520,000 and \$806,000, respectively, of cash and cash equivalents held by a bank that exceeded the FDIC limit. Such excess includes outstanding checks.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the statement of financial position through December 21, 2015, the date the financial statements were available to be issued.