

MUSEUM OF ARTS AND DESIGN

FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017



LUTZ AND CARR

CERTIFIED PUBLIC ACCOUNTANTS, LLP

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Museum of Arts and Design

We have audited the accompanying financial statements of Museum of Arts and Design (a nonprofit organization), which comprise the statements of financial position as of December 31, 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

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 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 auditors' 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 Museum of Arts and Design as of December 31, 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.

Lotz + Carr, LLP

New York, New York
July 17, 2019

MUSEUM OF ARTS AND DESIGN

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2018 WITH COMPARATIVE TOTALS FOR 2017

	2018							2017 Total
	Without Donor Restrictions			With Donor Restrictions				
	Operating	Property and Equipment/ Capital Campaign	Board Designated Endowment	Total	Time and Purpose	Perpetual in Nature	Total	
Assets								
Cash and cash equivalents (Notes 1b and 4a)	\$2,714,630	\$ 548	\$ -	\$ 2,715,178	\$ 6,399	\$ -	\$ 2,721,577	\$ 2,119,929
Unconditional promises to give (Notes 1c and 5)								
Without donor restrictions, less allowance for uncollectible pledges	116,337	-	-	116,337	-	-	116,337	150,907
With donor restrictions	-	-	-	-	785,033	-	785,033	184,279
Accounts receivable	155,866	36	-	155,902	19,544	-	175,446	174,617
Museum store inventory (Note 1h)	483,908	-	-	483,908	-	-	483,908	479,272
Prepaid expenses and other current assets	158,606	-	-	158,606	-	-	158,606	239,749
Investments - endowment (Notes 1d, 6 and 7)	-	-	900,096	900,096	1,765,447	10,322,461	12,988,004	14,087,703
Property and equipment, at cost, net of accumulated depreciation (Notes 1e and 8)	-	67,049,003	-	67,049,003	-	-	67,049,003	68,903,520
Collection (Note 1g)	-	-	-	-	-	-	-	-
Total Assets	\$3,629,347	\$67,049,587	\$ 900,096	\$71,579,030	\$2,576,423	\$10,322,461	\$84,477,914	\$86,339,976
Liabilities and Net Assets								
Liabilities								
Accounts payable and accrued expenses	\$1,292,364	\$ 17,883	\$ -	\$ 1,310,247	\$ -	\$ -	\$ 1,310,247	\$ 788,647
Refundable advances and deferred revenue	26,000	-	-	26,000	-	-	26,000	7,271
Deferred rent liability (Note 1i)	31,005	-	-	31,005	-	-	31,005	6,469
Interfund (receivable) payable	956,035	(253,299)	-	702,736	(702,736)	-	-	-
Total Liabilities	2,305,404	(235,416)	-	2,069,988	(702,736)	-	1,367,252	802,387
Commitments and Contingencies (Notes 9, 10 and 13)								
Net Assets								
Without Donor Restrictions								
Property and equipment	-	67,285,003	-	67,285,003	-	-	67,285,003	69,367,811
Board Designated Endowment (Note 3a)	-	-	900,096	900,096	-	-	900,096	960,011
Operations	1,323,943	-	-	1,323,943	-	-	1,323,943	561,125
Total Without Donor Restrictions	1,323,943	67,285,003	900,096	69,509,042	-	-	69,509,042	70,888,947
With Donor Restrictions								
Subject to time and purpose restriction (Note 3b)	-	-	-	-	3,279,159	-	3,279,159	4,326,181
Perpetual in nature (Note 3c)	-	-	-	-	-	10,322,461	10,322,461	10,322,461
Total With Donor Restrictions	-	-	-	-	3,279,159	10,322,461	13,601,620	14,648,642
Total Net Assets	1,323,943	67,285,003	900,096	69,509,042	3,279,159	10,322,461	83,110,662	85,537,589
Total Liabilities and Net Assets	\$3,629,347	\$67,049,587	\$ 900,096	\$71,579,030	\$2,576,423	\$10,322,461	\$84,477,914	\$86,339,976

See notes to financial statements.

MUSEUM OF ARTS AND DESIGN
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

	2017						
	Without Donor Restrictions			With Donor Restrictions			
	Operating	Property and Equipment/ Capital Campaign	Board Designated Endowment	Total	Time and Purpose	Perpetual in Nature	Total
Assets							
Cash and cash equivalents (Notes 1b and 4a)	\$2,093,268	\$ 20,268	\$ -	\$ 2,113,536	\$ 6,393	\$ -	\$ 2,119,929
Unconditional promises to give (Notes 1c and 5)							
Without donor restrictions, less allowance for uncollectible pledges	150,907	-	-	150,907	-	-	150,907
With donor restrictions	-	-	-	-	184,279	-	184,279
Accounts receivable	155,974	-	-	155,974	18,643	-	174,617
Museum store inventory (Note 1h)	479,272	-	-	479,272	-	-	479,272
Prepaid expenses and other current assets	239,749	-	-	239,749	-	-	239,749
Investments - endowment (Notes 1d, 6 and 7)	-	-	560,011	560,011	3,205,231	10,322,461	14,087,703
Property and equipment, at cost, net of accumulated depreciation (Notes 1e and 8)	-	68,903,520	-	68,903,520	-	-	68,903,520
Collection (Note 1g)	-	-	-	-	-	-	-
Total Assets	<u>\$3,119,170</u>	<u>\$68,923,788</u>	<u>\$ 560,011</u>	<u>\$72,602,969</u>	<u>\$3,414,546</u>	<u>\$10,322,461</u>	<u>\$86,339,976</u>
Liabilities and Net Assets							
Liabilities							
Accounts payable and accrued expenses	\$ 782,767	\$ 5,880	\$ -	\$ 788,647	\$ -	\$ -	\$ 788,647
Refundable advances and deferred revenue	7,271	-	-	7,271	-	-	7,271
Deferred rent liability (Note 1i)	6,469	-	-	6,469	-	-	6,469
Interfund (receivable) payable	1,761,538	(449,903)	(400,000)	911,635	(911,635)	-	-
Total Liabilities	<u>2,558,045</u>	<u>(444,023)</u>	<u>(400,000)</u>	<u>1,714,022</u>	<u>(911,635)</u>	<u>-</u>	<u>802,387</u>
Commitments and Contingencies (Notes 9, 10 and 13)							
Net Assets							
Without Donor Restrictions							
Property and equipment	-	69,367,811	-	69,367,811	-	-	69,367,811
Board Designated Endowment (Note 3a)	-	-	960,011	960,011	-	-	960,011
Operations	561,125	-	-	561,125	-	-	561,125
Total Without Donor Restrictions	<u>561,125</u>	<u>69,367,811</u>	<u>960,011</u>	<u>70,888,947</u>	<u>-</u>	<u>-</u>	<u>70,888,947</u>
With Donor Restrictions							
Subject to time and purpose restriction (Note 3b)	-	-	-	-	4,326,181	-	4,326,181
Perpetual in nature (Note 3c)	-	-	-	-	-	10,322,461	10,322,461
Total Without Donor Restrictions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,326,181</u>	<u>10,322,461</u>	<u>14,648,642</u>
Total Net Assets	<u>561,125</u>	<u>69,367,811</u>	<u>960,011</u>	<u>70,888,947</u>	<u>4,326,181</u>	<u>10,322,461</u>	<u>85,537,589</u>
Total Liabilities and Net Assets	<u>\$3,119,170</u>	<u>\$68,923,788</u>	<u>\$ 560,011</u>	<u>\$72,602,969</u>	<u>\$3,414,546</u>	<u>\$10,322,461</u>	<u>\$86,339,976</u>

See notes to financial statements.

MUSEUM OF ARTS AND DESIGN

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018 WITH COMPARATIVE TOTALS FOR 2017

	2018							2017 Total
	Without Donor Restrictions			With Donor Restrictions				
	Operating	Property and Equipment/ Capital Campaign	Board Designated Endowment	Total	Time and Purpose	Perpetual in Nature	Total	
Revenues, Gains and Other Support								
Contributions (Note 4b)	\$ 4,941,096	\$ -	\$ -	\$ 4,941,096	\$1,240,593	\$ -	\$ 6,181,689	\$ 4,129,820
Donated services (Note 11)	80,659	-	-	80,659	-	-	80,659	19,648
	5,021,755	-	-	5,021,755	1,240,593	-	6,262,348	4,149,468
Special events income	2,443,927	-	-	2,443,927	-	-	2,443,927	2,218,338
Less: Direct expenses	(466,230)	-	-	(466,230)	-	-	(466,230)	(501,179)
Merchandise sales	2,685,608	-	-	2,685,608	-	-	2,685,608	2,857,515
Less: Cost of sales, including payments to artists	(1,380,633)	-	-	(1,380,633)	-	-	(1,380,633)	(1,461,165)
Museum admission fees	634,910	-	-	634,910	-	-	634,910	724,844
Membership and support group dues	452,791	-	-	452,791	-	-	452,791	481,216
Member trips	20,830	-	-	20,830	-	-	20,830	14,130
Travel exhibition fees, net of direct expenses	-	-	-	-	-	-	-	63,022
Education lectures, workshops and other income	14,469	-	-	14,469	-	-	14,469	17,078
Rental income (Note 10b)	758,345	-	-	758,345	-	-	758,345	849,678
Net investment income (loss) (Note 6)	(2,111)	311	(36,718)	(38,518)	(887,080)	-	(925,598)	2,312,509
	10,183,661	311	(36,718)	10,147,254	353,513	-	10,500,767	11,725,454
Investment income appropriated to operations (Notes 3a and 3b)	575,000	-	(23,197)	551,803	(551,803)	-	-	-
Return of prior year grant	-	-	-	-	(49,917)	-	(49,917)	-
Net assets released from restrictions	798,815	-	-	798,815	(798,815)	-	-	-
Total Revenues, Gains and Other Support	11,557,476	311	(59,915)	11,497,872	(1,047,022)	-	10,450,850	11,725,454
Expenses								
Program Services								
Exhibitions	3,145,131	996,121	-	4,141,252	-	-	4,141,252	4,113,768
Curatorial	1,396,487	248,895	-	1,645,382	-	-	1,645,382	1,266,856
Education and other	2,680,529	646,175	-	3,326,704	-	-	3,326,704	3,301,238
Total Program Services	7,222,147	1,891,191	-	9,113,338	-	-	9,113,338	8,681,862
Supporting Services								
Administration	989,267	86,666	-	1,075,933	-	-	1,075,933	711,794
Membership and development	2,380,329	123,840	-	2,504,169	-	-	2,504,169	2,586,767
Capital campaign	-	2,852	-	2,852	-	-	2,852	1,562
Total Supporting Services	3,369,596	213,358	-	3,582,954	-	-	3,582,954	3,300,123
Total Expenses	10,591,743	2,104,549	-	12,696,292	-	-	12,696,292	11,981,985
Increase (Decrease) in Net Assets from Operations Before Changes Related to Collection Items Not Capitalized	965,733	(2,104,238)	(59,915)	(1,198,420)	(1,047,022)	-	(2,245,442)	(256,531)
Changes in net assets related to collection items not capitalized								
Collection items purchased (Note 1g)	(181,485)	-	-	(181,485)	-	-	(181,485)	(109,589)
Increase (Decrease) in Net Assets from Operations	784,248	(2,104,238)	(59,915)	(1,379,905)	(1,047,022)	-	(2,426,927)	(366,120)
Interfund appropriation for property and equipment	(21,430)	21,430	-	-	-	-	-	-
Increase (decrease) in net assets	762,818	(2,082,808)	(59,915)	(1,379,905)	(1,047,022)	-	(2,426,927)	(366,120)
Net assets, beginning of year	561,125	69,367,811	960,011	70,888,947	4,326,181	10,322,461	85,537,589	85,903,709
Net Assets, End of Year	\$ 1,323,943	\$67,285,003	\$ 900,096	\$69,509,042	\$3,279,159	\$10,322,461	\$83,110,662	\$85,537,589

See notes to financial statements.

MUSEUM OF ARTS AND DESIGN
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

	2017						
	Without Donor Restrictions			With Donor Restrictions			
	Operating	Property and Equipment/ Capital Campaign	Board Designated Endowment	Total	Time and Purpose	Perpetual in Nature	Total
Revenues, Gains and Other Support							
Contributions (Note 4b)	\$ 3,637,745	\$ -	\$ -	\$ 3,637,745	\$ 490,975	\$ 1,100	\$ 4,129,820
Donated services (Note 11)	19,648	-	-	19,648	-	-	19,648
	3,657,393	-	-	3,657,393	490,975	1,100	4,149,468
Special events income	2,218,338	-	-	2,218,338	-	-	2,218,338
Less: Direct expenses	(501,179)	-	-	(501,179)	-	-	(501,179)
Merchandise sales	2,857,515	-	-	2,857,515	-	-	2,857,515
Less: Cost of sales, including payments to artists	(1,461,165)	-	-	(1,461,165)	-	-	(1,461,165)
Museum admission fees	724,844	-	-	724,844	-	-	724,844
Membership and support group dues	481,216	-	-	481,216	-	-	481,216
Member trips	14,130	-	-	14,130	-	-	14,130
Travel exhibition fees, net of direct expenses	63,022	-	-	63,022	-	-	63,022
Education lectures, workshops and other income	17,078	-	-	17,078	-	-	17,078
Rental income (Note 10b)	849,678	-	-	849,678	-	-	849,678
Net investment income (loss) (Note 6)	(2,402)	297	107,730	105,625	2,206,884	-	2,312,509
	8,918,468	297	107,730	9,026,495	2,697,859	1,100	11,725,454
Investment income appropriated to operations (Notes 3a and 3b)	575,000	-	(27,145)	547,855	(547,855)	-	-
Net assets released from restrictions	954,465	-	-	954,465	(954,465)	-	-
Total Revenues, Gains and Other Support	10,447,933	297	80,585	10,528,815	1,195,539	1,100	11,725,454
Expenses							
Program Services							
Exhibitions	3,107,855	1,005,913	-	4,113,768	-	-	4,113,768
Curatorial	1,016,895	249,961	-	1,266,856	-	-	1,266,856
Education and other	2,646,768	654,470	-	3,301,238	-	-	3,301,238
Total Program Services	6,771,518	1,910,344	-	8,681,862	-	-	8,681,862
Supporting Services							
Administration	624,757	87,037	-	711,794	-	-	711,794
Membership and development	2,473,454	113,313	-	2,586,767	-	-	2,586,767
Capital campaign	-	1,562	-	1,562	-	-	1,562
Total Supporting Services	3,098,211	201,912	-	3,300,123	-	-	3,300,123
Total Expenses	9,869,729	2,112,256	-	11,981,985	-	-	11,981,985
Increase (Decrease) in Net Assets Before Changes Related to Collection Items Not Capitalized	578,204	(2,111,959)	80,585	(1,453,170)	1,195,539	1,100	(256,531)
Changes in net assets related to collection items not capitalized Collection items purchased (Note 1g)	(109,589)	-	-	(109,589)	-	-	(109,589)
Increase (Decrease) in Net Assets from Operations	468,615	(2,111,959)	80,585	(1,562,759)	1,195,539	1,100	(366,120)
Interfund appropriation for property and equipment	(32,198)	32,198	-	-	-	-	-
Increase (decrease) in net assets	436,417	(2,079,761)	80,585	(1,562,759)	1,195,539	1,100	(366,120)
Net assets, beginning of year	124,708	71,447,572	879,426	72,451,706	3,130,642	10,321,361	85,903,709
Net Assets, End of Year	\$ 561,125	\$69,367,811	\$ 960,011	\$70,888,947	\$4,326,181	\$10,322,461	\$85,537,589

See notes to financial statements.

MUSEUM OF ARTS AND DESIGN
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	<u>Program Services</u>				<u>Supporting Services</u>				<u>Total Expenses</u>
	<u>Exhibitions</u>	<u>Curatorial</u>	<u>Education and Other</u>	<u>Total</u>	<u>Administration</u>	<u>Membership and Development</u>	<u>Capital Campaign</u>	<u>Total</u>	
Salaries and fringe benefits	\$1,250,342	\$ 806,913	\$1,408,161	\$3,465,416	\$ 373,514	\$ 986,068	\$ -	\$1,359,582	\$ 4,824,998
Speakers and instructors	5,000	-	38,555	43,555	-	-	-	-	43,555
Professional fees	133,595	88,429	375,571	597,595	303,852	506,902	-	810,754	1,408,349
Legal services	-	-	-	-	80,602	-	-	80,602	80,602
Installation and design	370,217	-	-	370,217	-	-	-	-	370,217
Video documentation and photos	3,613	-	1,460	5,073	-	90,735	-	90,735	95,808
Security services	283,209	70,764	183,715	537,688	24,640	35,210	-	59,850	597,538
Storage and warehouse	10,891	229,910	9,482	250,283	13,553	-	-	13,553	263,836
Building service contracts	95,170	23,779	61,736	180,685	8,278	11,832	-	20,110	200,795
Electricity	336,215	84,008	218,100	638,323	29,253	41,799	-	71,052	709,375
Telephone	3,818	954	2,477	7,249	331	475	-	806	8,055
Insurance	74,439	18,600	48,288	141,327	6,477	9,254	-	15,731	157,058
Supplies	42,465	15,389	43,179	101,033	29,556	62,834	-	92,390	193,423
Printing	74,753	520	3,514	78,787	312	53,196	2,852	56,360	135,147
Postage	73	-	40	113	12,145	20,551	-	32,696	32,809
Shipping and crating	260,815	11,041	116,587	388,443	195	8,407	-	8,602	397,045
Equipment and maintenance	58,381	14,587	37,871	110,839	5,082	7,258	-	12,340	123,179
Travel and meals	95,564	16,573	11,349	123,486	16,628	37,935	-	54,563	178,049
Catering	-	-	2,462	2,462	-	54,004	-	54,004	56,466
Advertising and promotion	5,239	1,531	8,350	15,120	60,604	398,154	-	458,758	473,878
Interest	-	-	-	-	5,695	-	-	5,695	5,695
Conservation	10,351	5,716	-	16,067	-	-	-	-	16,067
Bank and credit card fees	-	32	87,975	88,007	-	51,863	-	51,863	139,870
Property taxes	30,981	7,741	20,097	58,819	2,694	3,852	-	6,546	65,365
Bad debt expenses	-	-	-	-	13,550	-	-	13,550	13,550
Miscellaneous	-	-	1,560	1,560	2,306	-	-	2,306	3,866
Total expenses before depreciation and amortization	3,145,131	1,396,487	2,680,529	7,222,147	989,267	2,380,329	2,852	3,372,448	10,594,595
Depreciation and amortization	996,121	248,895	646,175	1,891,191	86,666	123,840	-	210,506	2,101,697
Total Expenses	<u>\$4,141,252</u>	<u>\$1,645,382</u>	<u>\$3,326,704</u>	<u>\$9,113,338</u>	<u>\$ 1,075,933</u>	<u>\$ 2,504,169</u>	<u>\$ 2,852</u>	<u>\$3,582,954</u>	<u>\$12,696,292</u>

See notes to financial statements.

MUSEUM OF ARTS AND DESIGN
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	<u>Program Services</u>				<u>Supporting Services</u>				<u>Total Expenses</u>
	<u>Exhibitions</u>	<u>Curatorial</u>	<u>Education and Other</u>	<u>Total</u>	<u>Administration</u>	<u>Membership and Development</u>	<u>Capital Campaign</u>	<u>Total</u>	
Salaries and fringe benefits	\$1,272,786	\$ 657,764	\$1,358,425	\$3,288,975	\$ 168,568	\$ 1,022,911	\$ -	\$1,191,479	\$ 4,480,454
Speakers and instructors	43,141	141	61,971	105,253	-	681	-	681	105,934
Professional fees	81,243	34,446	372,765	488,454	281,379	540,608	-	821,987	1,310,441
Legal services	-	-	-	-	19,648	-	-	19,648	19,648
Installation and design	485,113	-	-	485,113	-	-	-	-	485,113
Video documentation and photos	18,875	-	1,708	20,583	-	270	-	270	20,853
Security services	249,528	62,006	162,349	473,883	21,591	28,109	-	49,700	523,583
Storage and warehouse	44,479	77,622	10,403	132,504	12,801	-	-	12,801	145,305
Building service contracts	110,230	27,391	71,718	209,339	9,538	12,417	-	21,955	231,294
Electricity	374,389	93,032	243,586	711,007	32,396	42,174	-	74,570	785,577
Telephone	8,648	2,149	5,627	16,424	749	974	-	1,723	18,147
Insurance	71,632	17,800	46,605	136,037	6,198	8,069	-	14,267	150,304
Supplies	15,239	2,808	73,090	91,137	27,367	135,247	97	162,711	253,848
Printing	51,957	186	5,264	57,407	5,801	81,273	-	87,074	144,481
Postage	8,614	2,360	5,961	16,935	1,045	45,415	-	46,460	63,395
Shipping and crating	103,045	6,727	74,456	184,228	267	9,041	-	9,308	193,536
Equipment and maintenance	48,737	12,111	31,709	92,557	4,218	5,490	-	9,708	102,265
Travel and meals	75,837	9,872	5,911	91,620	9,999	77,184	-	87,183	178,803
Catering	-	-	6,154	6,154	-	60,101	-	60,101	66,255
Advertising and promotion	78	340	9,174	9,592	1,227	350,994	-	352,221	361,813
Line of credit maintenance fee	-	-	800	800	2,400	-	-	2,400	3,200
Conservation	13,430	2,600	-	16,030	-	-	-	-	16,030
Bank and credit card fees	1,090	108	78,131	79,329	14,696	34,737	-	49,433	128,762
Property taxes	29,580	7,350	19,246	56,176	2,560	3,332	-	5,892	62,068
Miscellaneous	184	82	1,715	1,981	2,309	14,427	1,465	18,201	20,182
Total expenses before depreciation and amortization	3,107,855	1,016,895	2,646,768	6,771,518	624,757	2,473,454	1,562	3,099,773	9,871,291
Depreciation and amortization	1,005,913	249,961	654,470	1,910,344	87,037	113,313	-	200,350	2,110,694
Total Expenses	<u>\$4,113,768</u>	<u>\$1,266,856</u>	<u>\$3,301,238</u>	<u>\$8,681,862</u>	<u>\$ 711,794</u>	<u>\$ 2,586,767</u>	<u>\$ 1,562</u>	<u>\$3,300,123</u>	<u>\$11,981,985</u>

See notes to financial statements.

MUSEUM OF ARTS AND DESIGN

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities		
Decrease in net assets	\$(2,426,927)	\$ (366,120)
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities:		
Bad debt expense	13,550	-
Depreciation and amortization	2,101,697	2,110,694
Net realized loss on sale of investments	5,221	3,899
Net unrealized (gain) loss on sale of investments	1,237,955	(2,029,705)
Endowment contributions	-	(1,100)
Deferred rent	24,536	(76,736)
(Increase) decrease in:		
Unconditional promises to give	(579,734)	226,802
Accounts receivable	(829)	9,266
Museum store inventory	(4,636)	(27,181)
Prepaid expenses and other current assets	81,143	(34,628)
Increase (decrease) in:		
Accounts payable and accrued expenses	509,597	(63,773)
Refundable advances and deferred revenue	18,729	5,271
Net Cash Provided (Used) By Operating Activities	<u>980,302</u>	<u>(243,311)</u>
Cash Flows From Investing Activities		
Payments for purchase of fixed assets	(235,177)	(58,982)
Purchase of investments	(1,484,731)	(1,691,311)
Proceeds from sale of investments	1,341,254	2,080,208
Net Cash Provided (Used) By Investing Activities	<u>(378,654)</u>	<u>329,915</u>
Cash Flows From Financing Activities		
Endowment contributions received	-	1,100
Borrowings under line of credit	525,017	-
Repayments of line of credit	(525,017)	-
Net Cash Provided By Financing Activities	<u>-</u>	<u>1,100</u>
Net increase in cash and cash equivalents	601,648	87,704
Cash and cash equivalents, beginning of year	<u>2,119,929</u>	<u>2,032,225</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 2,721,577</u></u>	<u><u>\$2,119,929</u></u>
Supplemental Disclosure		
Interest paid	<u>\$ 5,695</u>	<u>\$ -</u>

See notes to financial statements.

MUSEUM OF ARTS AND DESIGN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 1 - Museum and Summary of Significant Accounting Policies

a - Museum

The Museum of Arts and Design (the "Museum") collects, displays and interprets objects that document contemporary and historic innovation in craft, art and design. In its exhibitions and educational programs, the Museum celebrates the creative process through which materials and process are brought to bear to create artistic works that enhance contemporary life.

The Museum is ideally situated at 2 Columbus Circle on the southwest corner of Central Park where major public transportation services converge and serves over 250,000 visitors annually.

The Museum offers the visiting public four full floors of gallery space, artist studios and a student classroom, a 145-seat theater, a destination store focused on objects created by artists from around the world and a 9th floor restaurant, Robert, with a view of Central Park.

b - Cash and Cash Equivalents

For purposes of the statement of cash flows, the Museum considers all highly liquid investments without donor restrictions, with an initial maturity of three months or less, to be cash equivalents, except for those short-term investments managed by the Museum's investment managers as part of their long-term investment strategies.

c - Contributions and Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give to the Museum, that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

The Museum uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

MUSEUM OF ARTS AND DESIGN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 1 - Museum and Summary of Significant Accounting Policies (continued)

d - Investments

The Museum reflects investments at fair value in the statement of financial position. Interest, dividends, and gains and losses on investments are reflected in the statement of activities as increases and decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Gains and other investment income that are limited to specific uses by donor-imposed restrictions are reported as increases in net assets without donor restrictions if the restrictions are met in the same fiscal year in which the gains and other investment income are recognized.

Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-based measurement. Generally accepted accounting principles establish a framework for measuring fair value which maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those the market participants would use in pricing the asset based on market data obtained from sources independent of the Museum. Unobservable inputs reflect the Museum's assumptions about the inputs market participants would use in pricing the asset developed based on the best information available in the circumstances. Fair value measurements are categorized into three levels as follows:

- Level 1 Inputs reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Museum has the ability to access at the measurement date.
- Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 Inputs that are unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

e - Property and Equipment

Property and equipment are reported at cost, or if donated, at the fair market value at date of receipt. Depreciation is computed using the straight-line method over the estimated useful life of the asset.

MUSEUM OF ARTS AND DESIGN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 1 - Museum and Summary of Significant Accounting Policies (continued)

f - Financial Statement Presentation

The financial statements of the Museum have been prepared in accordance with U.S. generally accepted accounting principles, which require the Museum to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Museum. These net assets may be used at the discretion of the Museum's management and Board of Trustees.

Net Assets With Donor Restrictions

Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions may be temporary in nature; those restrictions will be met by actions of the Museum or the passage of time. Other donor restrictions may be perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

g - Art Collection

The Museum maintains a collection of works of contemporary art objects. A description of the contents of the permanent collection is maintained by the registrar. The Museum has insurance coverage for items on its premises, in storage, in transit and on loan at other locations.

The value of the collection, which was acquired through purchases and contributions since the Museum's inception, is not reflected as an asset on the statement of financial position. Purchases of collection items are expensed in the year of acquisition. Contributions of collection items are not recognized in the statement of activities. Proceeds from deaccessions or insurance recoveries are reflected on the statement of activities based on the absence or existence and nature of donor-imposed restrictions. There were no deaccessions for 2018 or 2017. Numerous works were also donated to the permanent collection in 2018 and 2017.

The collection is held for public service rather than financial gain, protected and preserved, and subject to an organizational policy that requires the proceeds from sales of such items to be used to acquire other items for collections.

MUSEUM OF ARTS AND DESIGN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 1 - Museum and Summary of Significant Accounting Policies (continued)

h - Museum Store Inventory

The Museum's store inventory consists of objects created by artists from around the world, as well as publications and other objects, and is stated at the lower of cost, as determined by the first-in, first-out method, or market. The Museum's store sales also consist of artists' works held on consignment which are not included in inventory.

i - Deferred Rent

The Museum records rent expense associated with its storage space lease on a straight-line basis over the life of the lease (see Note 10a). The difference between the straight-line amount and amounts paid in accordance with the terms of its lease is recorded as a liability and an expense in the accompanying financial statements.

j - Advertising Costs

Advertising costs are charged to operations when the advertising first takes place. Advertising expense incurred during the years ended December 31, 2018 and 2017 was \$473,878 and \$361,813, respectively.

k - Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

l - Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied.

Depreciation, telephone and utilities, postage, security, building and equipment maintenance, insurance and property taxes are allocated on the basis of square footage.

Salaries, payroll taxes, employee benefits and professional fees are allocated on the basis of time and effort for administration and management and timesheet records for remaining staff.

Other expenses are based on actual costs directly related to the program services and support services categories.

MUSEUM OF ARTS AND DESIGN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 1 - Museum and Summary of Significant Accounting Policies (continued)

m - Recent Accounting Pronouncements

In 2018, the Museum adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”; (b) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources; (c) requiring that all nonprofits present an analysis of expenses by function and nature and disclose the methods used to allocate costs; (d) modifying the presentation of underwater endowment funds and related disclosures; and (e) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. As permitted under the ASU in the year of adoption, the Museum opted to not disclose liquidity and availability information for 2017.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The core principles of ASU 2016-02 change the way organizations will account for their leases by recognizing lease assets and related liabilities on the statement of financial position for all leases with terms longer than twelve months and disclosing key information about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019. The Museum is currently evaluating the impact of ASU 2016-02 on its financial statements.

n - Subsequent Events

The Museum has evaluated subsequent events through July 17, 2019, the date that the financial statements are considered available to be issued.

o - Tax Status

Museum of Arts and Design is a not-for-profit Museum exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.

Note 2 - Information Regarding Liquidity and Availability

The Museum has been operating recently with a budgeted loss for each fiscal year based on the revenues expected to be available to fund anticipated expenses. A substantial portion of general expenditures during a given year are funded with contributed and earned income and other revenue earned during the year. The Museum considers general expenditures to consist of all expenses related to its ongoing program services, and the expenses related to administrative and fundraising activities undertaken to support those services.

MUSEUM OF ARTS AND DESIGN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 2 - Information Regarding Liquidity and Availability (continued)

The Museum regularly monitors liquidity to meet its operating needs and other commitments and obligations, while seeking to maximize the investment of its available funds. Management prepares regular cash flow projections to determine liquidity needs and to maintain liquid financial assets on an ongoing basis sufficient to cover ninety days of general expenditures.

The Museum's financial assets as of December 31, 2018, and those available within one year to meet cash needs for general expenditures are summarized as follows:

Financial Assets at Year End:	
Cash and cash equivalents	\$ 2,721,577
Unconditional promises to give	901,370
Accounts receivable	175,446
Investments	<u>12,988,004</u>
Total Financial Assets	16,786,397
Less: Amounts not Available to be Used within One Year:	
Net assets with donor restrictions, subject to expenditure for specific purposes or passage of time	(3,279,159)
Plus: Net assets with restrictions to be met in less than a year	618,729
Net assets with donor restrictions for endowment, subject to spending policy and appropriation	(10,322,461)
Board designated endowment funds	(900,096)
Plus: Amounts appropriated for use within one year	<u>600,000</u>
Financial Assets Available to Meet General Expenditures within One Year	<u>\$ 3,503,410</u>

In addition to these financial assets available within one year, the Museum maintains a board designated endowment of approximately \$900,000. This amount could be made available at any time to meet cash needs for general expenditures at the discretion of the Board of Governing Trustees.

The Museum also has available an \$800,000 line of credit from which it may draw, upon the terms of which are more fully described in Note 9.

MUSEUM OF ARTS AND DESIGN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 3 - Restrictions on Assets

a - Net Assets Without Donor Restrictions - Board Designated Endowment

The Museum's board designated endowment was established with a grant from the National Endowment for the Arts, and accumulated investment income earned thereon, which was subsequently released from restriction by the donor. For 2018 and 2017, \$23,197 and \$27,145, respectively, was appropriated to operations pursuant to the Museum's spending policy. Cumulative outstanding borrowings at December 31, 2017 totaled \$400,000.

b - Net Assets With Donor Restrictions - Subject to Time and Purpose Restriction

Net assets subject to time and purpose restriction are restricted for the following future purposes:

	<u>2018</u>	<u>2017</u>
Accumulated endowment investment earnings (including accrued investment income)	\$1,784,991	\$3,223,874
Future exhibitions, projects and operations	1,472,236	975,191
Permanent collection acquisitions	<u>21,932</u>	<u>127,116</u>
	<u>\$3,279,159</u>	<u>\$4,326,181</u>

For 2018 and 2017, \$551,803 and \$547,855, respectively, was released from restriction in accordance with the Museum's spending policy for use in programs and operations.

c - Net Assets With Donor Restrictions - Perpetual in Nature

Net assets that are perpetual in nature consist of restricted endowment contributions which require that the principal be retained and only the income be used for programs of the Museum. These endowments as of December 31 are summarized as follows:

	<u>2018</u>	<u>2017</u>
General program activities	\$ 9,147,461	\$ 9,147,461
Education programs	1,050,000	1,050,000
Ceramic works acquisition	75,000	75,000
Curatorial programs	<u>50,000</u>	<u>50,000</u>
	<u>\$10,322,461</u>	<u>\$10,322,461</u>

Note 4 - Concentrations

- a - The Museum maintains its cash and cash equivalents at two financial institutions in New York. Certain cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000.

MUSEUM OF ARTS AND DESIGN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 4 - Concentrations (continued)

b - In 2018, contributions from five donors totaled approximately 75% of operating contributions and contributions from two donors totaled approximately 76% of contributions with donor restrictions subject to time and purpose restriction. In 2017, contributions from five donors totaled approximately 64% of operating contributions and contributions from three donors totaled approximately 29% of contributions with donor restrictions subject to time and purpose restriction.

Note 5 - Unconditional Promises to Give

Unconditional promises to give are due as follows:

	<u>2018</u>	<u>2017</u>
Due within one year	\$581,764	\$341,801
Due in one to five years	349,000	-
	<u>930,764</u>	<u>341,801</u>
Less: Discount to present value	(22,779)	-
Less: Allowance for uncollectible pledges	<u>(6,615)</u>	<u>(6,615)</u>
	<u>\$901,370</u>	<u>\$335,186</u>

Unconditional promises to give due after one year are reflected at present value of estimated future cash flows using a discount rate of 3%.

Note 6 - Investments

Investments are reflected at fair value and are summarized as follows:

	<u>2018</u>		<u>2017</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Money market funds and invested cash	\$ 484,542	\$ 484,542	\$ 578,405	\$ 578,405
Exchange traded funds	9,829,548	10,637,690	9,829,548	11,842,898
Corporate obligations	1,789,177	1,757,508	1,557,058	1,556,836
Preferred stock	26,050	25,350	26,050	26,650
Restricted preferred stock	<u>59,756</u>	<u>82,914</u>	<u>59,756</u>	<u>82,914</u>
	<u>\$12,189,073</u>	<u>\$12,988,004</u>	<u>\$12,050,817</u>	<u>\$14,087,703</u>

MUSEUM OF ARTS AND DESIGN
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 6 - Investments (continued)

Marketable securities are reported on the basis of quoted market values. The value of the restricted preferred stock is estimated by the Museum based on information about the company and its financial performance.

The following schedule summarizes the net investment return for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 323,428	\$ 292,768
Net realized loss on sale of investments	<u>(5,221)</u>	<u>(3,899)</u>
	318,207	288,869
Net unrealized gain (loss)	<u>(1,237,955)</u>	<u>2,029,705</u>
	(919,748)	2,318,574
Investment management and custody fees	<u>(5,850)</u>	<u>(6,065)</u>
Net Investment Income (Loss)	<u>\$ (925,598)</u>	<u>\$2,312,509</u>

The following summarizes investments at December 31, 2018 and 2017 by the levels within the fair value hierarchy used to measure their respective fair values:

	<u>2018</u>			
	<u>Fair Value</u>	<u>Level 1 (Quoted Prices in Active Markets in Identical Assets)</u>	<u>Level 2 (Quoted Prices in Active Markets in Similar Assets)</u>	<u>Level 3 Significant Unobservable Inputs</u>
Money market funds and invested cash	\$ 484,542	\$ 484,542	\$ -	\$ -
Exchange traded funds	10,637,690	10,637,690	-	-
Corporate obligations	1,757,508	-	1,757,508	-
Preferred stock	25,350	-	25,350	-
Restricted preferred stock	<u>82,914</u>	<u>-</u>	<u>-</u>	<u>82,914</u>
	<u>\$12,988,004</u>	<u>\$11,122,232</u>	<u>\$1,782,858</u>	<u>\$82,914</u>
	<u>2017</u>			
	<u>Fair Value</u>	<u>Level 1 (Quoted Prices in Active Markets in Identical Assets)</u>	<u>Level 2 (Quoted Prices in Active Markets in Similar Assets)</u>	<u>Level 3 Significant Unobservable Inputs</u>
Money market funds and invested cash	\$ 578,405	\$ 578,405	\$ -	\$ -
Exchange traded funds	11,842,898	11,842,898	-	-
Corporate obligations	1,556,836	-	1,556,836	-
Preferred stock	26,650	-	26,650	-
Restricted preferred stock	<u>82,914</u>	<u>-</u>	<u>-</u>	<u>82,914</u>
	<u>\$14,087,703</u>	<u>\$12,421,303</u>	<u>\$1,583,486</u>	<u>\$82,914</u>

MUSEUM OF ARTS AND DESIGN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 6 - Investments (continued)

There were no changes in fair value in 2018 and 2017 for the Museum's investment in restricted preferred stock.

Note 7 - Endowment Funds

The Museum's endowment consists of the Museum's board designated endowment and four donor-restricted funds established for the purposes described in Note 3c. Consistent with New York Prudent Management of Institutional Funds Act ("NYPMIFA"), the Museum classifies as net assets with donor restrictions (a) the original value of gifts donated to the donor restricted endowment, (b) the original value of subsequent gifts to the donor restricted endowment and (c) accumulations to the donor restricted endowment made in accordance with the direction of any applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the endowment with donor restrictions that is not perpetual in nature is classified as endowment subject to spending policy and appropriation until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by NYPMIFA.

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

- (i) the duration and preservation of the endowment fund;
- (ii) the purposes of the Museum and the endowment fund;
- (iii) general economic conditions;
- (iv) the possible effect of inflation or deflation;
- (v) the expected total return from income and the appreciation of investments;
- (vi) other resources of the Museum;
- (vii) where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the Museum; and
- (viii) the investment policy of the Museum

MUSEUM OF ARTS AND DESIGN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 7 - Endowment Funds (continued)

As of December 31, 2018 and 2017, the Museum's invested endowment funds composition, by type of fund and net asset classification, are summarized as follows:

	2018			
	<u>With Donor Restrictions</u>			
	<u>Without Donor Restrictions</u>	<u>Investment Income Above Original Gift Amount</u>	<u>Investment in Perpetuity</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$1,765,447	\$10,322,461	\$12,087,908
Board designated endowment funds	<u>900,096</u>	<u>-</u>	<u>-</u>	<u>900,096</u>
Total Endowment Funds	<u>\$900,096</u>	<u>\$1,765,447</u>	<u>\$10,322,461</u>	<u>\$12,988,004</u>
	2017			
	<u>With Donor Restrictions</u>			
	<u>Without Donor Restrictions</u>	<u>Investment Income Above Original Gift Amount</u>	<u>Investment in Perpetuity</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$3,205,231	\$10,322,461	\$13,527,692
Board designated endowment funds	<u>560,011</u>	<u>-</u>	<u>-</u>	<u>560,011</u>
Total Endowment Funds	<u>\$560,011</u>	<u>\$3,205,231</u>	<u>\$10,322,461</u>	<u>\$14,087,703</u>

Changes in endowment funds for the years ended December 31, 2018 and 2017 are summarized as follows:

	2018			
	<u>With Donor Restrictions</u>			
	<u>Without Donor Restrictions</u>	<u>Investment Income Above Original Gift Amount</u>	<u>Investment in Perpetuity</u>	<u>Total</u>
Endowment funds, beginning of year	<u>\$560,011</u>	<u>\$ 3,205,231</u>	<u>\$10,322,461</u>	<u>\$14,087,703</u>
Investment Return:				
Investment income, net of fees	12,609	303,736	-	316,345
Net depreciation (realized and unrealized)	<u>(49,327)</u>	<u>(1,191,717)</u>	<u>-</u>	<u>(1,241,044)</u>
Total Investment Return	<u>(36,718)</u>	<u>(887,981)</u>	<u>-</u>	<u>(924,699)</u>
Transfers in	<u>400,000</u>	<u>-</u>	<u>-</u>	<u>400,000</u>
Appropriation of endowment assets to operations	<u>(23,197)</u>	<u>(551,803)</u>	<u>-</u>	<u>(575,000)</u>
Endowment Funds, End of Year	<u>\$900,096</u>	<u>\$ 1,765,447</u>	<u>\$10,322,461</u>	<u>\$12,988,004</u>

MUSEUM OF ARTS AND DESIGN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 7 - Endowment Funds (continued)

	2017			
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Investment in Perpetuity</u>	<u>Total</u>
	<u>Without Donor Restrictions</u>	<u>Investment Income Above Original Gift Amount</u>	<u>Investment in Perpetuity</u>	<u>Total</u>
Endowment funds, beginning of year	\$579,426	\$1,550,007	\$10,321,361	\$12,450,794
Investment Return:				
Investment income, net of fees	13,329	269,244	-	282,573
Net appreciation (realized and unrealized)	94,401	1,933,835	-	2,028,236
Total Investment Return	<u>107,730</u>	<u>2,203,079</u>	<u>-</u>	<u>2,310,809</u>
Transfers out	<u>(100,000)</u>	<u>-</u>	<u>-</u>	<u>(100,000)</u>
Contributions	<u>-</u>	<u>-</u>	<u>1,100</u>	<u>1,100</u>
Appropriation of endowment assets to operations	<u>(27,145)</u>	<u>(547,855)</u>	<u>-</u>	<u>(575,000)</u>
Endowment Funds, End of Year	<u>\$560,011</u>	<u>\$3,205,231</u>	<u>\$10,322,461</u>	<u>\$14,087,703</u>

The Museum has adopted investment and spending policies for endowment assets that attempt to provide a stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that will first and foremost preserve capital, then ultimately seek to provide an average total return of 5.0% above the current inflation rate (CPI), net of fees and other expenses. The target allocation is 65% equities and 35% fixed income, the performance of which is to be measured against the appropriate benchmarks. Actual returns in any given year may vary from the target returns.

To satisfy its long-term rate-of-return objectives, 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). The Museum targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Museum has a policy of appropriating for distribution each year, 5% of the average fair value of endowment funds over the prior twelve calendar quarters, through the calendar year-end preceding the year, in which the distribution is planned. In establishing this policy, the Museum considered the long-term expected return on its endowment. Accordingly, over the long-term, the Museum expects the current spending policy to allow its endowment to grow at the rate of inflation. This is consistent with the Museum's objective to at a minimum maintain the purchasing power of the endowment assets.

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NOTES TO FINANCIAL STATEMENTS

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Note 8 - Property and Equipment

Property and equipment consist of the following:

	<u>Life</u>	<u>2018</u>	<u>2017</u>
Building	40 years	\$ 9,229,600	\$ 9,229,600
Building improvements	15-40 years	70,447,749	70,365,213
Furniture and equipment	5-20 years	4,793,411	4,651,281
Computers	3 years	<u>420,778</u>	<u>398,264</u>
		84,891,538	84,644,358
Less: Accumulated depreciation		<u>(26,352,935)</u>	<u>(24,251,238)</u>
		58,538,603	60,393,120
Land		<u>8,510,400</u>	<u>8,510,400</u>
Net Property and Equipment		<u>\$67,049,003</u>	<u>\$68,903,520</u>

Total depreciation expense was \$2,101,697 and \$2,110,694 for the years ended December 31, 2018 and 2017, respectively.

Historically, The City of New York has funded capital improvements and purchases of property and equipment. The City's investment of capital funding obligates the Museum to operate the facility as a non-profit entity, open to and used and maintained for the benefit of the people of the City of New York for cultural, educational, artistic uses and/or related purposes approved by the City.

Note 9 - Line of Credit

The Museum has an unsecured line of credit with a financial institution in the amount of \$800,000, with an adjustable interest rate tied to the Prime Rate. Borrowings of \$525,017 were repaid during the year ended December 31, 2018. There were no borrowings outstanding at December 31, 2017.

Note 10 - Commitments and Contingencies

a - The Museum leases storage space for its permanent collection under a lease with a term which expires September 30, 2027.

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Note 10 - Commitments and Contingencies (continued)

a - (continued)

Future minimum payments are as follows:

<u>Year Ending December 31,</u>	
2019	\$204,723
2020	210,246
2021	215,922
2022	221,748
2023	227,739
Thereafter, through September 30, 2027	909,528

The Museum also pays for other related services under this agreement and leases other space on a month-to-month as needed basis. Rent expense for the years ended December 31, 2018 and 2017 was \$256,369 and \$139,126, respectively.

- b - The Museum leases certain portions of its facility to a tenant under a lease agreement with a term which expires December 31, 2024, and which includes two five-year renewal options. The lease provides for annual rent for the primary portion of the premises covered under the lease based on a percentage of the tenant's gross receipts, subject to a fixed dollar minimum of \$180,000. Another portion of the premises covered under this lease provides for a percentage rent with a \$150,000 fixed dollar minimum and includes an annual cancellation provision in the event that the tenant's actual gross receipts are not greater than the minimum rent.

Total rental income recognized under this lease totaled \$640,903 (2018) and \$662,498 (2017).

- c - The Museum has an employment contract with an officer, which provides for the payment of an annual base salary.

The agreement expires in June 2022. Should the officer's employment be terminated without cause, severance compensation equal to twelve months base salary would be due.

- d - Government supported projects are subject to audit by the respective government agencies.

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Note 11 - Donated Services

Donated services are recorded at fair value and consist of legal services and software in 2018 (Note 12). Donated services consisted solely of legal services in 2017.

Note 12 - Related Party Transaction

The law firm in which a trustee of the Museum is a partner provided legal services on a pro bono basis valued at \$80,000 and \$19,648 for the years ended December 31, 2018 and 2017, respectively.

Note 13 - Defined Contribution Plan

The Museum maintains a 403(b) defined contribution plan for qualifying eligible employees. A matching contribution is made to match 50% of the employee's contribution up to 3% of the employee's compensation. Total expense under this plan for 2018 and 2017 was \$58,624 and \$53,055, respectively.