

MUSEUM OF ARTS AND DESIGN

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2015 AND 2014

MUSEUM OF ARTS AND DESIGN

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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, 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 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, 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.

Lotz + Carr, LLP

New York, New York
May 9, 2016

MUSEUM OF ARTS AND DESIGN

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2015 WITH COMPARATIVE TOTALS FOR 2014

	2015						2014 Total	
	Operating	Unrestricted Property and Equipment/ Capital Campaign	Board Designated Endowment	Total	Temporarily Restricted	Permanently Restricted		Total
Assets								
Cash and cash equivalents (Notes 1b and 3a)	\$1,586,621	\$ 11,361	\$ -	\$ 1,597,982	\$ 65,095	\$ -	\$ 1,663,077	\$ 985,088
Unconditional promises to give (Notes 1c and 4)								
Unrestricted, less allowance for uncollectible pledges	52,985	-	-	52,985	-	-	52,985	173,385
Capital campaign	-	125,364	-	125,364	-	-	125,364	134,318
Restricted to future programs	-	-	-	-	637,975	1,000	638,975	684,860
Accounts receivable	182,059	-	-	182,059	20,541	-	202,600	180,639
Museum store inventory (Note 1h)	340,246	-	-	340,246	-	-	340,246	317,312
Prepaid expenses and other current assets	162,973	-	-	162,973	-	-	162,973	172,041
Investments - endowment (Notes 1d, 5 and 6)	-	-	462,764	462,764	1,127,154	10,309,361	11,899,279	12,689,978
Property and equipment, at cost, net of accumulated depreciation (Notes 1e and 7)	-	72,998,819	-	72,998,819	-	-	72,998,819	75,418,619
Collection (Note 1g)	-	-	-	-	-	-	-	-
Total Assets	\$2,324,884	\$73,135,544	\$ 462,764	\$75,923,192	\$ 1,850,765	\$10,310,361	\$88,084,318	\$90,756,240
Liabilities and Net Assets								
Liabilities								
Accounts payable and accrued expenses	\$ 565,171	\$ -	\$ -	\$ 565,171	\$ -	\$ -	\$ 565,171	\$ 594,148
Refundable advances and deferred revenue	2,000	-	-	2,000	-	-	2,000	2,000
Deferred rent liability (Note 1i)	70,593	-	-	70,593	-	-	70,593	-
Interfund (receivable) payable	1,458,701	(100,000)	(400,000)	958,701	(958,701)	-	-	-
Total Liabilities	2,096,465	(100,000)	(400,000)	1,596,465	(958,701)	-	637,764	596,148
Commitments and Contingencies (Notes 8, 9 and 12)								
Net Assets								
Unrestricted								
Property and equipment	-	73,235,544	-	73,235,544	-	-	73,235,544	75,657,507
Board Designated Endowment (Note 2a)	-	-	862,764	862,764	-	-	862,764	892,975
Other	228,419	-	-	228,419	-	-	228,419	55,031
Total Unrestricted	228,419	73,235,544	862,764	74,326,727	-	-	74,326,727	76,605,513
Temporarily restricted (Note 2b)	-	-	-	-	2,809,466	-	2,809,466	3,245,518
Permanently restricted (Note 2c)	-	-	-	-	-	10,310,361	10,310,361	10,309,061
Total Net Assets	228,419	73,235,544	862,764	74,326,727	2,809,466	10,310,361	87,446,554	90,160,092
Total Liabilities and Net Assets	\$2,324,884	\$73,135,544	\$ 462,764	\$75,923,192	\$ 1,850,765	\$10,310,361	\$88,084,318	\$90,756,240

See notes to financial statements.

MUSEUM OF ARTS AND DESIGN
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2014

	2014						
	Unrestricted			Total	Temporarily Restricted	Permanently Restricted	Total
Operating	Property and Equipment/ Capital Campaign	Board Designated Endowment					
Assets							
Cash and cash equivalents (Notes 1b and 3a)	\$ 897,313	\$ 4,570	\$ -	\$ 901,883	\$ 83,205	\$ -	\$ 985,088
Unconditional promises to give (Notes 1c and 4)							
Unrestricted, less allowance for uncollectible pledges	173,385	-	-	173,385	-	-	173,385
Capital campaign	-	134,318	-	134,318	-	-	134,318
Restricted to future programs	-	-	-	-	683,860	1,000	684,860
Accounts receivable	153,715	-	-	153,715	26,924	-	180,639
Museum store inventory (Note 1h)	317,312	-	-	317,312	-	-	317,312
Prepaid expenses and other current assets	172,041	-	-	172,041	-	-	172,041
Investments - endowment (Notes 1d, 5 and 6)	-	-	492,975	492,975	1,888,942	10,308,061	12,689,978
Property and equipment, at cost, net of accumulated depreciation (Notes 1e and 7)	-	75,418,619	-	75,418,619	-	-	75,418,619
Collection (Note 1g)	-	-	-	-	-	-	-
Total Assets	\$1,713,766	\$75,557,507	\$ 492,975	\$77,764,248	\$ 2,682,931	\$10,309,061	\$90,756,240
Liabilities and Net Assets							
Liabilities							
Accounts payable and accrued expenses	\$ 574,820	\$ -	\$ -	\$ 574,820	\$ 19,328	\$ -	\$ 594,148
Line of credit (Note 8)	-	-	-	-	-	-	-
Refundable advances and deferred revenue	2,000	-	-	2,000	-	-	2,000
Interfund (receivable) payable	1,081,915	(100,000)	(400,000)	581,915	(581,915)	-	-
Total Liabilities	1,658,735	(100,000)	(400,000)	1,158,735	(562,587)	-	596,148
Commitments and Contingencies (Notes 8, 9 and 12)							
Net Assets							
Unrestricted							
Property and equipment	-	75,657,507	-	75,657,507	-	-	75,657,507
Board Designated Endowment (Note 2a)	-	-	892,975	892,975	-	-	892,975
Other (deficit)	55,031	-	-	55,031	-	-	55,031
Total Unrestricted	55,031	75,657,507	892,975	76,605,513	-	-	76,605,513
Temporarily restricted (Note 2b)	-	-	-	-	3,245,518	-	3,245,518
Permanently restricted (Note 2c)	-	-	-	-	-	10,309,061	10,309,061
Total Net Assets	55,031	75,657,507	892,975	76,605,513	3,245,518	10,309,061	90,160,092
Total Liabilities and Net Assets	\$1,713,766	\$75,557,507	\$ 492,975	\$77,764,248	\$ 2,682,931	\$10,309,061	\$90,756,240

See notes to financial statements.

MUSEUM OF ARTS AND DESIGN

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2015 WITH COMPARATIVE TOTALS FOR 2014

	2015						2014 Total	
	Unrestricted			Temporarily Restricted	Permanently Restricted	Total		
	Operating	Property and Equipment/ Capital Campaign	Board Designated Endowment	Total				
Revenues, Gains and Other Support (Note 3b)								
Contributions - capital campaign	\$ -	\$ 11,046	\$ -	\$ 11,046	\$ -	\$ -	\$ 11,046	\$ 19,175
Contributions	2,804,730	-	-	2,804,730	977,443	1,300	3,783,473	4,866,622
Donated services and materials (Note 10)	115,075	-	-	115,075	-	-	115,075	171,450
	<u>2,919,805</u>	<u>11,046</u>	<u>-</u>	<u>2,930,851</u>	<u>977,443</u>	<u>1,300</u>	<u>3,909,594</u>	<u>5,057,247</u>
Special events income	2,351,955	-	-	2,351,955	-	-	2,351,955	1,991,702
Less: Direct expenses	(450,270)	-	-	(450,270)	-	-	(450,270)	(381,573)
Merchandise sales	2,812,375	-	-	2,812,375	-	-	2,812,375	2,957,385
Less: Cost of sales, including payments to artists	(1,298,851)	-	-	(1,298,851)	-	-	(1,298,851)	(1,375,193)
Museum admission fees	773,651	-	-	773,651	-	-	773,651	947,533
Membership and support group dues	606,807	-	-	606,807	-	-	606,807	568,632
Member trips	15,700	-	-	15,700	-	-	15,700	30,275
Travel exhibition fees, net of direct expenses	177,173	-	-	177,173	-	-	177,173	116,909
Education lectures, workshops and other income	67,398	600	-	67,998	-	-	67,998	28,896
Rental income (Note 9b)	896,056	-	-	896,056	-	-	896,056	946,477
Net investment income (loss) (Note 5)	(400)	7	(7,616)	(8,009)	(199,562)	-	(207,571)	394,439
	<u>8,871,399</u>	<u>11,653</u>	<u>(7,616)</u>	<u>8,875,436</u>	<u>777,881</u>	<u>1,300</u>	<u>9,654,617</u>	<u>11,282,729</u>
Investment income appropriated to operations (Note 2b)	575,000	-	(22,595)	552,405	(552,405)	-	-	-
Net assets released from restrictions	661,528	-	-	661,528	(661,528)	-	-	-
Total Revenues, Gains and Other Support	10,107,927	11,653	(30,211)	10,089,369	(436,052)	1,300	9,654,617	11,282,729
Expenses								
Program Services								
Exhibitions	3,710,903	1,943,451	-	5,654,354	-	-	5,654,354	6,707,943
Curatorial	800,490	-	-	800,490	-	-	800,490	885,188
Education and other	2,812,339	242,932	-	3,055,271	-	-	3,055,271	3,049,225
Total Program Services	7,323,732	2,186,383	-	9,510,115	-	-	9,510,115	10,642,356
Supporting Services								
Administration	1,087,297	242,932	-	1,330,229	-	-	1,330,229	1,294,736
Membership and development	1,517,660	-	-	1,517,660	-	-	1,517,660	1,442,249
Capital campaign	-	4,301	-	4,301	-	-	4,301	23,380
Total Supporting Services	2,604,957	247,233	-	2,852,190	-	-	2,852,190	2,760,365
Total Expenses	9,928,689	2,433,616	-	12,362,305	-	-	12,362,305	13,402,721
Increase (Decrease) in Net Assets from Operations Before Changes Related to Collection Items Not Capitalized	179,238	(2,421,963)	(30,211)	(2,272,936)	(436,052)	1,300	(2,707,688)	(2,119,992)
Changes in net assets related to collection items not capitalized								
Collection items purchased (Note 1g)	(5,850)	-	-	(5,850)	-	-	(5,850)	(63,282)
Increase (decrease) in net assets	173,388	(2,421,963)	(30,211)	(2,278,786)	(436,052)	1,300	(2,713,538)	(2,183,274)
Net assets, beginning of year	55,031	75,657,507	892,975	76,605,513	3,245,518	10,309,061	90,160,092	92,343,366
Net Assets, End of Year	\$ 228,419	\$73,235,544	\$ 862,764	\$74,326,727	\$ 2,809,466	\$10,310,361	\$87,446,554	\$90,160,092

See notes to financial statements.

MUSEUM OF ARTS AND DESIGN
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014

	2014					
	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	Operating	Property and Equipment/ Capital Campaign	Board Designated Endowment			
Revenues, Gains and Other Support (Note 3b)						
Contributions - capital campaign	\$ -	\$ 19,175	\$ -	\$ 19,175	\$ -	\$ 19,175
Contributions	3,706,965	-	-	3,706,965	1,143,907	4,866,622
Donated services and materials (Note 10)	171,450	-	-	171,450	-	171,450
	<u>3,878,415</u>	<u>19,175</u>	<u>-</u>	<u>3,897,590</u>	<u>1,143,907</u>	<u>5,057,247</u>
Special events income	1,991,702	-	-	1,991,702	-	1,991,702
Less: Direct expenses	(381,573)	-	-	(381,573)	-	(381,573)
Merchandise sales	2,957,385	-	-	2,957,385	-	2,957,385
Less: Cost of sales, including payments to artists	(1,375,193)	-	-	(1,375,193)	-	(1,375,193)
Museum admission fees	947,533	-	-	947,533	-	947,533
Membership and support group dues	568,632	-	-	568,632	-	568,632
Member trips	30,275	-	-	30,275	-	30,275
Travel exhibition fees, net of direct expenses	116,909	-	-	116,909	-	116,909
Education lectures, workshops and other income	28,896	-	-	28,896	-	28,896
Rental income (Note 9b)	946,477	-	-	946,477	-	946,477
Net investment income (Note 5)	372	8	15,462	15,842	378,597	394,439
	<u>9,709,830</u>	<u>19,183</u>	<u>15,462</u>	<u>9,744,475</u>	<u>1,522,504</u>	<u>11,282,729</u>
Investment income appropriated to operations (Note 2b)	565,536	-	(22,095)	543,441	(543,441)	-
Net assets released from restrictions	1,004,142	-	-	1,004,142	(1,004,142)	-
	<u>11,279,508</u>	<u>19,183</u>	<u>(6,633)</u>	<u>11,292,058</u>	<u>(25,079)</u>	<u>11,282,729</u>
Expenses						
Program Services						
Exhibitions	4,531,148	2,176,795	-	6,707,943	-	6,707,943
Curatorial	885,188	-	-	885,188	-	885,188
Education and other	2,777,126	272,099	-	3,049,225	-	3,049,225
Total Program Services	<u>8,193,462</u>	<u>2,448,894</u>	<u>-</u>	<u>10,642,356</u>	<u>-</u>	<u>10,642,356</u>
Supporting Services						
Administration	1,022,636	272,100	-	1,294,736	-	1,294,736
Membership and development	1,442,249	-	-	1,442,249	-	1,442,249
Capital campaign	-	23,380	-	23,380	-	23,380
Total Supporting Services	<u>2,464,885</u>	<u>295,480</u>	<u>-</u>	<u>2,760,365</u>	<u>-</u>	<u>2,760,365</u>
Total Expenses	<u>10,658,347</u>	<u>2,744,374</u>	<u>-</u>	<u>13,402,721</u>	<u>-</u>	<u>13,402,721</u>
Increase (Decrease) in Net Assets Before Changes Related to Collection Items Not Capitalized	621,161	(2,725,191)	(6,633)	(2,110,663)	(25,079)	15,750
Changes in net assets related to collection items not capitalized						
Collection items purchased (Note 1g)	(63,282)	-	-	(63,282)	-	(63,282)
Increase (Decrease) in Net Assets from Operations	557,879	(2,725,191)	(6,633)	(2,173,945)	(25,079)	15,750
Transfers to (from) operations	6,681	(6,681)	-	-	-	-
Reclassification of pledge	125,000	(125,000)	-	-	-	-
Interfund appropriation for property and equipment	(3,914)	3,914	-	-	-	-
Increase (decrease) in net assets	685,646	(2,852,958)	(6,633)	(2,173,945)	(25,079)	15,750
Net assets (deficit), beginning of year	<u>(630,615)</u>	<u>78,510,465</u>	<u>899,608</u>	<u>78,779,458</u>	<u>3,270,597</u>	<u>10,293,311</u>
Net Assets, End of Year	<u>\$ 55,031</u>	<u>\$75,657,507</u>	<u>\$ 892,975</u>	<u>\$76,605,513</u>	<u>\$ 3,245,518</u>	<u>\$10,309,061</u>

See notes to financial statements.

MUSEUM OF ARTS AND DESIGN
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash Flows From Operating Activities		
Decrease in net assets	\$(2,713,538)	\$(2,183,274)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Bad debt expense	75,000	-
Depreciation and amortization	2,429,315	2,720,994
Net realized gain on sale of investments	(1,824,269)	(113,812)
Net unrealized (gain) loss on investments	2,321,870	(69,718)
Endowment contributions	(1,300)	(15,750)
Deferred rent	70,593	-
(Increase) decrease in:		
Unconditional promises to give	100,239	(283,637)
Accounts receivable	(21,961)	(18,168)
Museum store inventory	(22,934)	104,001
Prepaid expenses and other current assets	9,068	53,246
Decrease in accounts payable and accrued expenses	(28,977)	(173,200)
Net Cash Provided By Operating Activities	<u>393,106</u>	<u>20,682</u>
Cash Flows From Investing Activities		
Payments for purchase of fixed assets	(9,515)	(10,203)
Purchase of investments	(9,145,848)	(4,261,082)
Proceeds from sale of investments	9,438,946	4,627,463
Net Cash Provided By Investing Activities	<u>283,583</u>	<u>356,178</u>
Cash Flows From Financing Activities		
Borrowings under line of credit	145,000	410,000
Repayments of line of credit	(145,000)	(868,257)
Endowment contributions received	1,300	14,750
Net Cash Provided (Used) By Financing Activities	<u>1,300</u>	<u>(443,507)</u>
Net increase (decrease) in cash and cash equivalents	677,989	(66,647)
Cash and cash equivalents, beginning of year	<u>985,088</u>	<u>1,051,735</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,663,077</u>	<u>\$ 985,088</u>
Supplemental Disclosure		
Interest paid	<u>\$ 4,217</u>	<u>\$ 16,856</u>

See notes to financial statements.

MUSEUM OF ARTS AND DESIGN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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 2 Columbus Circle at 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 unrestricted highly liquid investments, 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 unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

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.

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 unrestricted net assets unless their use is temporarily or permanently 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 unrestricted net assets if the restrictions are met in the same fiscal year in which the gains and other investment income are recognized.

MUSEUM OF ARTS AND DESIGN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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

d - Investments (continued)

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.

f - Financial Statement Presentation

The Museum reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

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.

MUSEUM OF ARTS AND DESIGN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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

g - Art Collection (continued)

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 2015 or 2014. Numerous works were also donated to the permanent collection in 2015 and 2014.

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.

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 9a). 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, 2015 and 2014 was \$318,656 and \$282,904, 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 - Subsequent Events

The Museum has evaluated subsequent events through May 9, 2016, the date that the financial statements are considered available to be issued.

MUSEUM OF ARTS AND DESIGN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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

m - Prior Year Information

Certain 2014 amounts have been reclassified for comparative purposes.

n - 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 - Restrictions on Assets

a - 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 2015 and 2014, \$22,595 and \$22,095, respectively, was appropriated to operations pursuant to the Museum's spending policy. Cumulative outstanding borrowings at December 31, 2015 and 2014 totaled \$400,000.

b - Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following future purposes:

	<u>2015</u>	<u>2014</u>
Accumulated endowment investment earnings (net of accrued investment fees)	\$1,144,571	\$1,896,538
Future exhibitions, projects and operations	1,550,655	1,304,368
Permanent collection acquisitions	<u>114,240</u>	<u>44,612</u>
	<u>\$2,809,466</u>	<u>\$3,245,518</u>

For 2015 and 2014, \$552,405 and \$543,441, respectively, was released from restriction in accordance with the Museum's spending policy for use in programs and operations.

MUSEUM OF ARTS AND DESIGN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 2 - Restrictions on Assets (continued)

c - Permanently Restricted Net Assets

Permanently restricted net assets 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>2015</u>	<u>2014</u>
General program activities	\$ 9,135,361	\$ 9,134,061
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>\$10,310,361</u>	<u>\$10,309,061</u>

Note 3 - 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.
- b - In 2015, contributions from four donors totaled approximately 34% of operating contributions and contributions from three donors totaled approximately 36% of temporarily restricted contributions. In 2014, contributions from four donors totaled approximately 34% of operating contributions and contributions from one donor totaled approximately 43% of temporarily restricted contributions.

Note 4 - Unconditional Promises to Give

Unconditional promises to give are due as follows:

	<u>2015</u>	<u>2014</u>
Due within one year	\$ 512,800	\$ 590,237
Due in one to five years	<u>360,000</u>	<u>480,000</u>
	872,800	1,070,237
Less: Discount to present value	(48,861)	(71,059)
Less: Allowance for uncollectible pledges	<u>(6,615)</u>	<u>(6,615)</u>
	<u>\$ 817,324</u>	<u>\$ 992,563</u>

MUSEUM OF ARTS AND DESIGN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 4 - Unconditional Promises to Give (continued)

Unconditional promises to give due after one year are reflected at present value of estimated future cash flows using discount rates ranging from 3 to 5%.

Note 5 - Investments

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

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Money market funds and invested cash	\$ 201,217	\$ 201,217	\$ 285,387	\$ 285,387
Exchange traded funds	9,829,548	9,128,925	3,698,852	3,707,958
Domestic equities	-	-	3,941,020	5,216,363
Corporate obligations	2,598,202	2,486,223	2,860,711	2,814,577
Publicly traded partnerships	-	-	311,826	582,779
Restricted preferred stock	<u>59,756</u>	<u>82,914</u>	<u>59,756</u>	<u>82,914</u>
	<u>\$12,688,723</u>	<u>\$11,899,279</u>	<u>\$11,157,552</u>	<u>\$12,689,978</u>

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, 2015 and 2014:

	2015	2014
Interest and dividend income	\$ 319,583	\$294,355
Net realized gain on sale of investments	<u>1,824,269</u>	<u>113,812</u>
	2,143,852	408,167
Net unrealized gain (loss)	<u>(2,321,870)</u>	<u>69,718</u>
	(178,018)	477,885
Investment management and custody fees	<u>(29,553)</u>	<u>(83,446)</u>
Net Investment Income (Loss)	<u>\$ (207,571)</u>	<u>\$394,439</u>

MUSEUM OF ARTS AND DESIGN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 5 - Investments (continued)

The following summarizes investments at December 31, 2015 and 2014 by the levels within the fair value hierarchy used to measure their respective fair values:

	2015			
	Fair Value	Level 1 (Quoted Prices in Active Markets in Identical Assets)	Level 2 (Quoted Prices in Active Markets in Similar Assets)	Level 3 Significant Unobservable Inputs
Money market funds and invested cash	\$ 201,217	\$ 201,217	\$ -	\$ -
Exchange traded funds	9,128,925	9,128,925	-	-
Corporate obligations	2,486,223	-	2,486,223	-
Restricted preferred stock	<u>82,914</u>	<u>-</u>	<u>-</u>	<u>82,914</u>
	<u>\$11,899,279</u>	<u>\$9,330,142</u>	<u>\$2,486,223</u>	<u>\$82,914</u>
	2014			
	Fair Value	Level 1 (Quoted Prices in Active Markets in Identical Assets)	Level 2 (Quoted Prices in Active Markets in Similar Assets)	Level 3 Significant Unobservable Inputs
Money market funds and invested cash	\$ 285,387	\$ 285,387	\$ -	\$ -
Exchange traded funds	3,707,958	3,707,958	-	-
Domestic equities	5,216,363	5,216,363	-	-
Corporate obligations	2,814,577	-	2,814,577	-
Publicly traded partnerships	582,779	582,779	-	-
Restricted preferred stock	<u>82,914</u>	<u>-</u>	<u>-</u>	<u>82,914</u>
	<u>\$12,689,978</u>	<u>\$9,792,487</u>	<u>\$2,814,577</u>	<u>\$82,914</u>

There were no changes in fair value in 2015 and 2014 for the Museum's investment in restricted preferred stock.

MUSEUM OF ARTS AND DESIGN
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

Note 6 - 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 2c. Consistent with New York State Not-for-Profit Corporation Law and the New York Prudent Management of Institutional Funds Act ("NYPMIFA"), the Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent 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 donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure.

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

As of December 31, 2015 and 2014, the Museum's invested endowment funds composition, by type of fund and net asset classification, are summarized as follows:

	2015			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$1,127,154	\$10,309,361	\$11,436,515
Board Designated Endowment funds	<u>462,764</u>	<u>-</u>	<u>-</u>	<u>462,764</u>
Total Endowment Funds	<u>\$462,764</u>	<u>\$1,127,154</u>	<u>\$10,309,361</u>	<u>\$11,899,279</u>
	2014			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$1,888,942	\$10,308,061	\$12,197,003
Board Designated Endowment funds	<u>492,975</u>	<u>-</u>	<u>-</u>	<u>492,975</u>
Total Endowment Funds	<u>\$492,975</u>	<u>\$1,888,942</u>	<u>\$10,308,061</u>	<u>\$12,689,978</u>

MUSEUM OF ARTS AND DESIGN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 6 - Endowment Funds (continued)

Changes in endowment funds for the years ended December 31, 2015 and 2014 are summarized as follows:

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment funds, beginning of year	<u>\$492,975</u>	<u>\$1,888,942</u>	<u>\$10,308,061</u>	<u>\$12,689,978</u>
Investment Return (Loss):				
Investment income, net of fees	11,653	268,423	-	280,076
Net depreciation (realized and unrealized)	<u>(19,269)</u>	<u>(477,806)</u>	<u>-</u>	<u>(497,075)</u>
Total Investment Return (Loss)	<u>(7,616)</u>	<u>(209,383)</u>	<u>-</u>	<u>(216,999)</u>
Contributions	<u>-</u>	<u>-</u>	<u>1,300</u>	<u>1,300</u>
Appropriation of endowment assets to operations	<u>(22,595)</u>	<u>(552,405)</u>	<u>-</u>	<u>(575,000)</u>
Endowment Funds, End of Year	<u>\$462,764</u>	<u>\$1,127,154</u>	<u>\$10,309,361</u>	<u>\$11,899,279</u>
	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment funds, beginning of year	<u>\$499,608</u>	<u>\$2,079,910</u>	<u>\$10,293,311</u>	<u>\$12,872,829</u>
Investment Return:				
Investment income, net of fees	8,218	176,342	-	184,560
Net appreciation (realized and unrealized)	<u>7,244</u>	<u>176,131</u>	<u>-</u>	<u>183,375</u>
Total Investment Return	<u>15,462</u>	<u>352,473</u>	<u>-</u>	<u>367,935</u>
Contributions	<u>-</u>	<u>-</u>	<u>14,750</u>	<u>14,750</u>
Appropriation of endowment assets to operations	<u>(22,095)</u>	<u>(543,441)</u>	<u>-</u>	<u>(565,536)</u>
Endowment Funds, End of Year	<u>\$492,975</u>	<u>\$1,888,942</u>	<u>\$10,308,061</u>	<u>\$12,689,978</u>

MUSEUM OF ARTS AND DESIGN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 6 - Endowment Funds (continued)

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 or monthly over 36 months, 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.

Note 7 - Property and Equipment

Property and equipment consist of the following:

	<u>Life</u>	<u>2015</u>	<u>2014</u>
Building	40 years	\$ 9,229,600	\$ 9,229,600
Building improvements	15-40 years	70,342,563	70,342,563
Furniture and equipment	5-20 years	4,562,963	4,554,773
Computers	3 years	<u>380,966</u>	<u>379,641</u>
		84,516,092	84,506,577
Less: Accumulated depreciation		<u>(20,027,673)</u>	<u>(17,598,358)</u>
		64,488,419	66,908,219
Land		<u>8,510,400</u>	<u>8,510,400</u>
Net Property and Equipment		<u>\$72,998,819</u>	<u>\$75,418,619</u>

MUSEUM OF ARTS AND DESIGN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 7 - Property and Equipment (continued)

Total depreciation expense was \$2,429,315 and \$2,720,994 for the years ended December 31, 2015 and 2014, 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 8 - 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. There were no borrowings outstanding at December 31, 2015 and 2014, respectively.

Interest expense under the line of credit totaled \$4,217 (2015) and \$16,856 (2014).

Note 9 - Commitments and Contingencies

a - The Museum leases storage space for its permanent collection under a lease with a term which expires February 28, 2025.

Future minimum payments are as follows:

<u>Year Ending December 31,</u>	
2016	\$169,780
2017	174,439
2018	179,239
2019	184,172
2020	189,237
2021 and thereafter	845,653

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, 2015 and 2014 was \$227,732 and \$225,784 respectively.

MUSEUM OF ARTS AND DESIGN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 9 - Commitments and Contingencies (continued)

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 5 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 \$694,556 (2015) and \$636,077 (2014).

c - The Museum entered into a separation agreement with an officer, which provides for compensation through December 2016.

d - The Museum has been named as one of several defendants in a legal action seeking damages for alleged injuries sustained while near or on the premises of the Museum. This action has been referred to the Museum's insurance company, which has appointed legal counsel. Management believes that the outcome of this action will have no material effect on the financial position of the Museum.

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

Note 10 - Donated Services and Materials

Donated services and materials are recorded at fair value and consist of the following:

	<u>2015</u>	<u>2014</u>
Legal (Note 11)	\$ 60,075	\$ 52,000
Consulting services	55,000	-
Exhibition fabrication services	-	100,000
Other	-	19,450
	<u>\$115,075</u>	<u>\$171,450</u>

MUSEUM OF ARTS AND DESIGN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 11 - 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 \$60,075 and \$52,000 for the years ended December 31, 2015 and 2014, respectively.

Note 12 - Defined Contribution Plan

The Museum maintains a 403(b) defined contribution plan for qualifying eligible employees. A matching contribution is made to match 100% of the employee's contribution up to 3% of the employee's compensation. Total expense under this plan for 2015 and 2014 was \$58,753 and \$52,763, respectively.

Note 13 - Functional Allocation of Expenses

The cost of providing the various program and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and the supporting services benefited.

SUPPLEMENTARY INFORMATION



LUZ AND CARR
CERTIFIED PUBLIC ACCOUNTANTS, LLP
300 EAST 42ND ST., NEW YORK, NY 10017
212-697-2299 Fax 212-949-1768

**INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY INFORMATION**

To the Board of Trustees of
Museum of Arts and Design

We have audited the financial statements of Museum of Arts and Design as of and for the years ended December 31, 2015 and 2014, and our report thereon dated May 9, 2016, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses for the year ended December 31, 2015 with comparative totals for 2014 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Lutz + Carr, LLP

New York, New York
May 9, 2016

MUSEUM OF ARTS AND DESIGN

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2015 WITH COMPARATIVE TOTALS FOR 2014

	Program Services				Supporting Services				2015	2014
	Exhibitions	Curatorial	Education and Other	Total	Administration	Membership and Development	Capital Campaign	Total	Total Expenses	Total Expenses
Salaries and fringe benefits	\$1,426,977	\$ 537,933	\$1,876,464	\$ 3,841,374	\$ 238,847	\$ 649,896	\$ -	\$ 888,743	\$ 4,730,117	\$ 4,705,382
Speakers and instructors	-	-	51,792	51,792	-	-	-	-	51,792	46,865
Professional fees	47,570	47,291	387,311	482,172	197,518	161,324	-	358,842	841,014	1,117,701
Legal services	-	-	-	-	60,075	-	-	60,075	60,075	52,000
Installation and design	556,388	-	-	556,388	-	-	-	-	556,388	653,461
Video documentation and photos	32,062	-	4,212	36,274	-	450	-	450	36,724	52,495
Security services	300,661	-	73,893	374,554	40,088	6,888	102	47,078	421,632	363,832
Storage and warehouse	53,135	149,667	11,791	214,593	23,724	-	-	23,724	238,317	232,499
Building service contracts	215,391	-	26,242	241,633	49,440	1,215	-	50,655	292,288	293,823
Electricity	686,847	-	85,856	772,703	85,856	-	-	85,856	858,559	860,006
Telephone	2,243	897	2,549	5,689	9,303	3,252	-	12,555	18,244	18,381
Insurance	17,125	9,747	22,182	49,054	125,943	1,224	-	127,167	176,221	154,328
Supplies	38,103	11,979	66,099	116,181	25,163	81,694	373	107,230	223,411	174,636
Printing	68,099	952	3,161	72,212	3,928	106,893	2,405	113,226	185,438	236,141
Postage	2,610	933	3,111	6,654	1,627	33,008	-	34,635	41,289	63,212
Shipping and crating	160,858	7,924	84,242	253,024	204	6,077	-	6,281	259,305	834,151
Equipment and maintenance	16,560	15,593	27,340	59,493	20,862	25,492	1,234	47,588	107,081	138,325
Travel and meals	53,010	15,670	4,461	73,141	40,541	40,147	-	80,688	153,829	131,206
Catering	11,285	-	5,241	16,526	-	42,361	187	42,548	59,074	50,646
Advertising and promotion	72	2	5,696	5,770	3,952	308,934	-	312,886	318,656	282,904
Interest	-	-	1,054	1,054	3,163	-	-	3,163	4,217	16,856
Conservation	18,982	1,868	-	20,850	-	-	-	-	20,850	5,638
Bank and credit card fees	2,260	34	67,680	69,974	18,818	41,259	-	60,077	130,051	125,343
Property taxes	-	-	-	-	58,723	-	-	58,723	58,723	53,954
Bad debt expenses	-	-	-	-	75,000	-	-	75,000	75,000	-
Miscellaneous	665	-	1,962	2,627	4,522	7,546	-	12,068	14,695	17,942
Total expenses before depreciation and amortization	3,710,903	800,490	2,812,339	7,323,732	1,087,297	1,517,660	4,301	2,609,258	9,932,990	10,681,727
Depreciation and amortization	1,943,451	-	242,932	2,186,383	242,932	-	-	242,932	2,429,315	2,720,994
Total Expenses, 2015	<u>\$5,654,354</u>	<u>\$ 800,490</u>	<u>\$3,055,271</u>	<u>\$ 9,510,115</u>	<u>\$ 1,330,229</u>	<u>\$ 1,517,660</u>	<u>\$ 4,301</u>	<u>\$2,852,190</u>	<u>\$12,362,305</u>	
Total Expenses, 2014	<u>\$6,707,943</u>	<u>\$ 885,188</u>	<u>\$3,049,225</u>	<u>\$10,642,356</u>	<u>\$ 1,294,736</u>	<u>\$ 1,442,249</u>	<u>\$ 23,380</u>	<u>\$2,760,365</u>		<u>\$13,402,721</u>

See independent auditors' report on supplementary information.