

**BROOKLYN CHILDREN'S
MUSEUM CORPORATION**

**Financial Statements
for the years ended
June 30, 2019
and
June 30, 2018**

Independent Auditor's Report

To the Board of Trustees of
Brooklyn Children's Museum Corporation

We have audited the accompanying financial statements of Brooklyn Children's Museum Corporation which comprise the statement of financial position as of June 30, 2019 and June 30, 2018 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brooklyn Children's Museum Corporation as of June 30, 2019 and June 30, 2018 and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Condon O'Meara McGinty & Donnelly LLP

February 19, 2020

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Statement of Financial Position

Assets

	June 30	
	2019	2018
Cash	\$ 1,231,285	\$ 381,344
Certificates of deposit	116,285	167,198
Money market account	502,542	501,538
Contributions receivable, net		
Without donor restrictions	110,889	249,505
With donor restrictions for future periods and programs	-	60,000
Prepaid expenses and other assets	95,766	25,870
Investments, at fair value	2,276,571	2,797,375
Property and equipment, net	<u>563,644</u>	<u>498,015</u>
Total assets	<u>\$ 4,896,982</u>	<u>\$ 4,680,845</u>

Liabilities and Net Assets

Liabilities

Line of credit	\$ 301,492	\$ 156,178
Accounts payable and accrued expenses	676,825	546,337
Notes payable	50,000	70,000
Due to City of New York	121,255	141,465
Deferred revenue	35,319	19,897
Loans payable	123,228	196,123
Refundable advance	337,330	-
Accrued postretirement benefits	<u>3,197,201</u>	<u>3,195,682</u>
Total liabilities	<u>4,842,650</u>	<u>4,325,682</u>
Net assets (deficit)		
Without donor restrictions	(2,116,577)	(2,581,257)
With donor restrictions	<u>2,170,909</u>	<u>2,936,420</u>
Total net assets	<u>54,332</u>	<u>355,163</u>
Total liabilities and net assets	<u>\$ 4,896,982</u>	<u>\$ 4,680,845</u>

See notes to financial statements.

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Statement of Activities

Year Ended June 30, 2019

(With Summarized Comparative Information for the Year Ended June 30, 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and revenue				
Contributions				
Individuals	\$ 86,769	\$ 24,322	\$ 111,091	\$ 1,362,188
Corporations	99,211	50,044	149,255	55,600
Foundations	25,000	193,000	218,000	236,076
Government and state	323,955	44,590	368,545	779,670
Appropriations from City of New York	2,454,851	-	2,454,851	2,232,127
Admission fees	1,101,244	-	1,101,244	1,171,756
Membership fees	241,148	-	241,148	267,596
Fund-raising events, net of direct expenses of \$126,404 in 2019 and \$86,316 in 2018	301,917	-	301,917	362,730
Space rentals	246,265	-	246,265	155,459
Gift shop commission	53,215	-	53,215	69,808
Food service commission	37,479	-	37,479	32,390
Photo booth commission	7,198	-	7,198	-
Investment return, net	1,007	79,620	80,627	155,722
Other	14,054	-	14,054	9,209
Sub-total	4,993,313	391,576	5,384,889	6,890,331
Net assets released from restrictions	1,157,087	(1,157,087)	-	-
Total support and revenue	<u>6,150,400</u>	<u>(765,511)</u>	<u>5,384,889</u>	<u>6,890,331</u>
Expenses				
Program services				
Exhibitions	446,850	-	446,850	472,071
Collections	121,025	-	121,025	160,293
Education	1,177,232	-	1,177,232	750,044
Visitor services	959,870	-	959,870	764,264
Maintenance and security	1,620,944	-	1,620,944	1,544,557
Marketing and public affairs	134,592	-	134,592	167,128
Total program services	<u>4,460,513</u>	<u>-</u>	<u>4,460,513</u>	<u>3,858,357</u>
Supporting activities				
General and administrative	895,334	-	895,334	718,428
Development	315,900	-	315,900	485,859
Total supporting activities	<u>1,211,234</u>	<u>-</u>	<u>1,211,234</u>	<u>1,204,287</u>
Total expenses	<u>5,671,747</u>	<u>-</u>	<u>5,671,747</u>	<u>5,062,644</u>
Increase (decrease) in net assets before other addition (deduction)	478,653	(765,511)	(286,858)	1,827,687
Other addition (deduction)				
Pension adjustment	(13,973)	-	(13,973)	204,231
Increase (decrease) in net assets	464,680	(765,511)	(300,831)	2,031,918
Net assets (deficit), beginning of year	(2,581,257)	2,936,420	355,163	(1,676,755)
Net assets (deficit), end of year	<u>\$ (2,116,577)</u>	<u>\$ 2,170,909</u>	<u>\$ 54,332</u>	<u>\$ 355,163</u>

See notes to financial statements.

BROOKLYN CHILDREN'S MUSEUM CORPORATION

**Statement of Activities
Year Ended June 30, 2018**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue			
Contributions			
Individuals	\$ 1,361,938	\$ 250	\$ 1,362,188
Corporations	45,000	10,600	55,600
Foundations	111,076	125,000	236,076
Government	321,420	458,250	779,670
Appropriations from City of New York	2,232,127	-	2,232,127
Admission fees	1,171,756	-	1,171,756
Membership fees	267,596	-	267,596
Fund-raising events, net of direct expenses of \$86,316	362,730	-	362,730
Space rentals	155,459	-	155,459
Gift shop commission	69,808	-	69,808
Food service commission	32,390	-	32,390
Investment return, net	(13,081)	168,803	155,722
Other	<u>9,209</u>	<u>-</u>	<u>9,209</u>
Sub-total	6,127,428	762,903	6,890,331
Net assets released from restrictions	<u>368,726</u>	<u>(368,726)</u>	<u>-</u>
Total support and revenue	<u>6,496,154</u>	<u>394,177</u>	<u>6,890,331</u>
Expenses			
Program services			
Exhibitions	472,071	-	472,071
Collections	160,293	-	160,293
Education	750,044	-	750,044
Visitor services	764,264	-	764,264
Maintenance and security	1,544,557	-	1,544,557
Marketing and public affairs	<u>167,128</u>	<u>-</u>	<u>167,128</u>
Total program services	<u>3,858,357</u>	<u>-</u>	<u>3,858,357</u>
Supporting activities			
General and administrative	718,428	-	718,428
Development	<u>485,859</u>	<u>-</u>	<u>485,859</u>
Total supporting activities	<u>1,204,287</u>	<u>-</u>	<u>1,204,287</u>
Total expenses	<u>5,062,644</u>	<u>-</u>	<u>5,062,644</u>
Increase in net assets before other addition	1,433,510	394,177	1,827,687
Other addition			
Pension adjustment	<u>204,231</u>	<u>-</u>	<u>204,231</u>
Increase in net assets	1,637,741	394,177	2,031,918
Net assets (deficit), beginning of year	<u>(4,218,998)</u>	<u>2,542,243</u>	<u>(1,676,755)</u>
Net assets (deficit), end of year	<u>\$ (2,581,257)</u>	<u>\$ 2,936,420</u>	<u>\$ 355,163</u>

See notes to financial statements.

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Statement of Functional Expenses

Year Ended June 30, 2019

(With Summarized Comparative Information for the Year Ended June 30, 2018)

	2019										2018	
	Program Services							Supporting Activities			Total	
	Exhibitions	Collections	Education	Visitor Services	Maintenance and Security	Marketing and Public Affairs	Total Program Services	General and Administrative	Development (Operating)	Total Supporting Activities		
Salaries, wages and benefits	\$ 273,474	\$ 99,461	\$ 925,318	\$ 719,034	\$ 1,078,984	\$ 58,375	\$ 3,154,646	\$ 175,304	\$ 282,217	\$ 457,521	\$ 3,612,167	\$ 3,250,158
Professional fees	54,205	7,318	96,625	67,914	79,152	64,801	370,015	525,235	6,974	532,209	902,224	824,709
Office expenses	892	203	2,879	5,214	2,197	119	11,504	14,416	2,674	17,090	28,594	38,029
Supplies	46,736	4,624	69,871	25,822	27,003	4,529	178,585	5,186	4,515	9,701	188,286	162,162
Travel and meetings	441	869	9,973	2,351	1,408	334	15,376	10,982	25	11,007	26,383	31,124
Marketing	-	-	-	-	-	421	421	1,768	-	1,768	2,189	1,764
Equipment	25,245	1,743	967	53,382	54,063	37	135,437	3,231	178	3,409	138,846	108,864
Maintenance and utilities	1,634	594	5,530	14,845	213,857	349	236,809	1,048	1,687	2,735	239,544	245,062
Insurance	-	-	-	-	-	-	-	104,678	-	104,678	104,678	80,050
Other	1,412	-	8,266	26,391	561	1,980	38,610	42,535	-	42,535	81,145	82,083
Sub-total	404,039	114,812	1,119,429	914,953	1,457,225	130,945	4,141,403	884,383	298,270	1,182,653	5,324,056	4,824,005
Depreciation	25,727	-	-	-	96,316	-	122,043	-	-	-	122,043	90,661
Postretirement benefits	17,084	6,213	57,803	44,917	67,403	3,647	197,067	10,951	17,630	28,581	225,648	147,978
Total	\$ 446,850	\$ 121,025	\$ 1,177,232	\$ 959,870	\$ 1,620,944	\$ 134,592	\$ 4,460,513	\$ 895,334	\$ 315,900	\$ 1,211,234	\$ 5,671,747	\$ 5,062,644

See notes to financial statements.

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Statement of Functional Expenses
Year Ended June 30, 2018

	Program Services						Supporting Activities			Total	
	Exhibitions	Collections	Education	Visitor Services	Maintenance and Security	Marketing and Public Affairs	Total Program Services	General and Administrative	Development (Operating)		Total Supporting Activities
Salaries, wages and benefits	\$ 312,551	\$ 147,198	\$ 565,597	\$ 557,327	\$ 1,049,381	\$ 75,643	\$ 2,707,697	\$ 153,025	\$ 389,436	\$ 542,461	\$ 3,250,158
Professional fees	21,784	2,649	109,788	48,125	101,722	79,455	363,523	393,494	67,692	461,186	824,709
Office expenses	3,650	1,207	8,838	3,106	4,538	327	21,666	14,679	1,684	16,363	38,029
Supplies	88,325	1,209	21,165	30,012	13,047	634	154,392	4,724	3,046	7,770	162,162
Travel and meetings	697	74	4,079	2,860	387	3,070	11,167	17,499	2,458	19,957	31,124
Marketing	-	-	-	-	-	624	624	1,140	-	1,140	1,764
Equipment	527	109	720	47,301	45,402	56	94,115	14,460	289	14,749	108,864
Maintenance and utilities	2,432	1,145	4,401	14,744	217,530	589	240,841	1,191	3,030	4,221	245,062
Insurance	-	-	-	-	-	-	-	80,050	-	80,050	80,050
Other	471	-	9,705	35,414	1,515	3,286	50,391	31,199	493	31,692	82,083
Sub-total	430,437	153,591	724,293	738,889	1,433,522	163,684	3,644,416	711,461	468,128	1,179,589	4,824,005
Depreciation	27,404	-	-	-	63,257	-	90,661	-	-	-	90,661
Postretirement benefits	14,230	6,702	25,751	25,375	47,778	3,444	123,280	6,967	17,731	24,698	147,978
Total	\$ 472,071	\$ 160,293	\$ 750,044	\$ 764,264	\$ 1,544,557	\$ 167,128	\$ 3,858,357	\$ 718,428	\$ 485,859	\$ 1,204,287	\$ 5,062,644

See notes to financial statements.

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Statement of Cash Flows

	Year Ended	
	June 30	
	2019	2018
Cash flows from operating activities		
Increase (decrease) in net assets	\$ (300,831)	\$ 2,031,918
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation	122,043	90,661
Donated investments	(1,473)	(1,300,704)
Proceeds from sales of donated investments	1,489	40,072
Net realized (gain) loss on sale of investments	29,787	(64,141)
Change in unrealized value of investments	(72,252)	(77,161)
Forgiveness of notes payable	(10,000)	(10,000)
(Increase) decrease in assets		
Contributions receivable	198,616	(77,543)
Prepaid expenses and other assets	(69,896)	906
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	130,488	104,339
Due to City of New York	(20,210)	(20,210)
Deferred revenue	15,422	8,391
Refundable advance	337,330	-
Accrued postretirement benefits	1,519	(209,013)
Net cash provided by operating activities	<u>362,032</u>	<u>517,515</u>
Cash flows from investing activities		
Redemption of certificates of deposit	50,913	47,649
Purchases of investments	(398,831)	(300,474)
Proceeds from sales of investments	885,957	228,032
Net change in money market funds	76,127	(23,360)
Purchases of property and equipment	(187,672)	(267,500)
Net cash provided by (used in) investing activities	<u>426,494</u>	<u>(315,653)</u>
Cash flows from financing activities		
Borrowings on line of credit	225,000	178,500
Repayment of line of credit	(79,686)	(206,944)
Repayment of note payable	(10,000)	(10,000)
Repayment of loans payable	(72,895)	(69,860)
Net cash provided by (used in) financing activities	<u>62,419</u>	<u>(108,304)</u>
Net increase in cash and money market account	850,945	93,558
Cash and money market account, beginning of year	<u>882,882</u>	<u>789,324</u>
Cash and money market account, end of year	<u>\$ 1,733,827</u>	<u>\$ 882,882</u>
Consists of:		
Cash	\$ 1,231,285	\$ 381,344
Money market account	<u>502,542</u>	<u>501,538</u>
Total	<u>\$ 1,733,827</u>	<u>\$ 882,882</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 19,754</u>	<u>\$ 26,312</u>

See notes to financial statements.

BROOKLYN CHILDREN'S MUSEUM CORPORATION**Notes to Financial Statements
June 30, 2019 and June 30, 2018****Note 1 – Nature of organization and summary of significant accounting policies**Nature of Organization

Brooklyn Children's Museum Corporation (the "Museum") was founded in 1899 as the world's first museum designed especially for children and families. The Museum has always been located in Crown Heights, Brooklyn, and remains committed to serving families in the borough, with a particular focus on those living in Central Brooklyn. Roughly 300,000 children and caregivers annually are served by the Museum's exhibits and programs.

Inspired by the energy and diversity of our borough, the Museum's mission is to create experiences that ignite curiosity, celebrate identity, and cultivate joyful learning. The Museum's exhibits explore art, world cultures, natural sciences and civic engagement through hands-on, sensory experiences. Each week, the Museum hosts public programs, school field trips, and performances that introduce young learners to visual arts, dance, music, gardening, and many other disciplines. The Museum also runs free after school and summer camp programs for families in the neighborhood and a workforce development initiative for Central Brooklyn youth.

Museum exhibits include *World Brooklyn*, a recreated street featuring child-size replicas of real Brooklyn stores; *Neighborhood Nature*, an exploration of the borough's ecosystems, featuring a working greenhouse; *Collections Central*, an area that highlights objects from the Museum's collection through themed exhibitions; and, *Totally Tots*, an early childhood sensory learning space. In spring of 2018, the Museum opened *ColorLab*, an art studio on its second floor featuring art-making experiences highlighting Black art and artists.

Annually, the Museum hosts original temporary exhibitions in its visiting exhibits gallery. In 2018, the Museum presented *Block Party*, a vivid exploration of the iconic Brooklyn block party featuring a climbable stoop scape, pretend grilling areas, a double dutch station, and street games like skelly and hopscotch. In fiscal year 2019, the Museum built *TapeScape*, an interactive, climbable sculpture created from 15 miles of packing tape. In fiscal year 2020, the Museum is hosting two exhibitions, *Survival of the Slowest* and *Under the Canopy*, both of which bring unique live animals from around the world to Brooklyn to teach children about conservation and species preservation.

The Museum is committed to making its exhibits and programs accessible to all children, offering free hours on Thursdays and Sundays; free admission to families enrolled in Head Start programs; free memberships for IDNYC cardholders; and, free admission for families of military service members, firefighters, and police officers. Roughly half of Museum visitors attend for free or at a reduced rate, and over 30% are served at no charge. It is the Museum's policy never to turn a visitor away for lack of funds.

The Museum is a member of the Cultural Institutions Group of the City of New York (the "CIG"), a group of arts and culture organizations on City-owned property, and accordingly, receives an appropriation in the City of New York budget, as well as substantial capital support (see note [YK1] 12).

BROOKLYN CHILDREN'S MUSEUM CORPORATION**Notes to Financial Statements (continued)****June 30, 2019 and June 30, 2018****Note 1 – Nature of organization and summary of significant accounting policies (continued)**Net assets

The Museum reports information regarding its financial position and activities according to specific classes of net assets, as follows:

Without donor restrictions

Net assets without donor restrictions consist of amounts that can be spent at the discretion of the Museum. Included in net assets without donor restrictions is the Board-designated fund. The Board-designated fund had been segregated for investment by the Board of Trustees.

With donor restrictionsTemporary donor restrictions

Net assets with temporary donor restrictions consist of contributions that are restricted by the donor for a specific purpose or pertain to future periods.

Perpetual donor restrictions

Net assets with perpetual donor restrictions consist of contributions that are restricted by the donor in that the principal must remain in perpetuity but the investment return earned on such funds may be spent in accordance with the donor's terms.

Contributions

The Museum reports contributions as support with temporary donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor stipulation expires, that is, when a stipulated time restriction ends or the purpose for restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Bequests are recorded as revenue when a legally binding obligation is received and when a fair value can reasonably be determined.

Donated services

Board members and other individuals volunteer their time and perform a variety of tasks that assist the Museum. These services do not meet the criteria under accounting principles generally accepted in the United States of America to be recorded as donated services and have not been included in the financial statements.

Cash equivalents

The Museum considers highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

BROOKLYN CHILDREN'S MUSEUM CORPORATION**Notes to Financial Statements (continued)
June 30, 2019 and June 30, 2018****Note 1 – Nature of organization and summary of significant accounting policies (continued)**Certificates of deposit

The Museum has certificates of deposit, which are valued using a cost based measure, which is the original cost plus accrued interest, adjusted for the change in interest rates.

Allowance for doubtful accounts

As of June 30, 2019 and June 30, 2018, the Museum has an allowance for doubtful accounts of \$585 and \$2,500, respectively, for any possible uncollectible contributions. Such estimate is based on management's experience, the aging of the receivables, subsequent receipts and current economic conditions.

Investments

The Museum reports investments at fair value in the statement of financial position. The fair value of the investments is based on publicly quoted market prices. Realized and unrealized gains and losses are reflected in the statement of activities as increases or decreases in temporarily restricted net assets.

Fair value measurements

The Financial Accounting Standards Board (FASB) established a fair value hierarchy that prioritizes the inputs used to measure fair value into three broad levels. The Museum's investments are measured using Level 1 inputs, which are defined as quoted prices in active markets for identical assets that the reporting entity has the ability to access at the measurement date.

Property and equipment

Property and equipment are recorded at cost. Expenditures for property and equipment are capitalized for assets in excess of a nominal amount and that have a useful life greater than one year. Depreciation is being provided on the straight-line method over the estimated useful lives of the assets, which range from 5 to 20 years.

Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as support and revenue in net assets with temporary donor restrictions. It is the Museum's policy to imply a time restriction, based on when the asset is placed in service, on donations of property and equipment that are not restricted as to their use by the donor or contributions of cash or other assets restricted by the donor for the purchase of property and equipment. Accordingly, these donations are recorded as support with temporary donor restrictions. The Museum reclassifies net assets with temporary donor restrictions to net assets without donor restrictions for the entire amount of the donated property and equipment once it is placed in service.

The Museum included the Capital Expansion cost of exhibit design, fabrication and installation in property and equipment. In addition, the Museum also capitalizes the investment in new exhibits.

BROOKLYN CHILDREN'S MUSEUM CORPORATION**Notes to Financial Statements (continued)
June 30, 2019 and June 30, 2018****Note 1 – Nature of organization and summary of significant accounting policies (continued)**Property and equipment (continued)

The Museum uses a facility owned by the City of New York. Capital additions, improvements, and equipment funded by the City of New York and for which the Museum does not have title, are not capitalized by the Museum (see note 12). The building expansion was funded and is owned by the City of New York. Property and equipment acquired using the Museum's funds are reflected as assets in the accompanying statement of financial position.

Collections

Consistent with the policies of many other Museums, the value of the Museum's collections is not reflected in the statement of financial position. Accessions of collection items are expensed in the year that the items are acquired. Contributed collection items are not reflected in the financial statements. Proceeds from de-accessions or insurance recoveries are used to acquire other items for collection.

Contributions for the purchase of items for the collection are classified as net assets with temporary donor restrictions until acquisitions are made. The cost of these items is reported as a separate program expense.

Functional expenses

The cost of providing the various programs and other activities has been summarized on a functional basis. Accordingly, certain costs have been allocated among the program services and supporting activities benefited. Natural expenses attributable to more than one functional expense category are allocated using a variety of cost allocation techniques primarily consisting of salary and wages and time and effort reporting.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from these estimates.

Concentrations of credit risk

The Museum's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of cash, certificates of deposit, a money market account, investments and contributions receivable. The Museum places its cash, certificates of deposit and money market account with what it believes to be quality financial institutions. The Museum's investments are exposed to various risks such as interest rate, market volatility, liquidity and credit. Due to the level of uncertainty related to the foregoing, it is reasonably possible that changes in these risks could materially affect the fair value of the investments reported in the statement of financial position as of June 30, 2019. The Museum routinely assesses the financial strength of its holdings in its investment portfolio. The Museum monitors the collectability of its receivables on an ongoing basis. As a consequence, the Museum's management believes concentrations of credit risk are limited.

BROOKLYN CHILDREN'S MUSEUM CORPORATION

**Notes to Financial Statements (continued)
June 30, 2019 and June 30, 2018**

Note 1 – Nature of organization and summary of significant accounting policies (continued)

Not-for-Profit Financial Statement Presentation

During the 2019 fiscal year, the Museum adopted Accounting Standards Update (ASU) 2016-14 *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows.

A recap of the net asset reclassifications driven by the adoption of the standard as of June 30, 2018 and June 30, 2017 are as follows:

	<u>2018</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Assets</u>
<u>Net Asset Classifications</u>			
As previously presented			
Unrestricted	\$(2,581,257)	\$ -	\$ (2,581,257)
Temporarily restricted	-	1,188,217	1,188,217
Permanently restricted	-	<u>1,748,203</u>	<u>1,748,203</u>
Net assets(deficit), as reclassified, June 30, 2018	<u>\$(2,581,257)</u>	<u>\$ 2,936,420</u>	<u>\$ 355,163</u>
	<u>2017</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Assets</u>
<u>Net Asset Classifications</u>			
As previously presented			
Unrestricted	\$(4,218,998)	\$ -	\$ (4,218,998)
Temporarily restricted	-	794,040	794,040
Permanently restricted	-	<u>1,748,203</u>	<u>1,748,203</u>
Net assets(deficit), as reclassified, June 30, 2017	<u>\$(4,218,998)</u>	<u>\$ 2,542,243</u>	<u>\$ (1,676,755)</u>

In addition, certain other items in the 2018 financial statement have been reclassified for comparative purposes to be in conformity with ASU 2016-14.

Subsequent events

The Museum has evaluated events and transactions for potential recognition or disclosure through February 19, 2020, which is the date the financial statements were available to be issued.

BROOKLYN CHILDREN'S MUSEUM CORPORATION

**Notes to Financial Statements (continued)
June 30, 2019 and June 30, 2018**

Note 2 – Contributions receivable

Contributions receivable consist of the following as of June 30, 2019 and June 30, 2018:

	Without Donor Restrictions	With Donor Restrictions for Future Periods and Programs	Total
Due within one year	\$ 111,474	\$ -	\$ 111,474
Less: allowance for doubtful accounts	<u>(585)</u>	<u>-</u>	<u>(585)</u>
Total, June 30, 2019	<u>\$ 110,889</u>	<u>\$ -</u>	<u>\$ 110,889</u>
Total, June 30, 2018	<u>\$ 249,505</u>	<u>\$ 60,000</u>	<u>\$ 309,505</u>

Note 3 – Investments, certificates of deposit and money market account

The following is a summary of investments, certificates of deposit and money market account held by the Museum as of June 30, 2019 and June 30, 2018:

	<u>2019</u>		<u>2018</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
<u>Investments</u>				
Money market funds	\$ 461,604	\$ 462,473	\$ 1,345,647	\$ 1,345,647
Equities	954,471	1,353,592	712,536	1,049,670
U.S. Treasuries and corporate bonds	405,513	411,036	355,149	353,088
Mutual fund	<u>48,688</u>	<u>49,470</u>	<u>50,000</u>	<u>48,970</u>
Sub-total	1,870,276	2,276,571	2,463,332	2,797,375
Certificates of deposit	116,285	116,285	167,198	167,198
Money market account	<u>502,542</u>	<u>502,542</u>	<u>501,538</u>	<u>501,538</u>
Total	<u>\$ 2,489,103</u>	<u>\$ 2,895,398</u>	<u>\$ 3,132,068</u>	<u>\$ 3,466,111</u>

For the years ended June 30, 2019 and June 30, 2018, net investment return consists of the following:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 56,562	\$ 28,518
Realized gain (loss) on sale of investments	(29,787)	64,141
Change in unrealized value of investments	72,252	77,161
Investment management fees	<u>(18,400)</u>	<u>(14,098)</u>
Total	<u>\$ 80,627</u>	<u>\$ 155,722</u>

BROOKLYN CHILDREN'S MUSEUM CORPORATION

**Notes to Financial Statements (continued)
June 30, 2019 and June 30, 2018**

Note 4 – Property and equipment

A summary of the property and equipment and accumulated depreciation as of June 30, 2019 and June 30, 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Exhibits	\$9,665,501	\$9,665,501
Building improvements	505,133	505,133
Furniture, fixtures and equipment	<u>1,161,209</u>	<u>973,537</u>
Total	11,331,843	11,144,171
Less: accumulated depreciation	<u>10,768,199</u>	<u>10,646,156</u>
Net property and equipment	<u>\$ 563,644</u>	<u>\$ 498,015</u>

Note 5 – Notes payable

In June 2009, the Museum and certain Board Members executed unsecured notes payable totaling \$225,000, which were due June 25, 2011 through July 15, 2011. The proceeds from the notes were used for general operations of the Museum. The notes require quarterly interest payments at the prime rate plus 2.0% per annum. It is the intention of one of the Board Members to forgive their note of \$100,000 over ten years. Accordingly, \$10,000 was forgiven in the 2019 and 2018 fiscal years. One of the other Board Member's note of \$100,000 was extended for ten years through July 2020. Commencing in July 2011, this note requires annual principal payments of \$10,000. The Museum repaid \$10,000 during the 2019 and 2018 fiscal years. The interest rate remained the same on all notes. As of June 30, 2019, \$50,000 remained outstanding under these notes.

Note 6 – Lines of credit and loans payable

Lines of credit

During December 2016, the Museum obtained a \$400,000 revolving line of credit (the "line"). The proceeds from the line were used to repay outstanding payables. The Museum was allowed to draw down on the line until January 1, 2020 at which time the outstanding principal balance was to convert to a 60-month term loan (the "loan") to be repaid over 60 fixed monthly payments of principal and interest. Outstanding borrowings on the line were subject to regular interest payments set at the Prime Rate plus 1.5 percentage points per annum. The line and loan was able to be prepaid at any time without a prepayment penalty and was collateralized by a money market account held at the bank. In the event of default on the line, the bank had the right of set off against the collateralized money market account held at the bank. As of June 30, 2019, the outstanding balance on the line was \$301,492, which was repaid in full with the proceeds from the new line of credit obtained in December 2019 (see next page).

BROOKLYN CHILDREN’S MUSEUM CORPORATION

**Notes to Financial Statements (continued)
June 30, 2019 and June 30, 2018**

Note 6 – Lines of credit and loans payable (continued)

Lines of credit (continued)

During December 2019, the Museum obtained a new \$400,000 unsecured revolving line of credit (the “new line”). The new line was used to repay the outstanding balance of the previous line (see above), which was going to convert to a 60-month term loan on January 1, 2020. The Museum will be allowed to draw down on the new line until January 1, 2023. Outstanding borrowings on the new line are subject to regular interest payments set at the Prime Rate plus 2.0 percentage points per annum. The new line may be prepaid at any time without a prepayment penalty. As of the date of this report, the outstanding balance on the new line was \$245,344.

Loans payable

During October 2015, the Museum obtained a \$259,000 loan (the “loan”). The proceeds from the loan were used to repay the Museum’s then outstanding line of credit balance of \$259,000. The loan, which matures October 2020, requires 60 monthly payments of \$4,795, applicable first to interest at the rate of 4.15% per annum with the balance to the reduction of principal. The loan may be prepaid at any time without any prepayment penalty and is collateralized by certificates of deposit held at the bank. As of June 30, 2019, the value of these certificates of deposit totaled \$116,285. In the event of default on the loan, the bank has the right of setoff against the collateralized certificates of deposit held at the bank. The loan contains a restrictive borrowing covenant. As of June 30, 2019, the outstanding balance on the loan was \$68,829.

During December 2016, the Museum obtained a \$100,000 loan (the “loan”). The proceeds from the loan were used to pay outstanding accounts payable. The loan, which matures on January 1, 2022, requires 60 monthly payments of \$1,864, applicable first to interest at the rate of 4.375% per annum with the balance to the reduction of principal. The loan may be prepaid at any time without any prepayment penalty and is collateralized by a money market account held at the bank. In the event of default on the loan, the bank has the right of set off against the collateralized money market account held at the bank. As of June 30, 2019, the outstanding balance on the loan was \$54,399.

The following are the required annual principal payments on the loans, as of June 30, 2019:

<u>Fiscal Year</u>	<u>Amount</u>
2020	\$ 75,810
2021	35,040
2022	<u>12,378</u>
Total	<u>\$ 123,228</u>

BROOKLYN CHILDREN'S MUSEUM CORPORATION**Notes to Financial Statements (continued)
June 30, 2019 and June 30, 2018****Note 7 – Refundable advance**

During fiscal 2019, the Museum was awarded a Regional Economic Development Council Grant (the "Grant") from the State of New York acting by and through the applicable State Agency, the Council on the Arts, for a contract funding amount of \$1,500,000 for the construction cost and the design fees of exhibit and Landscape elements of the Children's Garden at the Museum. The Grant's contract term is from March 1, 2018 to February 28, 2021. The Grant is a conditional grant and any payments received are being reported as refundable advances. Contribution revenue is being recognized when the conditions are substantially met in accordance to the Grant Master Contract. In May 2019, the Museum received a 25% advance payment in the amount of \$375,000. As of June 30, 2019, the Museum substantially met the conditions for \$37,670 and recognized that amount as net assets with temporary donor restrictions contributions in the fiscal 2019 statement of activities. The balance of \$337,330 is reported as a liability as refundable advance on the statement of financial position as of June 30, 2019.

Note 8 - Commitments**License agreement**

In October 2011, the Museum and the City of New York Department of Cultural Affairs entered into a 25-year license agreement for the continued occupancy of the premises by the Museum which requires an annual payment by the Museum in the amount of one dollar per year. The Museum has an option to extend the license for an additional twenty-five years, as outlined in the agreement.

Gift shop agreement

In November 2015, the Museum entered into an agreement with a vendor to operate its gift shop. The Museum receives a percentage of the gross sales from the gift shop, as outlined in the agreement.

Food services agreement

In August 2015, the Museum entered into a five year agreement with a vendor to operate its food services. The Museum receives a percentage of the gross sales from the food services, as outlined in the agreement.

Sub-license agreement

On September 5, 2017, the Museum signed a memorandum of understanding with the Brooklyn Public Library (the "Library") to sub-license unused office space. The memorandum calls for rental income to be paid to the Museum over an initial term of fifteen years with one option to extend for an additional five-year period. The rent shall be calculated based on the number of square feet occupied by the Library.

BROOKLYN CHILDREN’S MUSEUM CORPORATION

**Notes to Financial Statements (continued)
June 30, 2019 and June 30, 2018**

Note 8 – Commitments (continued)

Children’s Garden Project

In May 2019, and subsequently updated in January 2020, the Museum entered into a contract for the design of exhibit and landscape elements of the Children’s Garden at the Museum totaling \$276,000 in design fees. It is anticipated that the construction commencement date will be January 2022 and the substantial completion date to be June 2023. As of June 30, 2019, \$37,670 has been completed under the contract.

Note 9 – Due to City of New York Department of Cultural Affairs

In April 2015, the Museum received a notice from the City of New York Department of Cultural Affairs (“DCLA”) outlining that discrepancies have been discovered between the City-funded employee salary amounts reported by the Museum to the Cultural Institutions Retirement System (“CIRS”) and DCLA Obligation Plan for fiscal years 2007 through 2012. As a result of such misreporting, it was determined the Museum owed the City of New York \$202,095. The City of New York is permitting the amount owed to be repaid over a ten-year period in the amount of \$20,210 each year commencing in July 2015. As of June 30, 2019, the outstanding balance owed to the City of New York was \$121,255.

Note 10 – Net assets with temporary donor restrictions

Activity of the net assets with temporary donor restrictions as of and for the years ended June 30, 2019 and June 30, 2018 is as follows:

	Balance at June 30, 2018	Contributions and Investment Return	Net Assets Released from Restrictions	Balance at June 30, 2019
Time restrictions				
Undepreciated portion Capital projects (see note 1)	\$ 640,325	\$ 37,670	\$ (640,325)	\$ 37,670
Endowments return	311,084	79,620	(229,680)	161,024
Future programs	137,910	274,286	(281,582)	130,614
Charles E. Inniss Fund for the Children of Brooklyn	98,898	-	(5,500)	93,398
Total	<u>\$ 1,188,217</u>	<u>\$ 391,576</u>	<u>\$ (1,157,087)</u>	<u>\$ 422,706</u>

BROOKLYN CHILDREN'S MUSEUM CORPORATION

**Notes to Financial Statements (continued)
June 30, 2019 and June 30, 2018**

Note 10 – Net assets with temporary donor restrictions (continued)

	Balance at June 30, 2017	Contributions and Investment Return	Net Assets Released from Restrictions	Balance at June 30, 2018
Time restrictions				
Undepreciated portion				
Capital projects (see note 1)	\$ 315,783	\$ 407,500	\$ (82,958)	\$ 640,325
Endowments return	142,281	168,803	-	311,084
Future programs	231,578	186,600	(280,268)	137,910
Charles E. Inniss Fund for the Children of Brooklyn	<u>104,398</u>	<u>-</u>	<u>(5,500)</u>	<u>98,898</u>
Total	<u>\$ 794,040</u>	<u>\$ 762,903</u>	<u>\$ (368,726)</u>	<u>\$ 1,188,217</u>

Note 11 – Endowments

Brooklyn Children's Museum follows, as required, the New York Prudent Management of Institutional Funds Act (NYPMIFA), the provisions of which apply to endowment funds existing on or established after the date the law was enacted. The Museum's endowment consists of funds established for specific purposes, as well as Board-designated funds (without donor restrictions). The Museum is required to act prudently when making decisions to spend or accumulate donor restricted endowment assets and in doing so to consider a number of factors, including the duration and preservation of its donor restricted endowment funds. The Museum classifies the original value of gifts donated to the permanent endowment as net assets with perpetual donor restrictions. The portion of the donor-restricted endowment fund that is not classified as net assets with perpetual donor restrictions are classified as net assets without donor restrictions or net assets with donor restrictions based on donor stipulations.

The Museum's long-term assets shall be invested in accordance with sound investment practices that emphasize long-term investment fundamentals. In establishing the investment objectives of the Museum, the Board of Trustees has taken into account the financial needs and circumstances of the Museum, the time horizon available for investment, the nature of the Museum's cash flows and liabilities, and other factors that affect their risk tolerance.

The Museum has a policy of spending the investment return generated from its net assets with perpetual donor restrictions, which is allowable under the donor guidelines. The Museum has adopted a spending policy whereby investment return for the Museum will be appropriated from the net assets with perpetual donor restrictions to meet the expenditure needs of the Museum in accordance with the spending rate adopted by the Board of Trustees in the approved annual budget for each fiscal year. The amount available for spending each year, if available, will be 5% of the average fair value of the net assets with perpetual donor restrictions as of March 31st of the last five years. The total distribution shall be set in advance of the upcoming fiscal year, and shall be included in the Annual Budget that is reviewed and adopted by the Board of Trustees.

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Notes to Financial Statements (continued)
June 30, 2019 and June 30, 2018

Note 11 – Endowments (continued)

In March 2016, in accordance with its Board-approved Sustainability & Growth Plan, the Museum ceased all cash withdrawals from its endowment to support operations while the portfolio rebounds from market losses in fiscal year 2016 and prior. In fiscal year 2019, the Museum resumed a 5% distribution from the endowment for operations in compliance with its endowment policy. In addition, in the fiscal year 2019, the Board approved an additional \$150,000 distribution from the endowment for operations.

During the 2015, 2014 and 2013 fiscal years, the Museum drew-down approximately \$55,000, \$100,000, and \$235,000, respectively, from its endowment assets. In the 2017 fiscal year, the Museum appropriated \$93,000 of investment earnings, representing the allowable endowment draw discussed earlier, to repay a portion of these endowment draws. In fiscal year 2018, the Museum's Board of Trustees allocated \$297,000 to its endowment assets from an unrestricted bequest received, fully repaying prior year draws.

During the 2019 fiscal year, the Board approved a withdrawal from the Board-designated funds of \$257,320, of which \$102,600 was for the Museum's Strategic Plan.

During October 2015, with the express consent of donors, the Museum transferred \$259,000 of its endowment funds, which were in the Museum's investment portfolio, to five interest-bearing certificates of deposit as collateral for a low-interest 60-month \$259,000 term loan (see note 6). The certificates of deposit mature in yearly intervals commencing October 2016 through October 2020. The Museum will transfer back each certificate of deposit that matures to the Museum's investment portfolio. Through June 30, 2019, approximately \$143,000 has been returned to the Museum's investment portfolio. The remaining certificate of deposits totaling approximately \$116,000 will be returned upon their maturity dates of October 2019 and October 2020.

During December 2016, the Museum transferred \$500,000 of its endowment funds, which were in the Museum's investment portfolio, to a money market account as collateral for a low-interest \$400,000 revolving line of credit and a 60-month \$100,000 term loan (see note 6). Through June 30, 2019, approximately \$46,000 has been paid on the loan. The entire value of the money market account will be returned to the Museum's investment portfolio upon repayment and/or maturity of these loans.

Net assets with perpetual donor restrictions

These net assets represent contributions and bequests made into the following funds and are restricted to investment in perpetuity. Investment return from these funds is recorded as net assets with temporary donor restrictions and is available to be spent in accordance with the donors' terms and as approved by the Board of Trustees.

Net assets with perpetual donor restrictions as of June 30, 2019 and June 30, 2018 are as follows:

Brooklyn Institute of Arts and Sciences	\$ 496,333
90 th Anniversary Capital Campaign	251,870
Centennial – Collections Central Endowment	<u>1,000,000</u>
Total	<u>\$1,748,203</u>

BROOKLYN CHILDREN'S MUSEUM CORPORATION

**Notes to Financial Statements (continued)
June 30, 2019 and June 30, 2018**

Note 12 – Public support appropriation from the City of New York

The City of New York made the following appropriations to the Museum, which are included in public support without donor restrictions for the years ended June 30, 2019 and June 30, 2018:

	<u>2019</u>	<u>2018</u>
Department of Cultural Affairs		
Operational support	\$ 1,870,734	\$ 1,770,366
Energy	207,409	209,364
Pension	144,014	139,894
Other	<u>232,694</u>	<u>112,503</u>
Total	<u>\$ 2,454,851</u>	<u>\$ 2,232,127</u>

Projects supported by the City of New York are subject to audit at a later date.

In addition, capital expenditures to the Museum's facilities, in the amounts of \$562,861 and \$162,851 were made by the City of New York during the years ended June 30, 2019 and June 30, 2018, respectively. The City of New York has spent \$55,358,640 on capital expenditures from the 2000 fiscal year through the 2019 fiscal year. In accordance with a directive from the City of New York, capital expenditures paid for by the City belong to the City of New York and are not included in these financial statements.

Note 13 – Pension and retirement plans and other postretirement benefits

Multiemployer pension plan

All eligible Museum employees are members in the Cultural Institutions Retirement System (CIRS) pension plan ("pension plan"), which is a multiemployer plan administered by the City of New York. The pension plan expense for the year ended June 30, 2019 was \$168,976, of which \$144,014 was funded by an appropriation from the City of New York. The pension plan expense for the year ended June 30, 2018 was \$164,303, of which \$139,894 was funded by an appropriation from the City of New York.

The risks of participating in a multiemployer plan are different from single-employer plans in the following respects:

- Assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to a plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If the Museum chooses to stop participating in the multiemployer plan, the Museum may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

BROOKLYN CHILDREN'S MUSEUM CORPORATION

**Notes to Financial Statements (continued)
June 30, 2019 and June 30, 2018**

Note 13 – Pension and retirement plans and other postretirement benefits (continued)

Multiemployer pension plan (continued)

The Museum's participation in the multiemployer plan for the years ended June 30, 2019 and June 30, 2018, is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employer Identification Number ("EIN") and the three-digit plan number. The third column lists the expiration date of the collective-bargaining agreement to which the pension plan is subject. The most recent Pension Protection Act zone status available in fiscal 2019 and 2018 is for the plan's year-end at June 30, 2018 and June 30, 2017, respectively. The zone status is based on information that the Museum received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are between 65 percent and 80 percent funded, and plans in the green zone are at least 80 percent funded.

<u>Pension Fund</u>	<u>EIN/Pension Plan Number</u>	<u>Extended Expiration Date of Collective Bargaining Agreement</u>	<u>Pension Protection Act Zone Status</u>		<u>FIP/RP Status Pending/ Implemented</u>	<u>Surcharge Imposed</u>	<u>Contributions to the Plan</u>	
			<u>Fiscal 2018</u>	<u>Fiscal 2017</u>			<u>Fiscal 2019</u>	<u>Fiscal 2018</u>
The Cultural Institutions Pension Plan	11-2001170/001	Not available	Green	Green	No	No	\$ 168,976	\$ 164,303

401(k) savings plan

In addition, all eligible Museum employees can participate in the CIRS 401(k) savings plan (the "Savings Plan"). An eligible employee may contribute a portion of his/her compensation in accordance with Internal Revenue Service regulations. For those employees that contribute 6% of his/her compensation to the Savings Plan, the Museum makes matching contributions of 2% of an employee's compensation. For those employees that contribute less than 6% of his/her compensation, the Museum makes matching contributions to the Savings Plan proportionately less than the 2% of an employee's compensation. In accordance with the Collective Bargaining Agreement, the employer match for the Savings Plan was suspended for the 2013 through 2019 plan years.

Defined contribution retirement plan

The Museum has a defined contribution retirement plan for all eligible employees. The Museum does not contribute to the plan.

Other postretirement benefits

In addition to providing retirement plans, the Museum provides certain postretirement health and supplemental benefits for eligible retired employees. All of the Museum's non-union employees hired before June 30, 2007 and all union employees may become eligible for these benefits if they reach retirement age while working for the Museum and satisfy certain years of service requirements. The Museum funds its postretirement benefit cost on a pay-as-you-go basis.

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Notes to Financial Statements (continued)
June 30, 2019 and June 30, 2018

Note 13 – Pension and retirement plans and other postretirement benefits (continued)

Other postretirement benefits (continued)

The postretirement benefit obligation and the net periodic postretirement cost were computed using an assumed discount rate of 3.37% and 4.06%, respectively, for the fiscal years ended June 30, 2019 and June 30, 2018.

The Museum continues to evaluate ways in which it can better manage these benefits and control the costs. Any changes in the plan or revisions to assumptions that affect the amount of expected future benefits may have a significant effect on the amount of the reported obligation and future annual expense.

The following is a summary of the changes in the postretirement benefit obligation as of June 30, 2019 and June 30, 2018:

	<u>2019</u>	<u>2018</u>
Postretirement benefit obligation at the beginning of year		
a. Actives not fully eligible to retire	\$ 322,150	\$ 301,976
b. Actives fully eligible to retire	1,159,093	1,204,484
c. Retirees	<u>1,714,439</u>	<u>1,898,234</u>
d. Total	3,195,682	3,404,694
Service cost	7,638	24,211
Interest cost	116,096	123,767
Actuarial (gain) loss	13,973	(204,231)
Benefits paid	<u>(136,188)</u>	<u>(152,759)</u>
Total postretirement benefit obligation at end of year	<u>3,197,201</u>	<u>3,195,682</u>
Consists of:		
a. Actives not fully eligible to retire	200,327	322,150
b. Actives fully eligible to retire	1,443,201	1,159,093
c. Retirees	<u>1,553,673</u>	<u>1,714,439</u>
d. Total	<u>\$3,197,201</u>	<u>\$3,195,682</u>

The estimated annual benefit payments are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2020	\$ 139,269
2021	135,770
2022	141,647
2023	148,774
2024	141,716
2025 – 2029	756,957

For a non-funded plan, the expected contributions equal the benefit payments for the next fiscal year totaling \$139,269.

BROOKLYN CHILDREN'S MUSEUM CORPORATION**Notes to Financial Statements (continued)
June 30, 2019 and June 30, 2018****Note 13 – Pension and retirement plans and other postretirement benefits (continued)****Other postretirement benefits (continued)**

For measurement purposes, a projected health care cost trend rate increase of 7% was used for participants for 2019. The rate is assumed to decrease gradually to 5.0% by 2020. Increasing the assumed healthcare cost trend rate by 1% each year would result in an increase in the post-retirement benefit obligation of \$525,780 as of June 30, 2019. Decreasing the assumed healthcare cost trend rate by 1% each year would result in a decrease in the post-retirement benefit obligation of \$427,095 as of June 30, 2019.

The net periodic postretirement benefit cost for the years ended June 30, 2019 and June 30, 2018 totaled \$123,734 and \$147,978, respectively. The Museum's cash payment for the years then ended have been recorded as operating expenses. The accrued portion of the net periodic benefit gain (loss) is recorded as a non-operating addition/(deduction) in the statement of activities.

Note 14 – Liquidity and availability of resources

The Museum regularly monitors the availability of resources required to meet its general expenditures, while also striving to maximize the investment of its available funds. The Museum has various sources of liquidity at its disposal, including cash and cash equivalents, money market funds, certificates of deposit and investments. In the event of an unanticipated liquidity need, the Museum could also draw upon \$98,508 of its available line of credit as of June 30, 2019.

The Museum's endowment consists of funds established for specific purposes, as well as Board-designated funds (without donor restrictions). The Museum is required to act prudently when making decisions to spend or accumulate donor restricted endowment assets and in doing so to consider a number of factors, including the duration and preservation of its donor restricted endowment funds. The Museum classifies the original value of gifts donated to the donor restricted endowment fund as net assets with donor restrictions. The portion of the donor-restricted endowment fund that is not classified as net assets with donor restrictions are classified as net assets without donor restrictions or net assets with donor restrictions (purpose and time restricted) based on donor stipulations.

As of June 30, 2019, the Board-designated funds totaled \$867,577 (\$161,024 of endowments return included in net assets with temporary donor restrictions and \$706,553 for the Tullock Trust Fund included in net assets without donor restrictions). Although the Museum does not intend to spend from this board-designated fund, these amounts shall be made available in such circumstance as necessary to meet short term cash flow needs.

BROOKLYN CHILDREN'S MUSEUM CORPORATION

**Notes to Financial Statements (continued)
June 30, 2019 and June 30, 2018**

Note 14 – Liquidity and availability of resources (continued)

The table below presents financial assets available for general expenditures within one year at June 30, 2019:

Cash	\$ 1,231,285
Money market account	502,542
Certificates of deposit	116,285
Investments, at fair value	2,276,571
Contributions receivables, net	<u>110,889</u>
Total financial assets	4,237,572
Less: Donor-imposed restrictions:	
Perpetual donor restrictions	(1,748,203)
Temporary donor restrictions	<u>(261,682)</u>
Total donor-imposed restrictions	<u>(2,009,885)</u>
Less: Board-designated funds	
Endowments return	(161,024)
Tulloch Trust Fund	<u>(706,553)</u>
Total Board-designated funds	<u>(867,577)</u>
Less: Refundable advance	<u>(337,330)</u>
Financial Assets Available to meet cash needs for general expenditures within one year	<u>\$ 1,022,780</u>

Note 15 – Net assets without donor restrictions deficit elimination plan

The Museum's Board of Trustees and executive team are committed to maintaining a balanced operating budget; making strategic investments in growth; and, reducing debt. In December 2016, the Board adopted a Sustainability & Growth Plan, a three-year tactical roadmap for financial stability to support innovation and growth at the Museum. In fiscal year 2019, the Museum hired Lord Cultural Resources to consult on a new strategic plan to run from calendar years 2020 to 2026. The new strategic plan was completed and approved by the Board in December 2019.

Since 2016, the Museum has seen a \$2.8 million improvement in net assets without donor restrictions, and strengthened operations in the following ways:

- **Growth in earned revenue:** Since 2016, the number of people served by the Museum grew by 10% to nearly 300,000 annually. Revenue from admissions increased by nearly 20% during the same period, to over \$1.1 million, and earned revenue overall increased by 9%.
- **Growth in contributed revenue:** Contributed and government revenue increased by 10% between 2016 and 2019, not including an extraordinary \$1.26 million bequest received in fiscal year 2018, which the Museum is holding in a Board-designated fund. In 2018, the Museum added a Director of Development position, and is anchoring fundraising in: 1) institutional support from foundations and corporations; and 2) Board development to drive individual giving and the Spring Benefit. The Museum's Board has grown from 24 members in 2016 to 35 members in 2019, with 100% of Trustees participating in governance and philanthropy.

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Notes to Financial Statements (continued) June 30, 2019 and June 30, 2018

Note 15 – Net assets without donor restrictions deficit elimination plan (continued)

- **Debt service:** In 2015, the Museum refinanced an aged \$260,000 credit line with an interest rate of 14% to a five-year low interest term loan. To do this at the lowest rate, a foundation allowed a 1999 gift to the Museum endowment to be used as security for the loan, provided that the funds be returned to the endowment once the loan was paid. To date, the Museum has paid \$207,000 on the loan, returning those funds to the endowment. Using this model, in 2016 the Museum secured \$500,000 in financing to reduce aging payables and bridge government contracts. The Museum was able to do this with the support of five committed funders. The Museum's repayment plan completes \$100,000 within five years and \$400,000 over ten years.
- **Protecting the endowment:** In March 2016, the Museum ceased cash withdrawals from the endowment to support operations. The Museum took no dividends or returns from the endowment in fiscal years 2017 or 2018 to replenish the endowment and ensure that it continues as a source of resilience for the organization. In fiscal year 2019, the Museum resumed a 5% distribution from the endowment for operations, in compliance with its Endowment Policy.
- **Strategic partnerships for revenue growth:** The Museum has outsourced auxiliary businesses, including food services and retail, to third-party companies willing to invest capital to promote earned revenue. In 2018, the Museum signed a Memorandum of Understanding and Term Sheet with Brooklyn Public Library (BPL) to lease BPL 6,380 square feet of space, generating roughly \$200,000 in rental income annually and creating new program partnerships.

The Museum's fiscal year 2020-2026 strategic plan identifies five key goals for the institution, and calls for growth in both admissions and revenue aligned with these objectives.

1. **Energize the Museum's physical space through new exhibits and facility updates**
Exhibits drive visitorship at Brooklyn Children's Museum. The Museum will a) create a master plan for exhibits, b) realize two transformational permanent exhibits, and c) plan and produce robust temporary exhibitions, including at least one "blockbuster" every two years.
2. **Create engaging and relevant programs in partnership with Brooklyn communities**
Expanding programs and education at the Museum is an opportunity to elevate service to our communities and to build new audiences. The Museum will a) expand partnerships to deepen impact among children and the caregivers in Central Brooklyn, and b) develop evaluation capacity to better understand successes, needs, and opportunities.
3. **Strengthen financial capacity through earned revenue, philanthropy, and creative partnerships**
The Museum's strategic plan reiterates our commitment to ensuring that every family can experience the Museum regardless of ability to pay. To maintain free and reduced admission, and to ensure excellence in exhibitions, the Museum will a) expand membership and individual giving programs, b) engage institutional and corporate funders, and c) professionalize earned revenue functions, including space rentals, birthday parties, café, and gift shop.

BROOKLYN CHILDREN'S MUSEUM CORPORATION**Notes to Financial Statements (continued)****June 30, 2019 and June 30, 2018****Note 15 – Net assets without donor restrictions deficit elimination plan (continued)****4. Expand institutional capacity, with a focus on diversity, equity, and inclusion practices**

The Museum's organizational culture values inclusion, multiple perspectives, and diverse voices. The Museum will a) invest in talent throughout the organization, with a focus on building expertise in exhibit development and marketing, b) strengthen finance, HR, and building operations systems, and c) align operations with the Museum's Diversity, Equity & Inclusion Plan.

5. Promote the Museum's brand by investing in communications, marketing, and design

Marketing, branding, and communications are critical to drive visitorship, increase earned revenue, and raise the Museum's profile. The Museum will a) update its visual brand and graphic identity, and b) invest in measurable social media, print, and marketing partnerships.

The Museum has experienced extraordinary momentum and increased demand from visitors across Brooklyn. Despite these gains, the Museum carries historic obligations that contribute to negative net assets, and have in prior years created a deficit on its financial statements, including:

- 1. Liability related to post-retirement healthcare benefits.** Prior to 2008, the Museum was required by the City of New York to provide lifetime health benefits for retirees and their families, a liability currently valued at roughly \$3.2 million. This program was discontinued in 2008, and applies only to employees hired before that time who retire with the Museum, but it remains the largest impact on the Museum's net assets. While the Museum has no control over these benefits, the Museum monitors their valuation through a third-party actuarial firm and notes adjustments from year to year on its statement of financial position. Valuations can vary greatly from year to year, sometimes in the Museum's favor, but sometimes contributing to a non-cash deficit.
- 2. Extant payables, accrued expenses, and notes payable.** Following its 2008 expansion, the Museum carried first-year operating expenses that contributed to debt and aging payables. In 2015, liabilities increased by \$202,000 due to an adjustment from the City of New York related to the Museum's pension plan, which is payable over 10 years. This line also includes vacation accruals connected with the Museum's collective bargaining agreement with DC 37. These liabilities have diminished substantially over the past five years. The Museum continues to reduce debt, and anticipates paying down approximately \$245,000 in fiscal year 2020.

Note 16 – Litigation

The Museum is currently involved in legal proceedings arising in the ordinary course of business. The Museum believes it has defenses for these proceedings and is vigorously defending the actions. In the opinion of management, after consultation with outside legal counsel, the final disposition of these matters will not have a material effect on the Museum's financial statements.

BROOKLYN CHILDREN'S MUSEUM CORPORATION**Notes to Financial Statements (continued)****June 30, 2019 and June 30, 2018****Note 17 – Tax status**

The Museum is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"). In addition, the Museum has been determined by the Internal Revenue Service to be a publicly supported organization, and not a private foundation within the meaning of Section 509(a)(1) of the Code.