

**BROOKLYN CHILDREN'S
MUSEUM CORPORATION**

**Financial Statements
for the years ended
June 30, 2014
and
June 30, 2013**

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 (the "Museum") which comprise the statement of financial position as of June 30, 2014 and June 30, 2013 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, 2014 and June 30, 2013 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

November 1, 2014

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Statement of Financial Position

Assets

	<u>June 30</u>	
	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 164,097	\$ 175,123
Contributions receivable, net		
Unrestricted	196,583	108,774
Restricted for future programs and periods	40,741	138,827
Prepaid expenses and other assets	27,732	28,917
Investments, at fair value	2,051,774	1,977,526
Property and equipment, net	<u>1,902,401</u>	<u>3,330,952</u>
Total assets	<u>\$ 4,383,328</u>	<u>\$ 5,760,119</u>

Liabilities and Net Assets (deficit)

Liabilities		
Line of credit	\$ 260,000	\$ 262,000
Accounts payable and accrued expenses	419,706	399,361
Notes payable	145,000	175,000
Deferred revenue	45,283	63,275
Accrued postretirement benefits	<u>4,058,672</u>	<u>3,538,039</u>
Total liabilities	<u>4,928,661</u>	<u>4,437,675</u>
Net assets (deficit)		
Unrestricted	(3,884,875)	(3,151,412)
Temporarily restricted	1,591,339	2,725,653
Permanently restricted	<u>1,748,203</u>	<u>1,748,203</u>
Total net assets (deficit)	<u>(545,333)</u>	<u>1,322,444</u>
Total liabilities and net assets (deficit)	<u>\$ 4,383,328</u>	<u>\$ 5,760,119</u>

See notes to financial statements.

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Statement of Activities Year Ended June 30, 2014 (With Summarized Comparative Information for the Year Ended June 30, 2013)

	2014			2013	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and revenue					
Contributions					
Individuals	\$ 129,459	\$ -	\$ -	\$ 129,459	\$ 73,132
Corporations	79,800	235,000	-	314,800	113,719
Foundations	83,500	56,500	-	140,000	419,000
Government	45,500	314,445	-	359,945	437,154
Appropriations from City of New York	2,129,159	-	-	2,129,159	2,011,511
Admission fees	810,975	-	-	810,975	837,028
Membership fees	334,979	-	-	334,979	320,072
Exhibit rentals	64,752	-	-	64,752	67,225
Space rentals	175,759	-	-	175,759	236,361
Gift shop sales	20,078	-	-	20,078	139,710
Fund-raising events, net of direct expenses of \$122,506 in 2014 and \$69,398 in 2013	302,547	-	-	302,547	380,497
Food service commission	32,307	-	-	32,307	26,651
Interest and dividends	148	34,055	-	34,203	37,912
Net realized gain on sales of investments	-	215,755	-	215,755	173,117
Net change in unrealized value of investments	-	42,673	-	42,673	110,334
Other	66,608	-	-	66,608	-
Miscellaneous	32,997	-	-	32,997	57,121
Sub-total	4,308,568	898,428	-	5,206,996	5,440,544
Net assets released from restrictions	2,032,742	(2,032,742)	-	-	-
Total support and revenue	6,341,310	(1,134,314)	-	5,206,996	5,440,544
Expenses					
Program services					
Exhibitions	1,869,119	-	-	1,869,119	1,848,772
Collections	195,513	-	-	195,513	210,524
Education	1,266,664	-	-	1,266,664	1,189,658
Visitor services	340,141	-	-	340,141	695,083
Maintenance and security	1,341,689	-	-	1,341,689	1,414,759
Marketing and public affairs	271,736	-	-	271,736	431,074
Total program services	5,284,862	-	-	5,284,862	5,789,870
Supporting services					
General and administrative	953,914	-	-	953,914	1,099,583
Development	393,350	-	-	393,350	258,070
Total supporting services	1,347,264	-	-	1,347,264	1,357,653
Total expenses	6,632,126	-	-	6,632,126	7,147,523
(Decrease) in net assets before pension adjustment	(290,816)	(1,134,314)	-	(1,425,130)	(1,706,979)
Pension adjustment	(442,647)	-	-	(442,647)	443,486
(Decrease) in net assets	(733,463)	(1,134,314)	-	(1,867,777)	(1,263,493)
Net assets (deficit), beginning of year	(3,151,412)	2,725,653	1,748,203	1,322,444	2,585,937
Net assets (deficit), end of year	\$ (3,884,875)	\$ 1,591,339	\$ 1,748,203	\$ (545,333)	\$ 1,322,444

See notes to financial statements.

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Statement of Activities Year Ended June 30, 2013

	Operating	Unrestricted Board Designated	Total	Temporarily Restricted	Permanently Restricted	Total
Support and revenue						
Contributions						
Individuals	\$ 73,132	\$ -	\$ 73,132	\$ -	\$ -	\$ 73,132
Corporations	38,719	-	38,719	75,000	-	113,719
Foundations	58,000	-	58,000	361,000	-	419,000
Government	56,340	-	56,340	380,814	-	437,154
Appropriations from City of New York	2,011,511	-	2,011,511	-	-	2,011,511
Admission fees	837,028	-	837,028	-	-	837,028
Membership fees	320,072	-	320,072	-	-	320,072
Exhibit rentals	67,225	-	67,225	-	-	67,225
Space rentals	236,361	-	236,361	-	-	236,361
Gift shop sales	139,710	-	139,710	-	-	139,710
Fund-raising events, net of direct expenses of \$69,398 in 2013	380,497	-	380,497	-	-	380,497
Food service commission	26,651	-	26,651	-	-	26,651
Interest and dividends	196	2,289	2,485	35,427	-	37,912
Net realized gain on sales of investments	-	10,505	10,505	162,612	-	173,117
Net change in unrealized value of investments	-	6,695	6,695	103,639	-	110,334
Miscellaneous	57,044	77	57,121	-	-	57,121
Sub-total	4,302,486	19,566	4,322,052	1,118,492	-	5,440,544
Released from Board designated assets	63,895	(63,895)	-	-	-	-
Net assets released from restrictions	2,312,871	-	2,312,871	(2,312,871)	-	-
Total support and revenue	6,679,252	(44,329)	6,634,923	(1,194,379)	-	5,440,544
Expenses						
Program services						
Exhibitions	1,848,772	-	1,848,772	-	-	1,848,772
Collections	210,524	-	210,524	-	-	210,524
Education	1,189,658	-	1,189,658	-	-	1,189,658
Visitor services	695,083	-	695,083	-	-	695,083
Maintenance and security	1,414,759	-	1,414,759	-	-	1,414,759
Marketing and public affairs	431,074	-	431,074	-	-	431,074
Total program services	5,789,870	-	5,789,870	-	-	5,789,870
Supporting services						
General and administrative	1,081,620	17,963	1,099,583	-	-	1,099,583
Development	258,070	-	258,070	-	-	258,070
Total supporting services	1,339,690	17,963	1,357,653	-	-	1,357,653
Total expenses	7,129,560	17,963	7,147,523	-	-	7,147,523
(Decrease) in net assets before pension adjustment	(450,308)	(62,292)	(512,600)	(1,194,379)	-	(1,706,979)
Pension adjustment	443,486	-	443,486	-	-	443,486
(Decrease) in net assets	(6,822)	(62,292)	(69,114)	(1,194,379)	-	(1,263,493)
Net assets (deficit), beginning of year	(3,144,590)	62,292	(3,082,298)	3,920,032	1,748,203	2,585,937
Net assets (deficit), end of year	(3,151,412)	\$ -	(3,151,412)	\$ 2,725,653	\$ 1,748,203	\$ 1,322,444

See notes to financial statements.

Statement of Functional Expenses
Year Ended June 30, 2014
(With Summarized Comparative Information for the Year Ended June 30, 2013)

See notes to financial statements.

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Statement of Functional Expenses Year Ended June 30, 2013

	<u>Exhibitions</u>	<u>Collections</u>	<u>Education</u>	<u>Visitor Services</u>	<u>Maintenance and Security</u>	<u>Marketing and Public Affairs</u>	<u>Total Program Services</u>	<u>General and Administrative</u>	<u>Development (Operating)</u>	<u>Total Supporting Services</u>	<u>Total</u>
Salaries, wages and benefits	\$ 255,175	\$ 136,354	\$ 892,270	\$ 477,333	\$ 1,034,173	\$ 284,856	\$ 3,080,161	\$ 793,437	\$ 159,847	\$ 953,284	\$ 4,033,445
Professional fees	7,587	1,179	33,108	1,150	95,880	19,894	158,798	66,800	48,915	115,715	274,513
Office expenses	7,140	383	7,004	2,940	4,027	2,104	23,598	24,945	7,334	32,279	55,877
Supplies	21,146	1,359	127,919	18,567	38,276	857	208,124	36,759	2,515	39,274	247,398
Cost of goods sold	-	-	-	116,038	-	444	116,482	-	-	-	116,482
Travel and meetings	209	278	13,066	1,300	91	708	15,652	1,797	60	1,857	17,509
Marketing	-	-	-	-	-	96,683	96,683	256	9,535	9,791	106,474
Equipment	176	46,132	2,717	14,178	-	171	63,374	10,804	9,525	20,329	83,703
Maintenance and utilities	98,157	3,356	35,408	30,152	103,857	15,352	286,282	23,837	7,198	31,035	317,317
Research and development	28,789	-	3,890	1,000	-	-	33,679	-	-	-	33,679
Insurance	5,121	3,511	18,280	5,959	23,254	9,481	65,606	23,708	11,792	35,500	101,106
Investment fees	-	-	-	-	-	-	-	17,963	-	17,963	17,963
Miscellaneous	-	15	1,095	26,466	1,025	524	29,125	34,097	1,349	35,446	64,571
Sub-total	423,500	192,567	1,134,757	695,083	1,300,583	431,074	4,177,564	1,034,403	258,070	1,292,473	5,470,037
Depreciation	1,425,272	-	-	-	-	-	1,425,272	-	-	-	1,425,272
Postretirement benefits	-	17,957	54,901	-	114,176	-	187,034	65,180	-	65,180	252,214
Total	\$ 1,848,772	\$ 210,524	\$ 1,189,658	\$ 695,083	\$ 1,414,759	\$ 431,074	\$ 5,789,870	\$ 1,099,583	\$ 258,070	\$ 1,357,653	\$ 7,147,523

See notes to financial statements.

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Statement of Cash Flows

	Year Ended June 30	
	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
(Decrease) in net assets	\$ (1,867,777)	\$ (1,263,493)
Adjustments to reconcile (decrease) in net assets to net cash (used in) operating activities		
Depreciation	1,428,551	1,425,272
Donated stocks	(10,182)	(12,330)
Proceeds from donated stock	10,182	12,330
Net realized (gain) on sale of investments	(215,755)	(173,117)
Change in unrealized value of investments	(42,673)	(110,334)
Forgiveness of note payable	(20,000)	(10,000)
Decrease in assets		
Contributions receivable	10,277	29,817
Prepaid expenses and other assets	1,185	28,558
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	20,345	(79,789)
Deferred revenue	(17,992)	38,777
Accrued postretirement benefits	520,633	(355,980)
Net cash (used in) operating activities	<u>(183,206)</u>	<u>(470,289)</u>
Cash flows from investing activities		
Purchases of property and equipment	-	(54,845)
Purchases of investments	(671,692)	(281,824)
Proceeds from sales of investments	684,395	735,120
Net change in money market funds	171,477	(100,627)
Net cash provided by investing activities	<u>184,180</u>	<u>297,824</u>
Cash flows from financing activities		
Repayment of line of credit	(2,000)	-
Borrowings on line of credit	-	150,000
Repayment of note payable	(10,000)	(10,000)
Net cash provided by (used in) financing activities	<u>(12,000)</u>	<u>140,000</u>
Net (decrease) in cash and cash equivalents	(11,026)	(32,465)
Cash and cash equivalents, beginning of year	<u>175,123</u>	<u>207,588</u>
Cash and cash equivalents, end of year	<u>\$ 164,097</u>	<u>\$ 175,123</u>
Supplemental disclosure of cash flows information		
Cash paid for interest	<u>\$ 34,231</u>	<u>\$ 17,804</u>

See notes to financial statements.

BROOKLYN CHILDREN'S MUSEUM CORPORATION**Notes to Financial Statements
June 30, 2014 and June 30, 2013****Note 1 – Nature of organization and summary of significant accounting policies****Nature of organization**

Brooklyn Children's Museum Corporation (the "Museum") actively engages children in educational and entertaining experiences through innovation and excellence in exhibitions, programs and use of its collections. It encourages children to develop an understanding of and respect for themselves, cultural diversity and the world around them. While the Museum serves children of all ages, its major focus is pre-kindergarten and primary school age children in New York City. The Museum also recognizes its unique opportunity to serve the surrounding community by providing special programs for teens and families and forging partnerships with other committed organizations. The Museum is a member of the group of the New York City cultural institutions on City-owned property (the Cultural Institutions Group or "CIG") and, accordingly, receives substantial operating and capital support from the City of New York (see note 9).

Net assets

Unrestricted net assets consist of amounts that can be spent at the discretion of the Museum. Included in unrestricted net assets was the Board-designated fund. The Board-designated fund had been segregated for investment by the Board of Trustees.

Temporarily restricted net assets consist of contributions that are restricted by the donor for a specific purpose or pertain to future periods.

Permanently restricted net assets 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.

Release from Board-designated funds

The Board of Trustees authorized a transfer of \$63,895 for the 2013 fiscal year from the Board-designated fund to Museum operations to supplement support and revenue. There was no transfer for the 2014 fiscal year.

Contributions

The Museum reports contributions as temporarily restricted support 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, temporarily restricted net assets are reclassified to unrestricted net assets 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.

BROOKLYN CHILDREN'S MUSEUM CORPORATION**Notes to Financial Statements (continued)****June 30, 2014 and June 30, 2013****Note 1 – Nature of organization and summary of significant accounting policies (continued)**Cash equivalents

The Museum considers highly liquid investments with an original maturity of 90 days or less to be cash equivalents or their money market funds, held in the investment portfolio.

Allowance for doubtful accounts

As of June 30, 2014 and June 30, 2013, the Museum has an allowance for doubtful accounts of \$2,500 for any possible uncollectible contributions. Such estimate is based on management's experience, the aging of the receivables, subsequent receipts and the 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 or observable securities. Realized and unrealized gains and losses are reflected in the statement of activities as increases and decreases in unrestricted net assets unless their use is temporarily or permanently restricted by donor stipulation.

Fair value measurements

Fair value measurements establish a 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 temporarily restricted support. It is the Museum's policy to imply a time restriction, based on the assets' estimated useful lives, on donations of property and equipment that are not restricted as to their use by the donor. Accordingly, these donations are recorded as temporarily restricted support. The Museum reclassifies temporarily restricted net assets to unrestricted net assets each year for the amount of the donated property and equipment's depreciation expense.

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 traveling exhibits.

BROOKLYN CHILDREN'S MUSEUM CORPORATION**Notes to Financial Statements (continued)****June 30, 2014 and June 30, 2013****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 9). The building expansion was funded and 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. Purchases of 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 temporarily restricted net assets 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 programs and supporting services benefited.

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.

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Notes to Financial Statements (continued)

June 30, 2014 and June 30, 2013

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

Concentrations of credit risk

The Museum's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of cash, cash equivalents, investments and contributions receivable. The Museum places its cash and cash equivalents with what it believes to be quality financial institutions. The Museum invests in money market funds, equities, corporate bonds and U.S. Government Obligations. 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, 2014. The Museum routinely assesses the financial strength of its holdings in its investment portfolio. The Museum monitors the collectibility of its receivables on an on going basis. As a consequence, concentrations of credit risk are limited.

Reclassification

Certain items in the 2013 financial statements have been reclassified for comparative purposes only.

Subsequent events

The Museum has evaluated events and transactions for potential recognition or disclosure through November 1, 2014, which is the date the financial statements were available to be issued.

Note 2 – Contributions receivable

Contributions receivable consist of the following as of June 30, 2014 and June 30, 2013:

	Unrestricted	Restricted for Future Programs and Periods	Total
Due within one year	\$ 194,083	\$ 40,741	\$ 234,824
Due within one to five years	<u>5,000</u>	<u>-</u>	<u>5,000</u>
Sub-total	199,083	40,741	239,824
Less: allowance for doubtful accounts	<u>(2,500)</u>	<u>-</u>	<u>(2,500)</u>
Total, June 30, 2014	<u>\$ 196,583</u>	<u>\$ 40,741</u>	<u>\$ 237,324</u>
Total, June 30, 2013	<u>\$ 108,774</u>	<u>\$ 138,827</u>	<u>\$ 247,601</u>

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Notes to Financial Statements (continued)

June 30, 2014 and June 30, 2013

Note 3 – Investments

The following is a summary of investments held by the Museum as of June 30, 2014 and June 30, 2013:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ 97,331	\$ 97,331	\$ 268,808	\$ 268,808
Equities				
Minerals/materials	-	-	37,238	52,096
Consumer/healthcare	319,469	413,822	196,331	311,458
Energy	145,145	212,321	144,410	226,876
Financial	255,526	390,110	262,961	337,355
Industrials	157,870	222,028	158,198	234,367
Technology	144,084	236,458	115,868	162,624
Corporate bonds	469,878	479,704	266,727	273,942
U.S. Government Obligations	-	-	107,187	110,000
Total	<u>\$ 1,589,303</u>	<u>\$ 2,051,774</u>	<u>\$ 1,557,728</u>	<u>\$ 1,977,526</u>

Note 4 – Property and equipment

A summary of the property and equipment and accumulated depreciation as of June 30, 2014 and June 30, 2013 is as follows:

	2014	2013
Exhibits	\$9,665,501	\$9,665,501
Building improvements	505,133	505,133
Furniture, fixtures and equipment	407,044	407,044
Total	10,577,678	10,577,678
Less: accumulated depreciation	<u>8,675,277</u>	<u>7,246,726</u>
Total property and equipment	<u>\$1,902,401</u>	<u>\$3,330,952</u>

Note 5 – Commitments

Line of credit

The Museum has a revolving line of credit for \$300,000. The line of credit, which expires on February 3, 2015, is secured by all business assets of the Museum. Amounts borrowed under the line are evidenced by a promissory note and bear interest at Libor plus 7.45% per annum. The Museum cannot create or permit any liens on its real or personal property, other than already existing liens or those incurred in the ordinary course of business without bank approval. As of June 30, 2014, the outstanding balance was \$260,000.

BROOKLYN CHILDREN'S MUSEUM CORPORATION**Notes to Financial Statements (continued)****June 30, 2014 and June 30, 2013****Note 5 – Commitments (continued)****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 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 September 2014, the Museum entered into an agreement with a vendor to operate its gift shop through August 15, 2015, unless cancelled by either party prior to that date, as outlined in the agreement. The Museum will receive a percentage of the gross sales from the gift shop, as outlined in the agreement.

Note 6 – Notes payable

In June 2009, the Museum and certain Board Members executed three unsecured notes payable totaling \$225,000, which were due June 25, 2011 through July 15, 2011. The notes are in the following amounts: \$100,000, \$100,000 and \$25,000. The proceeds from the notes were used for general operations of the Museum. The notes require quarterly interest payments of prime rate plus 2.0% per annum.

It is the intention of one of the Board Members to forgive the first note of \$100,000 over ten years. Accordingly, \$10,000 was forgiven in the 2013 and 2014 fiscal years. The second 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. For the third note of \$25,000, which was extended through June 30, 2015, \$10,000 was forgiven in the 2014 fiscal year. The interest rate remained the same on all notes.

Note 7 – Endowments

The 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. 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 as permanently restricted net assets the original value of gifts donated to the permanent endowment. The portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as unrestricted and temporarily restricted net assets based on donor stipulations.

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Notes to Financial Statements (continued)

June 30, 2014 and June 30, 2013

Note 7 – Endowments (continued)

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 permanently restricted funds, which is allowable under the donor guidelines. The Museum has adopted a spending policy where investment return for the Museum will be appropriated from the permanently restricted funds 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 market value of the permanently restricted funds 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.

During the 2014 and 2013 fiscal years, the Museum borrowed \$100,000 and \$235,000, respectively, from its unrestricted endowments.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Museum to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. There were no permanent endowment fund deficiencies as of June 30, 2014 and June 30, 2013.

Permanently restricted net assets

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 temporarily restricted net assets and is available to be spent in accordance with the donors' terms and as approved by the Board of Trustees.

Permanently restricted net assets as of June 30, 2014 and June 30, 2013 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, 2014 and June 30, 2013

Note 8 – Temporarily restricted net assets

Temporarily restricted net assets activity as of and for the years ended June 30, 2014 and June 30, 2013 is as follows:

	Balance at June 30, 2013	Contributions and Other	Net Assets Released from Restrictions	Balance at June 30, 2014
Time restrictions				
Undepreciated portion Capital Expansion (see note 1)	\$ 2,173,375	\$ -	\$ (1,032,600)	\$ 1,140,775
Other capital projects	141,126	-	(20,232)	120,894
Future programs	257,623	898,428	(948,484)	207,567
Charles E. Inness Fund for the Children of Brooklyn	128,529	-	(6,426)	122,103
Collections web based exhibit	<u>25,000</u>	<u>-</u>	<u>(25,000)</u>	<u>-</u>
Total	<u>\$ 2,725,653</u>	<u>\$ 898,428</u>	<u>\$ (2,032,742)</u>	<u>\$ 1,591,339</u>

	Balance at June 30, 2012	Contributions and Other	Net Assets Released from Restrictions	Balance at June 30, 2013
Time restrictions				
Undepreciated portion Capital Expansion (see note 1)	\$ 3,205,975	\$ -	\$ (1,032,600)	\$ 2,173,375
Other capital projects	147,919	13,588	(20,381)	141,126
Future programs	140,844	1,094,904	(978,125)	257,623
Charles E. Inness Fund for the Children of Brooklyn	135,294	-	(6,765)	128,529
Free admissions	140,000	10,000	(150,000)	-
Collections web based exhibit	<u>150,000</u>	<u>-</u>	<u>(125,000)</u>	<u>25,000</u>
Total	<u>\$ 3,920,032</u>	<u>\$ 1,118,492</u>	<u>\$ (2,312,871)</u>	<u>\$ 2,725,653</u>

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Notes to Financial Statements (continued) June 30, 2014 and June 30, 2013

Note 9 – 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 unrestricted public support for the years ended June 30, 2014 and June 30, 2013:

	<u>2014</u>	<u>2013</u>
Department of Cultural Affairs		
Operational support	\$1,642,176	\$1,643,048
Energy	251,497	247,190
Pension	108,208	103,889
Other	<u>127,278</u>	<u>17,384</u>
Total	<u>\$2,129,159</u>	<u>\$2,011,511</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 \$3,160,225 and \$103,197 were made by the City of New York during the years ended June 30, 2014 and June 30, 2013, respectively. The City of New York has spent \$50,032,900 on capital expenditures from the 2000 fiscal year through the 2014 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 10 – 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, 2014 was \$151,241, of which \$108,208 was funded by an appropriation from the City of New York. The pension plan expense for the year ended June 30, 2013 was \$159,110, of which \$86,394 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 aspects:

- 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, 2014 and June 30, 2013

Note 10 – Pension and retirement plans and other postretirement benefits (continued)

The Museum's participation in this Plan for the years ended June 30, 2014 and June 30, 2013, 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 Plan is subject. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in fiscal 2014 and 2013 is for the plan's year-end at June 30, 2013 and June 30, 2012, 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 less than 80 percent funded, and plans in the green zone are at least 80 percent funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.

<u>Pension Fund</u>	<u>EIN/Pension Plan Number</u>	<u>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 2013</u>	<u>Fiscal 2012</u>			<u>Fiscal 2014</u>	<u>Fiscal 2013</u>
Cultural Institutions Pension Plan	11-2001170/001	6/30/13	Green	Green	No	No	\$151,241	\$ 159,110

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 has been suspended for the 2013-2014 and 2014-2015 plan years. The Savings Plan expense for the year ended June 30, 2013 was \$33,463, of which \$17,495 was funded by an appropriation from the City of New York.

Defined contribution retirement plan

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

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Notes to Financial Statements (continued)

June 30, 2014 and June 30, 2013

Note 10 – Pension and retirement plans and other postretirement benefits (continued)

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.

The postretirement benefit obligation and the net periodic postretirement cost were computed using an assumed discount rate of 4.18% and 4.62%, respectively, for the fiscal years ended June 30, 2014 and June 30, 2013.

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, 2014 and June 30, 2013:

	<u>2014</u>	<u>2013</u>
Postretirement benefit obligation at the beginning of year		
a. Actives not fully eligible to retire	\$ 666,822	\$ 787,990
b. Actives fully eligible to retire	568,105	937,871
c. Retirees	<u>2,303,112</u>	<u>2,168,158</u>
d. Total	3,538,039	3,894,019
Service cost	96,523	104,179
Interest cost	159,348	148,035
Plan participant's contributions	N/A	N/A
Actuarial (gain)/loss	442,647	(443,486)
Benefits paid	<u>(177,885)</u>	<u>(164,708)</u>
Total postretirement benefit obligation at end of year	<u>4,058,672</u>	<u>3,538,039</u>
Consists of:		
a. Actives not fully eligible to retire	931,366	666,822
b. Actives fully eligible to retire	678,463	568,105
c. Retirees	<u>2,448,843</u>	<u>2,303,112</u>
d. Total	<u>\$4,058,672</u>	<u>\$3,538,039</u>

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Notes to Financial Statements (continued)

June 30, 2014 and June 30, 2013

Note 10 – Pension and retirement plans and other postretirement benefits (continued)

Other postretirement benefits (continued)

The estimated annual benefit payments are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2015	\$ 178,243
2016	180,129
2017	188,651
2018	199,338
2019	187,627
2020 – 2024	965,969

For a non-funded plan, the expected contributions equal the benefit payments for the next fiscal year totaling \$178,243.

The net periodic postretirement benefit cost for the years ended June 30, 2014 and June 30, 2013 totaled \$255,871 and \$252,214, 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 (cost) is recorded as a non-operating addition (deduction) in the statement of activities.

Note 11 – Unrestricted net asset deficit elimination plan

Since June 2008, the deficit in the unrestricted net assets is due to the following: (1) capital expenditures and the resulting unfunded depreciation, (2) increased liability for post-retirement healthcare benefits, and (3) significant additional first-year operating expenses, and to a lesser extent, additional expenses incurred on an annual basis due to the Museum's capital expansion that was completed in the 2008 fiscal year.

The Museum has reacted to its annual deficits with several downsizings. At the same time, healthcare, pension and post-retirement healthcare costs have continued to increase.

During 2011, the Museum adopted an unrestricted net asset deficit elimination plan. The Museum is committed to eliminating the net assets deficit over the next three years and committed to increasing unrestricted net assets in order to restore financial strength that was jeopardized due to expansion followed by the economic recession.

The Museum's current strategic plan focuses on continuing to seek increasing earned income and cost savings. Furthermore, in 2014, the City of New York Office of Labor Relations is committed to fully audit healthcare costs for all city employees and their eligible dependents.

BROOKLYN CHILDREN'S MUSEUM CORPORATION**Notes to Financial Statements (continued)****June 30, 2014 and June 30, 2013****Note 12 – 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. As of June 30, 2014, no amounts have been recognized for uncertain income tax positions. The Museum's tax returns for the fiscal year 2011 and forward are subject to the usual review by the appropriate authorities.