

**BROOKLYN CHILDREN'S
MUSEUM CORPORATION**

**Financial Statements
for the years ended
June 30, 2015
and
June 30, 2014**

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, 2015 and June 30, 2014 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, 2015 and June 30, 2014 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 8, 2016

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Statement of Financial Position

Assets

	<u>June 30</u>	
	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 12,986	\$ 164,097
Contributions receivable, net		
Unrestricted	202,534	196,583
Restricted for future programs and periods	59,783	40,741
Prepaid expenses and other assets	19,692	27,732
Investments, at fair value	1,814,516	2,051,774
Property and equipment, net	<u>478,016</u>	<u>1,902,401</u>
Total assets	<u>\$ 2,587,527</u>	<u>\$ 4,383,328</u>

Liabilities and Net Assets (deficit)

Liabilities		
Line of credit	\$ 260,000	\$ 260,000
Accounts payable and accrued expenses	496,550	419,706
Notes payable	120,000	145,000
Due to City of New York	202,095	-
Deferred revenue	60,081	45,283
Accrued postretirement benefits	<u>3,662,385</u>	<u>4,058,672</u>
Total liabilities	<u>4,801,111</u>	<u>4,928,661</u>
Net assets (deficit)		
Unrestricted	(4,468,080)	(3,884,875)
Temporarily restricted	506,293	1,591,339
Permanently restricted	<u>1,748,203</u>	<u>1,748,203</u>
Total net assets (deficit)	<u>(2,213,584)</u>	<u>(545,333)</u>
Total liabilities and net assets (deficit)	<u>\$ 2,587,527</u>	<u>\$ 4,383,328</u>

See notes to financial statements.

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Statement of Activities

Year Ended June 30, 2015

(With Summarized Comparative Information for the Year Ended June 30, 2014)

	2015			2014		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total	Total
Support and revenue						
Contributions						
Individuals	\$ 142,411	\$ -	\$ -	\$ 142,411	\$ 129,459	\$ 129,459
Corporations	170,500	220,000	-	390,500	314,800	314,800
Foundations	81,645	25,000	-	106,645	140,000	140,000
Government	126,680	317,645	-	444,325	359,945	359,945
Appropriations from City of New York	2,059,280	-	-	2,059,280	2,129,159	2,129,159
Admission fees	925,426	-	-	925,426	810,975	810,975
Membership fees	294,851	-	-	294,851	334,979	334,979
Fund-raising events, net of direct expenses of \$104,891 in 2015 and \$122,506 in 2014	303,072	-	-	303,072	302,547	302,547
Exhibit rentals	31,600	-	-	31,600	64,752	64,752
Space rentals	190,593	-	-	190,593	175,759	175,759
Gift shop commission	39,386	-	-	39,386	20,078	20,078
Food service commission	30,431	-	-	30,431	32,307	32,307
Interest and dividends	85	30,765	-	30,850	34,203	34,203
Net realized gain on sales of investments	-	112,525	-	112,525	215,755	215,755
Net change in unrealized value of investments	(66,367)	(143,290)	-	(209,657)	42,673	42,673
Other	-	-	-	-	66,608	66,608
Miscellaneous	40,293	-	-	40,293	32,997	32,997
Sub-total	4,369,886	562,645	-	4,932,531	5,206,996	5,206,996
Net assets released from restrictions	1,647,691	(1,647,691)	-	-	-	-
Total support and revenue	6,017,577	(1,085,046)	-	4,932,531	5,206,996	5,206,996
Expenses						
Program services						
Exhibitions	1,807,472	-	-	1,807,472	1,869,119	1,869,119
Collections	151,251	-	-	151,251	195,513	195,513
Education	1,271,649	-	-	1,271,649	1,266,664	1,266,664
Visitor services	462,851	-	-	462,851	340,141	340,141
Maintenance and security	1,394,707	-	-	1,394,707	1,341,689	1,341,689
Marketing and public affairs	276,107	-	-	276,107	271,736	271,736
Total program services	5,364,037	-	-	5,364,037	5,284,862	5,284,862
Supporting services						
General and administrative	1,003,093	-	-	1,003,093	953,914	953,914
Development	474,299	-	-	474,299	393,350	393,350
Total supporting services	1,477,392	-	-	1,477,392	1,347,264	1,347,264
Total expenses	6,841,429	-	-	6,841,429	6,632,126	6,632,126
(Decrease) in net assets before other addition (deductions)	(823,852)	(1,085,046)	-	(1,908,898)	(1,425,130)	(1,425,130)
Other addition (deductions)						
Pension adjustment	442,742	-	-	442,742	(442,647)	(442,647)
City of New York overpayment	(202,095)	-	-	(202,095)	-	-
(Decrease) in net assets	(583,205)	(1,085,046)	-	(1,668,251)	(1,867,777)	(1,867,777)
Net assets (deficit), beginning of year	(3,884,875)	1,591,339	1,748,203	(545,333)	1,322,444	1,322,444
Net assets (deficit), end of year	\$ (4,468,080)	\$ 506,293	\$ 1,748,203	\$ (2,213,584)	\$ (545,333)	\$ (545,333)

See notes to financial statements.

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Statement of Activities Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue				
Contributions				
Individuals	\$ 129,459	\$ -	\$ -	\$ 129,459
Corporations	79,800	235,000	-	314,800
Foundations	83,500	56,500	-	140,000
Government	45,500	314,445	-	359,945
Appropriations from City of New York	2,129,159	-	-	2,129,159
Admission fees	810,975	-	-	810,975
Membership fees	334,979	-	-	334,979
Exhibit rentals	64,752	-	-	64,752
Space rentals	175,759	-	-	175,759
Gift shop sales	20,078	-	-	20,078
Fund-raising events, net of direct expenses of \$122,506 in 2015 and \$69,398 in 2014	302,547	-	-	302,547
Food service commission	32,307	-	-	32,307
Interest and dividends	148	34,055	-	34,203
Net realized gain on sales of investments	-	215,755	-	215,755
Net change in unrealized value of investments	-	42,673	-	42,673
Other	66,608	-	-	66,608
Miscellaneous	32,997	-	-	32,997
Sub-total	4,308,568	898,428	-	5,206,996
Net assets released from restrictions	2,032,742	(2,032,742)	-	-
Total support and revenue	6,341,310	(1,134,314)	-	5,206,996
Expenses				
Program services				
Exhibitions	1,869,119	-	-	1,869,119
Collections	195,513	-	-	195,513
Education	1,266,664	-	-	1,266,664
Visitor services	340,141	-	-	340,141
Maintenance and security	1,341,689	-	-	1,341,689
Marketing and public affairs	271,736	-	-	271,736
Total program services	5,284,862	-	-	5,284,862
Supporting services				
General and administrative	953,914	-	-	953,914
Development	393,350	-	-	393,350
Total supporting services	1,347,264	-	-	1,347,264
Total expenses	6,632,126	-	-	6,632,126
(Decrease) in net assets before pension adjustment	(290,816)	(1,134,314)	-	(1,425,130)
Pension adjustment	(442,647)	-	-	(442,647)
(Decrease) in net assets	(733,463)	(1,134,314)	-	(1,867,777)
Net assets (deficit), beginning of year	(3,151,412)	2,725,653	1,748,203	1,322,444
Net assets (deficit), end of year	\$ (3,884,875)	\$ 1,591,339	\$ 1,748,203	\$ (545,333)

See notes to financial statements.

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Statement of Functional Expenses Year Ended June 30, 2015 (With Summarized Comparative Information for the Year Ended June 30, 2014)

	2015							2014				
	Program Services				Supporting Services							
	Exhibitions	Collections	Education	Visitor Services	Maintenance and Security	Marketing and Public Affairs	Total Program Services	General and Administrative	Development (Operating)	Supporting Services	Total	
Salaries, wages and benefits	\$ 218,537	\$ 130,521	\$ 1,083,720	\$ 360,930	\$ 1,032,141	\$ 187,551	\$ 3,013,400	\$ 624,630	\$ 333,842	\$ 938,472	\$ 3,971,872	\$ 3,921,560
Professional fees	11,250	-	31,804	400	97,724	48,500	189,678	155,423	50,110	205,533	395,211	190,869
Office expenses	15,223	58	5,625	4,061	4,783	10,779	40,529	14,376	-	14,376	54,905	49,085
Supplies	20,465	796	53,513	3,960	41,410	1,386	121,530	15,572	7,360	22,932	144,462	136,407
Cost of goods sold	-	-	-	54	-	-	54	-	34,055	34,055	34,109	34,214
Travel and meetings	38	162	3,642	-	113	483	4,438	2,514	713	3,227	7,665	5,053
Marketing	-	-	-	-	-	3,520	3,520	20,803	430	21,233	24,753	15,378
Equipment	35	250	1,900	26,100	2,400	-	30,685	8,034	29,127	37,161	67,846	46,408
Maintenance and utilities	88,813	3,741	36,298	30,027	94,975	15,927	269,781	19,570	7,939	27,509	297,290	332,973
Research and development	24,000	110	45	-	-	-	24,155	-	-	-	24,155	9,784
Insurance	4,286	2,938	15,300	4,987	19,463	7,935	54,909	16,987	9,870	26,857	81,766	106,192
Investment fees	-	-	-	-	-	-	-	16,450	-	16,450	16,450	17,559
Miscellaneous	440	-	1,053	32,332	720	26	34,571	62,227	853	63,080	97,651	82,222
Sub-total	383,087	138,576	1,232,900	462,851	1,293,729	276,107	3,787,250	956,586	474,299	1,430,885	5,218,135	4,947,704
Depreciation	1,424,385	-	-	-	-	-	1,424,385	-	-	-	1,424,385	1,428,551
Postretirement benefits	-	12,675	38,749	-	100,978	-	152,402	46,507	-	46,507	198,909	255,871
Total	\$ 1,807,472	\$ 151,251	\$ 1,271,649	\$ 462,851	\$ 1,394,707	\$ 276,107	\$ 5,364,037	\$ 1,003,093	\$ 474,299	\$ 1,477,392	\$ 6,841,429	\$ 6,632,126

See notes to financial statements.

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Statement of Functional Expenses Year Ended June 30, 2014

	Program Services					Supporting Services					
	Exhibitions	Collections	Education	Visitor Services	Maintenance and Security	Marketing and Public Affairs	Total Program Services	General and Administrative	Development (Operating)	Supporting Services	Total
Salaries, wages and benefits	\$ 256,571	\$ 135,335	\$ 1,068,013	\$ 257,039	\$ 1,015,423	\$ 224,276	\$ 2,956,657	\$ 630,973	\$ 333,930	\$ 964,903	\$ 3,921,560
Professional fees	6,266	12,600	22,190	100	42,981	7,193	91,330	76,404	23,135	99,539	190,869
Office expenses	12,435	905	5,885	3,636	4,766	3,022	30,649	16,490	1,946	18,436	49,085
Supplies	35,441	1,932	44,536	4,780	33,320	1,824	121,833	12,719	1,855	14,574	136,407
Cost of goods sold	-	-	-	3,044	-	-	3,044	31,170	-	31,170	34,214
Travel and meetings	-	82	3,023	205	-	700	4,010	719	324	1,043	5,053
Marketing	-	-	-	-	-	9,050	9,050	859	5,469	6,328	15,378
Equipment	-	19,974	3,940	14,710	-	-	38,624	3,114	4,670	7,784	46,408
Maintenance and utilities	114,681	3,403	35,904	29,950	100,150	15,567	299,655	26,019	7,299	33,318	332,973
Research and development	9,784	-	-	-	-	-	9,784	-	-	-	9,784
Insurance	5,375	3,685	19,188	6,255	24,410	9,952	68,865	24,948	12,379	37,327	106,192
Investment fees	-	-	-	-	-	-	-	17,559	-	17,559	17,559
Miscellaneous	15	3	10,194	20,422	15	152	30,801	49,078	2,343	51,421	82,222
Sub-total	440,568	177,919	1,212,873	340,141	1,221,065	271,736	3,664,302	890,052	393,350	1,283,402	4,947,704
Depreciation	1,428,551	-	-	-	-	-	1,428,551	-	-	-	1,428,551
Postretirement benefits	-	17,594	53,791	-	120,624	-	192,009	63,862	-	63,862	255,871
Total	\$ 1,869,119	\$ 195,513	\$ 1,266,664	\$ 340,141	\$ 1,341,689	\$ 271,736	\$ 5,284,862	\$ 953,914	\$ 393,350	\$ 1,347,264	\$ 6,632,126

See notes to financial statements.

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Statement of Cash Flows

	Year Ended June 30	
	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
(Decrease) in net assets	\$ (1,668,251)	\$ (1,867,777)
Adjustments to reconcile (decrease) in net assets to net cash (used in) operating activities		
Depreciation	1,424,385	1,428,551
Donated stocks	(22,199)	(10,182)
Proceeds from donated stock	22,199	10,182
Net realized (gain) on sale of investments	(112,525)	(215,755)
Change in unrealized value of investments	209,657	(42,673)
Forgiveness of notes payable	(25,000)	(20,000)
(Increase) decrease in assets		
Contributions receivable	(24,993)	10,277
Prepaid expenses and other assets	8,040	1,185
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	76,844	20,345
Deferred revenue	14,798	(17,992)
Due to City of New York	202,095	-
Accrued postretirement benefits	(396,287)	520,633
Net cash (used in) operating activities	<u>(291,237)</u>	<u>(183,206)</u>
Cash flows from investing activities		
Purchases of investments	(459,737)	(671,692)
Proceeds from sales of investments	531,765	684,395
Net change in money market funds	68,098	171,477
Net cash provided by investing activities	<u>140,126</u>	<u>184,180</u>
Cash flows from financing activities		
Repayment of line of credit	(17,000)	(2,000)
Borrowings on line of credit	17,000	-
Repayment of note payable	-	(10,000)
Net cash (used in) financing activities	<u>-</u>	<u>(12,000)</u>
Net (decrease) in cash and cash equivalents	(151,111)	(11,026)
Cash and cash equivalents, beginning of year	<u>164,097</u>	<u>175,123</u>
Cash and cash equivalents, end of year	<u>\$ 12,986</u>	<u>\$ 164,097</u>
Supplemental disclosure of cash flows information		
Cash paid for interest	<u>\$ 18,892</u>	<u>\$ 34,231</u>

See notes to financial statements.

BROOKLYN CHILDREN'S MUSEUM CORPORATION**Notes to Financial Statements
June 30, 2015 and June 30, 2014****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 10).

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.

New Accounting Pronouncement

In August 2014, Financial Accounting Standards Board issued a new Accounting Standards Update No. 2014-15 "Presentation of Financial Statements-Going Concern (Subtopic 205-40)". The standard requires management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the standard (1) provides a definition of the term substantial doubt, (2) requires an evaluation every reporting period, (3) provides principles for considering the mitigating effect of management's plans, (4) requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) requires an express statement and other disclosures when substantial doubt is not alleviated, and (6) requires an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The new standard applies prospectively to annual periods ending after December 15, 2016, and to annual periods thereafter.

BROOKLYN CHILDREN'S MUSEUM CORPORATION**Notes to Financial Statements (continued)****June 30, 2015 and June 30, 2014****Note 1 – Nature of organization and summary of significant accounting policies (continued)****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.

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, 2015 and June 30, 2014, 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.

BROOKLYN CHILDREN'S MUSEUM CORPORATION**Notes to Financial Statements (continued)****June 30, 2015 and June 30, 2014****Note 1 – Nature of organization and summary of significant accounting policies (continued)**Property and equipment (continued)

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.

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 10). 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, 2015 and June 30, 2014

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 and corporate bonds. 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, 2015. 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.

Subsequent events

The Museum has evaluated events and transactions for potential recognition or disclosure through February 8, 2016, 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, 2015 and June 30, 2014:

	<u>Unrestricted</u>	Restricted for Future Programs and Periods	<u>Total</u>
Due within one year	\$ 205,034	\$ 59,783	\$ 264,817
Less: allowance for doubtful accounts	<u>(2,500)</u>	<u>-</u>	<u>(2,500)</u>
Total, June 30, 2015	<u>\$ 202,534</u>	<u>\$ 59,783</u>	<u>\$ 262,317</u>
Total, June 30, 2014	<u>\$ 196,583</u>	<u>\$ 40,741</u>	<u>\$ 237,324</u>

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Notes to Financial Statements (continued)
June 30, 2015 and June 30, 2014**Note 3 – Investments**

The following is a summary of investments held by the Museum as of June 30, 2015 and June 30, 2014:

	<u>2015</u>		<u>2014</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 29,233	\$ 29,233	\$ 97,331	\$ 97,331
Equities				
Consumer/healthcare	348,626	417,498	319,469	413,822
Energy	110,649	98,197	145,145	212,321
Financial	225,384	314,992	255,526	390,110
Industrials	121,322	164,704	157,870	222,028
Technology	255,284	312,242	144,084	236,458
Corporate bonds	<u>471,204</u>	<u>477,650</u>	<u>469,878</u>	<u>479,704</u>
Total	<u>\$ 1,561,702</u>	<u>\$ 1,814,516</u>	<u>\$ 1,589,303</u>	<u>\$ 2,051,774</u>

Note 4 – Property and equipment

A summary of the property and equipment and accumulated depreciation as of June 30, 2015 and June 30, 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Exhibits	\$9,665,501	\$9,665,501
Building improvements	505,133	505,133
Furniture, fixtures and equipment	<u>407,044</u>	<u>407,044</u>
Total	10,577,678	10,577,678
Less: accumulated depreciation	<u>10,099,662</u>	<u>8,675,277</u>
Total property and equipment	<u>\$ 478,016</u>	<u>\$1,902,401</u>

Note 5 – Commitments**Line of credit**

The Museum had a revolving line of credit for \$300,000. The line of credit, which expired on September 25, 2015, was secured by all business assets of the Museum. Amounts borrowed under the line were evidenced by a promissory note and bore interest at LIBOR plus 11.31% per annum. The Museum could not 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, 2015, the outstanding balance was \$260,000. The Museum repaid the outstanding balance of \$259,000 on the line of credit with the proceeds obtained from a new promissory note in October 2015 as discussed on the next page.

BROOKLYN CHILDREN'S MUSEUM CORPORATION**Notes to Financial Statements (continued)****June 30, 2015 and June 30, 2014****Note 5 – Commitments (continued)****Loan payable**

During October 2015, the Museum entered into a \$259,000 promissory note (the “promissory note”). The proceeds from the promissory note were used to repay the Museum’s line of credit outstanding balance of \$259,000 as discussed on the previous page. The promissory note, 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 reduction of principal. The promissory note may be prepaid at any time without any prepayment penalty and is collateralized by certificates of deposit held at the bank totaling the principal amount. Upon default, the interest rate may be increased to 18% per annum and the bank reserves a right of setoff against the collateralized certificates of deposit held at the bank.

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. The Museum receives a percentage of the gross sales from the gift shop, as outlined in the agreement.

Employee agreement

The Museum is obligated under an agreement with a key employee for three years, which commenced February 2, 2015.

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 2014 and 2015 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 and \$15,000 was forgiven in the 2015 fiscal year. The interest rate remained the same on all notes.

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Notes to Financial Statements (continued)

June 30, 2015 and June 30, 2014

Note 7 – 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, the Museum owes 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 per year starting July 2015.

Note 8 – Temporarily restricted net assets

Temporarily restricted net assets activity as of and for the years ended June 30, 2015 and June 30, 2014 is as follows:

	Balance at June 30, 2014	Contributions and Other	Net Assets Released from Restrictions	Balance at June 30, 2015
Time restrictions				
Undepreciated portion Capital Expansion (see note 1)	\$ 1,140,775	\$ -	\$ (1,032,600)	\$ 108,175
Other capital projects	120,894	-	(17,342)	103,552
Future programs	207,567	562,645	(591,644)	178,568
Charles E. Inness Fund for the Children of Brooklyn	<u>122,103</u>	<u>-</u>	<u>(6,105)</u>	<u>115,998</u>
Total	<u>\$ 1,591,339</u>	<u>\$ 562,645</u>	<u>\$ (1,647,691)</u>	<u>\$ 506,293</u>

	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>

BROOKLYN CHILDREN'S MUSEUM CORPORATION**Notes to Financial Statements (continued)**
June 30, 2015 and June 30, 2014**Note 9 – 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.

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 2015, 2014 and 2013 fiscal years, the Museum borrowed approximately \$55,000, \$100,000 and \$235,000, respectively, from its unrestricted endowments. As of June 30, 2015, the approximate cumulative borrowings totaled \$390,000.

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 endowment fund deficiencies as of June 30, 2015.

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.

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Notes to Financial Statements (continued) June 30, 2015 and June 30, 2014

Note 9 – Endowments (continued)

Permanently restricted net assets (continued)

Permanently restricted net assets as of June 30, 2015 and June 30, 2014 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>

Note 10 – 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, 2015 and June 30, 2014:

	<u>2015</u>	<u>2014</u>
Department of Cultural Affairs		
Operational support	\$ 1,639,231	\$ 1,642,176
Energy	239,188	251,497
Pension	140,713	108,208
Other	<u>40,148</u>	<u>127,278</u>
Total	<u>\$ 2,059,280</u>	<u>\$ 2,129,159</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 \$3,247,054 and \$3,160,225 were made by the City of New York during the years ended June 30, 2015 and June 30, 2014, respectively. The City of New York has spent \$53,279,954 on capital expenditures from the 2000 fiscal year through the 2015 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 11 – 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, 2015 was \$172,618, of which \$140,713 was funded by an appropriation from 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.

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Notes to Financial Statements (continued)

June 30, 2015 and June 30, 2014

Note 11 – Pension and retirement plans and other postretirement benefits (continued)

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.

The Museum's participation in this Plan for the years ended June 30, 2015 and June 30, 2014, 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. The most recent Pension Protection Act zone status available in fiscal 2015 and 2014 is for the plan's year-end at June 30, 2014 and June 30, 2013, 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. 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.

Pension Fund	EIN/Pension Plan Number	Expiration Date of Collective Bargaining Agreement	Pension Protection Act Zone Status		FIP/RP Status Pending/Implemented	Surcharge Imposed	Contributions to the Plan	
			Fiscal 2014	Fiscal 2013			Fiscal 2015	Fiscal 2014
The Cultural Institutions Pension Plan	11-2001170/001	6/30/15	Green	Green	No	No	\$ 172,618	\$ 151,241

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, 2014 and 2015 plan years.

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Notes to Financial Statements (continued)
June 30, 2015 and June 30, 2014**Note 11 – Pension and retirement plans and other postretirement benefits (continued)**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.

The postretirement benefit obligation and the net periodic postretirement cost were computed using an assumed discount rate of 4.30% and 4.18%, respectively, for the fiscal years ended June 30, 2015 and June 30, 2014.

During 2014, the Society of Actuaries updated the mortality tables used in determining benefit obligations. In connection therewith, the Museum used the updated mortality table when calculating the pension benefit obligation for the 2015 fiscal year.

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, 2015 and June 30, 2014:

	<u>2015</u>	<u>2014</u>
Postretirement benefit obligation at the beginning of year		
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	4,058,672	3,538,039
Service cost	57,914	96,523
Interest cost	140,995	159,348
Plan participant's contributions	N/A	N/A
Actuarial (gain)/loss	(442,742)	442,647
Benefits paid	<u>(152,454)</u>	<u>(177,885)</u>
Total postretirement benefit obligation at end of year	<u>3,662,385</u>	<u>4,058,672</u>
Consists of:		
a. Actives not fully eligible to retire	735,827	931,366
b. Actives fully eligible to retire	826,790	678,463
c. Retirees	<u>2,099,768</u>	<u>2,448,843</u>
d. Total	<u>\$3,662,385</u>	<u>\$4,058,672</u>

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Notes to Financial Statements (continued)
June 30, 2015 and June 30, 2014**Note 11 – 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>
2016	\$ 156,169
2017	163,892
2018	172,913
2019	169,600
2020	169,507
2021 – 2025	885,460

For a non-funded plan, the expected contributions equal the benefit payments for the next fiscal year totaling \$156,169.

The net periodic postretirement benefit cost for the years ended June 30, 2015 and June 30, 2014 totaled \$198,909 and \$255,871, 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 12 – Unrestricted net asset deficit elimination plan

Since June 2008, the deficit in the unrestricted net assets is due to the following: (1) increased liability for post-retirement healthcare benefits, and (2) 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.

In 2015, under new leadership, the Museum implemented a five-point plan to address the net asset deficit:

1. **Staff and Cost Restructuring:** Since 2008, the Museum experienced two phases of downsizing. In the current plan staff is being restructured to maximize efficiency. In 2016, the Museum will enact new measures to minimize accrued vacation at the end of the fiscal year.
2. **Debt Restructuring:** The Museum secured a low-interest five-year term loan to pay off \$260,000 line of credit dating back to 2012. The Museum is pursuing other term loan opportunities to service the Museum's payables.
3. **Strategic Partnerships for Revenue Growth:** The Museum has outsourced its auxiliary businesses including food service, event management, and retail, to third party companies willing to invest capital and advertising funds to promote earned revenue. With the new rooftop space, the Museum has a four-year plan to increase event rental revenue.

BROOKLYN CHILDREN'S MUSEUM CORPORATION

Notes to Financial Statements (continued)
June 30, 2015 and June 30, 2014**Note 12 – Unrestricted net asset deficit elimination plan (continued)**

4. **Increasing Revenue:** The Museum has implemented a plan to increase revenue through three areas: a) in October 2015, the Museum raised its admission price from \$9 to \$11, and comparably raised its membership rates; b) the Board of Trustees is in an active board recruitment phase, adding three new members in FY15 and plans to add at least three more in FY16.
5. **Investing in Assets:** In FY16, the assets associated with exhibits will be fully depreciated. In 2016, the Museum will invest in furniture and fixtures to fit out the rooftop, funded by the State of New York, and resulting in \$600,000 worth of assets. As costs associated with pension and health care continue to rise, the Museum's Board of Trustees is evaluating the feasibility of a fundraising campaign to build the endowment.

The Museum's Board of Trustees and executive staff are committed to eliminating the net asset deficit over the next three years, through a combination of strategic investment and managing costs.

Note 13 – 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.