

**BROOKLYN CHILDREN'S  
MUSEUM CORPORATION**

**Financial Statements  
for the years ended  
June 30, 2017  
and  
June 30, 2016**

**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, 2017 and June 30, 2016 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, 2017 and June 30, 2016 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 28, 2017

# BROOKLYN CHILDREN'S MUSEUM CORPORATION

## Statement of Financial Position

### Assets

	<b>June 30</b>	
	<u><b>2017</b></u>	<u><b>2016</b></u>
<b>Cash</b>	\$ 288,795	\$ 140,280
<b>Certificates of deposit</b>	214,847	259,842
<b>Money market account</b>	500,529	-
<b>Contributions receivable, net</b>		
Unrestricted	221,962	215,917
Restricted for future programs and periods	10,000	54,197
<b>Prepaid expenses and other assets</b>	26,776	53,078
<b>Investments, at fair value</b>	1,299,639	1,497,413
<b>Property and equipment, net</b>	<u>321,176</u>	<u>86,768</u>
<b>Total assets</b>	<u><b>\$ 2,883,724</b></u>	<u><b>\$ 2,307,495</b></u>

### Liabilities and Net Assets (deficit)

#### Liabilities

Line of credit	\$ 184,622	\$ -
Accounts payable and accrued expenses	441,998	777,698
Notes payable	90,000	110,000
Due to City of New York	161,675	181,885
Deferred revenue	11,506	22,496
Loans payable	265,983	266,842
Accrued postretirement benefits	<u>3,404,695</u>	<u>3,844,410</u>
<b>Total liabilities</b>	<u><b>4,560,479</b></u>	<u><b>5,203,331</b></u>

#### Net assets (deficit)

Unrestricted	(4,218,998)	(4,907,203)
Temporarily restricted	794,040	263,164
Permanently restricted	<u>1,748,203</u>	<u>1,748,203</u>
<b>Total net assets (deficit)</b>	<u><b>(1,676,755)</b></u>	<u><b>(2,895,836)</b></u>
<b>Total liabilities and net assets (deficit)</b>	<u><b>\$ 2,883,724</b></u>	<u><b>\$ 2,307,495</b></u>

See notes to financial statements.

# BROOKLYN CHILDREN'S MUSEUM CORPORATION

## Statement of Activities Year Ended June 30, 2017 (With Summarized Comparative Information for the Year Ended June 30, 2016)

	2017			2016
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and revenue</b>				
Contributions				
Individuals	\$ 79,625	\$ 31,092	\$ -	\$ 110,717
Corporations	52,479	212,895	-	265,374
Foundations	61,312	121,400	-	182,712
Government	335,479	348,994	-	684,473
In-kind	-	-	-	-
Appropriations from City of New York	2,183,477	-	-	2,183,477
Admission fees	1,058,809	-	-	1,058,809
Membership fees	251,255	-	-	251,255
Fund-raising events, net of direct expenses of \$99,892 in 2017 and \$105,593 in 2016	360,045	-	-	360,045
Exhibit rentals	42,500	-	-	42,500
Space rentals	196,551	-	-	196,551
Gift shop commission	70,120	-	-	70,120
Food service commission	34,801	-	-	34,801
Interest and dividends	643	25,590	-	26,233
Net realized gain on sales of investments	-	145,610	-	145,610
Net change in unrealized value of investments	-	64,081	-	64,081
Other	34,987	-	-	34,987
Sub-total	4,762,083	949,662	-	5,711,745
Net assets released from restrictions	418,786	(418,786)	-	-
Total support and revenue	5,180,869	530,876	-	5,711,745
<b>Expenses</b>				
Program services				
Exhibitions	417,054	-	-	417,054
Collections	254,574	-	-	254,574
Education	902,503	-	-	902,503
Visitor services	448,375	-	-	448,375
Maintenance and security	1,396,644	-	-	1,396,644
Marketing and public affairs	143,236	-	-	143,236
Total program services	3,562,386	-	-	3,562,386
Supporting services				
General and administrative	853,491	-	-	853,491
Development	519,239	-	-	519,239
Total supporting services	1,372,730	-	-	1,372,730
Total expenses	4,935,116	-	-	4,935,116
Increase (decrease) in net assets before other addition (deduction)	245,753	530,876	-	776,629
<b>Other addition (deduction)</b>				
Pension adjustment	442,452	-	-	442,452
Increase (decrease) in net assets	688,205	530,876	-	1,219,081
Net assets (deficit), beginning of year	(4,907,203)	263,164	1,748,203	(2,895,836)
Net assets (deficit), end of year	\$ (4,218,998)	\$ 794,040	\$ 1,748,203	\$ (2,895,836)

See notes to financial statements.

# BROOKLYN CHILDREN'S MUSEUM CORPORATION

## Statement of Activities Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Support and revenue</b>				
Contributions				
Individuals	\$ 115,983	\$ -	\$ -	\$ 115,983
Corporations	36,637	85,000	-	121,637
Foundations	173,533	124,750	-	298,283
Government	411,305	-	-	411,305
In-kind	25,342	-	-	25,342
Appropriations from City of New York	2,032,426	-	-	2,032,426
Admission fees	939,493	-	-	939,493
Membership fees	262,428	-	-	262,428
Fund-raising events, net of direct expenses of \$105,593	281,818	-	-	281,818
Exhibit rentals	42,858	-	-	42,858
Space rentals	212,514	-	-	212,514
Gift shop commission	54,355	-	-	54,355
Food service commission	19,209	-	-	19,209
Interest and dividends	842	26,183	-	27,025
Net realized gain on sales of investments	-	62,666	-	62,666
Net change in unrealized value of investments	-	(60,013)	-	(60,013)
Other	<u>23,787</u>	<u>-</u>	<u>-</u>	<u>23,787</u>
Sub-total	4,632,530	238,586	-	4,871,116
Net assets released from restrictions	<u>481,715</u>	<u>(481,715)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>5,114,245</u>	<u>(243,129)</u>	<u>-</u>	<u>4,871,116</u>
<b>Expenses</b>				
Program services				
Exhibitions	825,191	-	-	825,191
Collections	226,106	-	-	226,106
Education	978,181	-	-	978,181
Visitor services	507,005	-	-	507,005
Maintenance and security	1,257,332	-	-	1,257,332
Marketing and public affairs	<u>263,187</u>	<u>-</u>	<u>-</u>	<u>263,187</u>
Total program services	<u>4,057,002</u>	<u>-</u>	<u>-</u>	<u>4,057,002</u>
Supporting services				
General and administrative	822,577	-	-	822,577
Development	<u>513,789</u>	<u>-</u>	<u>-</u>	<u>513,789</u>
Total supporting services	<u>1,336,366</u>	<u>-</u>	<u>-</u>	<u>1,336,366</u>
Total expenses	<u>5,393,368</u>	<u>-</u>	<u>-</u>	<u>5,393,368</u>
(Decrease) in net assets before other (deduction)	(279,123)	(243,129)	-	(522,252)
<b>Other (deduction)</b>				
Pension adjustment	<u>(160,000)</u>	<u>-</u>	<u>-</u>	<u>(160,000)</u>
(Decrease) in net assets	(439,123)	(243,129)	-	(682,252)
Net assets (deficit), beginning of year	<u>(4,468,080)</u>	<u>506,293</u>	<u>1,748,203</u>	<u>(2,213,584)</u>
Net assets (deficit), end of year	<u>\$ (4,907,203)</u>	<u>\$ 263,164</u>	<u>\$ 1,748,203</u>	<u>\$ (2,895,836)</u>

See notes to financial statements.

# BROOKLYN CHILDREN'S MUSEUM CORPORATION

## Statement of Functional Expenses Year Ended June 30, 2017 (With Summarized Comparative Information for the Year Ended June 30, 2016)

	2017										2016	
	Program Services					Supporting Services					Total	
	Exhibitions	Collections	Education	Visitor Services	Maintenance and Security	Marketing and Public Affairs	Total Program Services	General and Administrative	Development (Operating)	Supporting Services		
Salaries, wages and benefits	\$ 304,792	\$ 237,437	\$ 785,277	\$ 370,644	\$ 1,013,655	\$ 75,734	\$ 2,787,539	\$ 206,880	\$ 441,476	\$ 648,356	\$ 3,435,895	\$ 3,641,409
Professional fees	18,184	151	51,278	236	68,133	55,481	193,463	385,467	20,135	405,602	599,065	474,221
Office expenses	2,518	969	4,199	1,575	4,136	309	13,706	8,604	2,537	11,141	24,847	26,511
Supplies	28,052	1,189	18,768	3,170	10,917	42	62,138	3,505	1,259	4,764	66,902	82,116
Travel and meetings	1,552	92	2,216	3,757	-	2,848	10,465	3,846	17,240	21,086	31,551	17,505
Marketing	-	-	-	-	-	265	265	648	-	648	913	75,240
Equipment	12,298	3,072	1,514	22,636	26,594	47	66,161	14,442	14,392	28,834	94,995	96,345
Maintenance and utilities	2,341	1,824	6,031	2,847	198,843	582	212,468	1,595	3,458	5,053	217,521	213,325
Insurance	-	-	-	-	-	-	-	77,705	-	77,705	77,705	86,293
Investment fees	-	-	-	-	-	-	-	13,299	-	13,299	13,299	14,333
Other	-	-	678	28,151	2,462	4,790	36,081	128,894	83	128,977	165,058	114,651
Sub-total	369,737	244,734	869,961	433,016	1,324,740	140,098	3,382,286	844,885	500,580	1,345,465	4,727,751	4,841,949
Depreciation	34,686	-	-	-	29,899	-	64,585	-	-	-	64,585	391,248
Postretirement benefits	12,631	9,840	32,542	15,359	42,005	3,138	115,515	8,606	18,659	27,265	142,780	160,171
Total	\$ 417,054	\$ 254,574	\$ 902,503	\$ 448,375	\$ 1,396,644	\$ 143,236	\$ 3,562,386	\$ 853,491	\$ 519,239	\$ 1,372,730	\$ 4,935,116	\$ 5,393,368

See notes to financial statements.

# BROOKLYN CHILDREN'S MUSEUM CORPORATION

## Statement of Functional Expenses Year Ended June 30, 2016

	Program Services					Supporting Services					
	Exhibitions	Collections	Education	Visitor Services	Maintenance and Security	Marketing and Public Affairs	Total Program Services	General and Administrative	Development (Operating)	Total Supporting Services	
Salaries, wages and benefits	\$ 298,580	\$ 202,761	\$ 837,602	\$ 410,945	\$ 1,030,513	\$ 131,763	\$ 2,912,164	\$ 321,122	\$ 408,123	\$ 729,245	\$ 3,641,409
Professional fees	19,522	3,386	41,398	6,255	56,433	32,806	159,800	281,832	32,589	314,421	474,221
Office expenses	1,181	858	5,786	1,740	4,363	3,325	17,253	7,530	1,728	9,258	26,511
Supplies	29,784	1,130	20,662	680	15,235	210	67,701	10,016	4,399	14,415	82,116
Travel and meetings	93	-	1,911	7,388	-	1,253	10,645	3,239	3,621	6,860	17,505
Marketing	-	80	80	-	-	75,080	75,240	-	-	-	75,240
Equipment	10,477	5,510	599	5,828	47,103	81	69,598	13,118	13,629	26,747	96,345
Maintenance and utilities	58,037	3,382	32,327	25,404	57,953	12,148	189,251	15,430	8,644	24,074	213,325
Insurance	-	-	-	-	-	-	-	86,293	-	86,293	86,293
Investment fees	-	-	-	-	-	-	-	14,333	-	14,333	14,333
Other	3,136	80	973	30,689	404	726	36,008	55,539	23,104	78,643	114,651
Sub-total	420,810	217,187	941,338	488,929	1,212,004	257,392	3,537,660	808,452	495,837	1,304,289	4,841,949
Depreciation	391,248	-	-	-	-	-	391,248	-	-	-	391,248
Postretirement benefits	13,133	8,919	36,843	18,076	45,328	5,795	128,094	14,125	17,952	32,077	160,171
Total	\$ 825,191	\$ 226,106	\$ 978,181	\$ 507,005	\$ 1,257,332	\$ 263,187	\$ 4,057,002	\$ 822,577	\$ 513,789	\$ 1,336,366	\$ 5,393,368

See notes to financial statements.

# BROOKLYN CHILDREN'S MUSEUM CORPORATION

## Statement of Cash Flows

	Year Ended June 30	
	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities</b>		
Increase (decrease) in net assets	\$ 1,219,081	\$ (682,252)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation	64,585	391,248
Donated securities	(44,481)	(11,024)
Proceeds from sales of donated securities	44,296	11,024
Net realized (gain) on sale of investments	(145,610)	(62,666)
Change in unrealized value of investments	(64,081)	60,013
Forgiveness of notes payable	(10,000)	(10,000)
(Increase) decrease in assets		
Contributions receivable	38,152	(7,797)
Prepaid expenses and other assets	26,302	(33,386)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(335,700)	281,148
Due to City of New York	(20,210)	(20,210)
Deferred revenue	(10,990)	(37,585)
Accrued postretirement benefits	(439,715)	182,025
Net cash provided by operating activities	<u>321,629</u>	<u>60,538</u>
<b>Cash flows from investing activities</b>		
Purchases of certificates of deposit	-	(259,842)
Redemption of certificates of deposit	44,995	-
Purchases of investments	(290,475)	(584,907)
Proceeds from sales of investments	712,271	922,698
Net change in money market funds	(14,146)	(18,035)
Purchases of property and equipment	(298,993)	-
Net cash provided by investing activities	<u>153,652</u>	<u>59,914</u>
<b>Cash flows from financing activities</b>		
Borrowings on line of credit	386,369	2,000
Repayment of line of credit	(201,747)	(262,000)
Repayment of note payable	(10,000)	-
Borrowings on loans payable	100,000	303,325
Repayment of loans payable	(100,859)	(36,483)
Net cash provided by financing activities	<u>173,763</u>	<u>6,842</u>
Net increase in cash and money market account	<b>649,044</b>	<b>127,294</b>
Cash and money market account, beginning of year	<u>140,280</u>	<u>12,986</u>
Cash and money market account, end of year	<u><b>\$ 789,324</b></u>	<u><b>\$ 140,280</b></u>
<b>Consists of:</b>		
Cash	\$ 288,795	\$ 140,280
Money market account	<u>500,529</u>	<u>-</u>
Total	<u><b>\$ 789,324</b></u>	<u><b>\$ 140,280</b></u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	<u>\$ 18,351</u>	<u>\$ 13,075</u>

See notes to financial statements.

# BROOKLYN CHILDREN'S MUSEUM CORPORATION

## Notes to Financial Statements June 30, 2017 and June 30, 2016

### **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 275,000 children and caregivers annually are served by the Museum's exhibits and programs.

**The Museum's mission is to provide first cultural experiences for children and caregivers that inspire curiosity, creativity, and lifelong love of learning.** The Museum's exhibits explore art, world cultures and natural sciences 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 will open a new art studio on its second floor that will offer sensory art-making experiences highlighting African-American and Afro-Caribbean artists and techniques.

Annually, the Museum hosts visiting exhibitions created by Brooklyn-based artists and designers in its Visiting Exhibits Gallery. In 2016, the Museum hosted a group show, *Our City*, which introduced families to interactive, contemporary art exploring our urban environment. *Wilderness Camp* debuted in winter 2016, bringing an indoor camping experience to the Museum throughout the winter months. In December 2017, we will debut *Block Party*, a vivid exploration of the iconic Brooklyn block party featuring a climbable stoop scape; a sidewalk chalk drawing space; pretend grilling areas; a double dutch station; and street games like skelly and hopscotch.

Through formative cultural experiences, Brooklyn Children's Museum seeks to lay the foundation for a lifetime of arts and culture appreciation and engagement. The Museum is committed to making its exhibits and programs accessible to all children, offering free hours every Thursday; 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 roughly 30% come at no charge. 4,000 Title I public school students are able to visit the Museum at no cost. 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 11).

**BROOKLYN CHILDREN'S MUSEUM CORPORATION****Notes to Financial Statements (continued)****June 30, 2017 and June 30, 2016****Note 1 – Nature of organization and summary of significant accounting policies (continued)**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. Management has evaluated the effect of the new standard on the Museum's financial statements for the year ended June 30, 2017 and has concluded that there is no substantial doubt about the Museum's ability to continue as a going concern.

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, 2017 and June 30, 2016****Note 1 – Nature of organization and summary of significant accounting policies (continued)**In-kind contributions

During 2016, the Museum received in-kind contributions of legal services and gala contributions with a fair value estimated at \$25,342. The amounts were recorded at the fair value based on what it would have cost the Museum to purchase them independently and have been reflected as support and expenses in the statement of activities.

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 to be recorded as in-kind 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.

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, 2017 and June 30, 2016, 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 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 and decreases in unrestricted net assets unless their use is temporarily or permanently restricted by donor stipulation.

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.

**BROOKLYN CHILDREN'S MUSEUM CORPORATION****Notes to Financial Statements (continued)****June 30, 2017 and June 30, 2016****Note 1 – Nature of organization and summary of significant accounting policies (continued)****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 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 11). 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. 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.

# BROOKLYN CHILDREN'S MUSEUM CORPORATION

## Notes to Financial Statements (continued)

June 30, 2017 and June 30, 2016

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

#### 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, 2017. The Museum routinely assesses the financial strength of its holdings in its investment portfolio. The Museum monitors the collectibility of its receivables on an ongoing basis. As a consequence, the Museum's management believes concentrations of credit risk are limited.

#### Subsequent events

The Museum has evaluated events and transactions for potential recognition or disclosure through November 28, 2017, 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, 2017 and June 30, 2016:

	<u>Unrestricted</u>	Restricted for Future Programs and Periods	<u>Total</u>
Due within one year	\$ 224,462	\$ 10,000	\$ 234,462
Less: allowance for doubtful accounts	<u>(2,500)</u>	<u>-</u>	<u>(2,500)</u>
Total, June 30, 2017	<u>\$ 221,962</u>	<u>\$ 10,000</u>	<u>\$ 231,962</u>
Total, June 30, 2016	<u>\$ 215,917</u>	<u>\$ 54,197</u>	<u>\$ 270,114</u>

# BROOKLYN CHILDREN'S MUSEUM CORPORATION

## Notes to Financial Statements (continued) June 30, 2017 and June 30, 2016

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

The following is a summary of investments, money market account and certificates of deposit held by the Museum as of June 30, 2017 and June 30, 2016:

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
<b><u>Investments</u></b>				
Money market funds	\$ 61,414	\$ 61,414	\$ 47,268	\$ 47,268
Equities	676,717	932,032	919,036	1,103,936
U.S. Treasuries	214,604	216,222	48,914	50,881
Corporate bonds	<u>90,022</u>	<u>89,971</u>	<u>289,394</u>	<u>295,328</u>
Sub total	1,042,757	1,299,639	1,304,612	1,497,413
Certificates of deposit	214,847	214,847	259,842	259,842
Money market account	<u>500,529</u>	<u>500,529</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,758,133</u>	<u>\$ 2,015,015</u>	<u>\$ 1,564,454</u>	<u>\$ 1,757,255</u>

### **Note 4 – Property and equipment**

A summary of the property and equipment and accumulated depreciation as of June 30, 2017 and June 30, 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Exhibits	\$9,665,501	\$9,665,501
Building improvements	505,133	505,133
Furniture, fixtures and equipment	<u>706,037</u>	<u>407,044</u>
Total	10,876,671	10,577,678
Less: accumulated depreciation	<u>10,555,495</u>	<u>10,490,910</u>
Net property and equipment	<u>\$ 321,176</u>	<u>\$ 86,768</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 of 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 2017 and 2016 fiscal years. One of the other Board Members 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. During the 2017 fiscal year, the Museum repaid \$10,000, no payments were made during the 2016 fiscal year. The interest rate remained the same on all notes.

# BROOKLYN CHILDREN'S MUSEUM CORPORATION

## Notes to Financial Statements (continued)

June 30, 2017 and June 30, 2016

### **Note 6 – Line of credit and loans payable**

#### Line 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 will be allowed to draw down on the line until February 1, 2020 at which time the outstanding principal balance will 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 are subject to regular interest payments set at the Prime Rate plus 1.5 percentage points per annum. The line and loan may be prepaid at any time without a prepayment penalty and is collateralized by a money market account held at the bank. In the event of default on the line of credit, the bank has the right of set off against the collateralized money market account held at the bank. The loan is to mature on January 2025 at which time all unpaid principal and interest will be due. As of June 30, 2017, the outstanding balance on the line was \$184,622.

#### 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, 2017, the value of these certificates of deposit totaled \$214,847. 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, 2017, the outstanding balance on the loan was \$173,398.

During April 2016, the Museum borrowed \$45,000 under the terms of a cash flow loan which was used to pay for architectural and engineering costs for the DASNY’s Rooftop theatre project. The loan was due at the earlier of the receipt of the DASNY funds or August 1, 2016. The loan was repaid in January 2017.

During December 2016, the Museum obtained a \$100,000 loan (the “loan”). The proceeds from the loan were used to repay outstanding payables. 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, 2017, the outstanding balance on the loan was \$92,585.

The following are the required annual principal payments on the loans, as of June 30, 2017:

<u>Fiscal Year</u>	<u>Amount</u>
2018	\$ 69,624
2019	72,656
2020	75,810
2021	35,040
2022	<u>12,853</u>
Total	<u>\$ 265,983</u>

**BROOKLYN CHILDREN'S MUSEUM CORPORATION****Notes to Financial Statements (continued)****June 30, 2017 and June 30, 2016****Note 7 - 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 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.

**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.

**Employee agreement**

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

**Sub-license agreement**

On September 5, 2017, the Museum signed a memorandum of understanding with the Brooklyn Public Library (the "Library") to sub-lease 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.

**Note 8 – 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 each year commencing in July 2015. As of June 30, 2017, the outstanding balance owed to the City of New York was \$161,675.

## BROOKLYN CHILDREN'S MUSEUM CORPORATION

## Notes to Financial Statements (continued)

June 30, 2017 and June 30, 2016

**Note 9 – Temporarily restricted net assets**

Temporarily restricted net assets activity as of and for the years ended June 30, 2017 and June 30, 2016 is as follows:

	Balance at June 30, 2016	Contributions and Investment Return	Net Assets Released from Restrictions	Balance at June 30, 2017
Time restrictions				
Undepreciated portion				
Capital projects				
(see note 1)	\$ 69,848	\$ 298,994	\$ (53,059)	\$ 315,783
Endowments return	-	235,281	(93,000)	142,281
Future programs	83,118	415,387	(266,927)	231,578
Charles E. Inniss Fund for the Children of Brooklyn	110,198	-	(5,800)	104,398
Total	\$ 263,164	\$ 949,662	\$ (418,786)	\$ 794,040
	Balance at June 30, 2015	Contributions and Investment Return	Net Assets Released from Restrictions	Balance at June 30, 2016
Time restrictions				
Undepreciated portion				
Capital Expansion				
(see note 1)	\$ 108,175	\$ -	\$ (108,175)	\$ -
Other capital projects	103,552	-	(33,704)	69,848
Endowment return	-	28,836	(28,836)	-
Future programs	178,568	209,750	(305,200)	83,118
Charles E. Inniss Fund for the Children of Brooklyn	115,998	-	(5,800)	110,198
Total	\$ 506,293	\$ 238,586	\$ (481,715)	\$ 263,164

**Note 10 – 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 or temporarily restricted net assets based on donor stipulations.

**BROOKLYN CHILDREN'S MUSEUM CORPORATION****Notes to Financial Statements (continued)****June 30, 2017 and June 30, 2016****Note 10 – 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 whereby 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 fair value of the permanently restricted funds as of March 31<sup>st</sup> 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 drew-down approximately \$55,000, \$100,000, and \$235,000, respectively, from its endowment assets. It is the intention of the Museum's Board of Trustees to repay these amounts from the operating fund at such times as operating funds become available. In the 2017 fiscal year, the Museum appropriated \$93,000 of investment earnings, representing the allowable endowment draw discussed on the previous page, to repay a portion of these endowment draws. As of June 30, 2017, the approximate cumulative amount not yet repaid totaled \$297,000.

During October 2015, the Museum transferred \$259,000 of its endowments 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. The entire value of the certificates of deposit will be returned to the Museum's investment portfolio upon the term loan's maturity date in October 2020.

During December 2016, the Museum transferred \$500,000 of its endowments 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). The entire value of the money market account will be returned to the Museum's investment portfolio upon the maturity of these loans.

**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.

# **BROOKLYN CHILDREN'S MUSEUM CORPORATION**

## **Notes to Financial Statements (continued)**

**June 30, 2017 and June 30, 2016**

### **Note 10 – Endowments (continued)**

#### **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, 2017 and June 30, 2016 are as follows:

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

### **Note 11 – 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, 2017 and June 30, 2016:

	<u>2017</u>	<u>2016</u>
Department of Cultural Affairs		
Operational support	\$ 1,778,088	\$ 1,653,232
Energy	186,709	185,985
Pension	162,770	171,395
Other	<u>55,910</u>	<u>21,814</u>
Total	<u>\$ 2,183,477</u>	<u>\$ 2,032,426</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 \$244,617 and \$1,108,357 were made by the City of New York during the years ended June 30, 2017 and June 30, 2016, respectively. The City of New York has spent \$54,632,928 on capital expenditures from the 2000 fiscal year through the 2017 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.

# BROOKLYN CHILDREN'S MUSEUM CORPORATION

## Notes to Financial Statements (continued)

June 30, 2017 and June 30, 2016

### Note 12 – 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, 2017 was \$187,579, of which \$162,770 was funded by an appropriation from the City of New York. The pension plan expense for the year ended June 30, 2016 was \$202,702, of which \$171,395 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.

The Museum’s participation in the multiemployer plan for the years ended June 30, 2017 and June 30, 2016, 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 2017 and 2016 is for the plan’s year-end at June 30, 2016 and June 30, 2015, 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</u>		<u>FIP/RP Status Pending/ Implemented</u>	<u>Surcharge Imposed</u>	<u>Contributions to the Plan</u>	
			<u>Zone Status</u>				<u>Fiscal 2017</u>	<u>Fiscal 2016</u>
			<u>Fiscal 2016</u>	<u>Fiscal 2015</u>				
The Cultural Institutions Pension Plan	11-2001170/001	7/2/2018	Green	Green	No	No	\$ 187,579	\$ 202,702

#### 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 2017 plan years.

# BROOKLYN CHILDREN'S MUSEUM CORPORATION

## Notes to Financial Statements (continued)

June 30, 2017 and June 30, 2016

### Note 12 – 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 3.73% and 3.45%, respectively, for the fiscal years ended June 30, 2017 and June 30, 2016.

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, 2017 and June 30, 2016:

	<u>2017</u>	<u>2016</u>
Postretirement benefit obligation at the beginning of year		
a. Actives not fully eligible to retire	\$ 302,774	\$ 735,827
b. Actives fully eligible to retire	1,533,638	826,790
c. Retirees	<u>2,007,998</u>	<u>2,099,768</u>
d. Total	3,844,410	3,662,385
Service cost	23,848	18,823
Interest cost	118,932	141,348
Plan participant's contributions	N/A	N/A
Actuarial (gain)/loss	(442,452)	160,000
Benefits paid	<u>(140,043)</u>	<u>(138,146)</u>
Total postretirement benefit obligation at end of year	<u>3,404,695</u>	<u>3,844,410</u>
Consists of:		
a. Actives not fully eligible to retire	301,977	302,774
b. Actives fully eligible to retire	1,204,484	1,533,638
c. Retirees	<u>1,898,234</u>	<u>2,007,998</u>
d. Total	<u>\$3,404,695</u>	<u>\$3,844,410</u>

# **BROOKLYN CHILDREN'S MUSEUM CORPORATION**

## **Notes to Financial Statements (continued) June 30, 2017 and June 30, 2016**

### **Note 12 – 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>
2018	\$ 149,098
2019	149,090
2020	153,365
2021	155,018
2022	161,942
2023 – 2027	847,395

For a non-funded plan, the expected contributions equal the benefit payments for the next fiscal year totaling \$149,098.

For measurement purposes, a projected health care cost trend rate increase of 8% was used for participants for 2017. 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 \$560,314 as of June 30, 2017. Decreasing the assumed healthcare cost trend rate by 1% each year would result in a decrease in the post-retirement benefit obligation of \$455,338 as of June 30, 2017.

The net periodic postretirement benefit cost for the years ended June 30, 2017 and June 30, 2016 totaled \$142,780 and \$160,171, 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 13 – Unrestricted net assets deficit elimination plan**

The Museum Board of Trustees and executive team are committed to maintaining a balanced operating budget; making strategic investments in growth through partnership opportunities and contributed revenue; and reducing debt significantly. To this end, in December 2016, the Board formally adopted a Sustainability & Growth Plan, a three-year tactical roadmap for financial stability and infrastructure, supporting innovation and growth at the Museum. That Plan is included with our audited statements for your reference.

In 2015, the Museum hired a new President and CEO, and subsequently, a new executive team. 2017 represents year three of this leadership team, and in that time, the Museum has made substantial progress in stabilizing its operations and addressing its net asset deficit:

1. **Growth in earned revenue:** Between 2014 and 2017, the number of people served by the Museum grew by 20% to nearly 275,000 annually. Revenue from admissions increased more than 30% during the same period, to \$1,050,000, and earned revenue overall increased by 15%.

## BROOKLYN CHILDREN'S MUSEUM CORPORATION

## Notes to Financial Statements (continued)

June 30, 2017 and June 30, 2016

**Note 13 – Unrestricted net assets deficit elimination plan (continued)**

2. **Growth in contributed revenue:** Contributed revenue increased by 12% between 2014 and 2017, with non-government revenue increasing by just over 3%. For 2017-2018, the Museum is anchoring its fundraising in: 1) institutional support from foundations and corporate supporters; and 2) board development to drive individual giving and the spring benefit. The Museum's Board of Trustees has grown from 21 members in 2015 to 29 members in 2017, with 100% of trustees participating in both governance and philanthropic giving.
3. **Restructuring:** In 2015 and 2016, the management team restructured staff and expenses to better support operations, bolster organizational resiliency, and address program priorities. The net result has been a 13% decrease in salaries and benefits since fiscal year 2015, and a total decrease in expenses of 9% during that period. While restructuring has been effective in right-sizing the Museum's operations, there are no plans for significant restructuring in 2018.
4. **Debt service:** In 2015, the management team recognized a critical need to refinance 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 possible rate, a foundation allowed a 1999 gift to the Museum endowment to be used as security for the loan, provided that there be regular reporting and that the funds be returned to the endowment once the loan was paid. To date, the Museum has paid down \$103,000 in principal on the loan, returning those funds to the endowment. Using the same model, in November 2016, the Museum secured a \$100,000 term loan and a \$400,000 line of credit to reduce aging payables and generate capital to bridge government contracts. The Museum is able to do this with the support of five committed funders. The Museum has created, and is adhering to, a repayment plan that completes \$100,000 within five years, and \$400,000 over ten years.
5. **Protecting the endowment:** Starting in March 2016, the Museum ceased all cash withdrawals from the endowment to support operating costs. The Museum has taken no dividends or returns from the endowment in fiscal year 2017, and plans to take no dividends or returns in fiscal years 2018 and 2019 to replenish the endowment and ensure that it continues to be a source of resilience for the organization. The Museum appropriated \$93,000 of its fiscal 2017 endowment earnings to repay draw-downs from the endowment made in previous years (see note 10).
6. **Strategic partnerships for revenue growth:** The Museum has successfully outsourced its auxiliary businesses, including food services, event management, and retail, to third-party companies willing to invest capital and advertising funds to promote earned revenue. In 2017, the Museum signed a Memorandum of Understanding and Term Sheet with Brooklyn Public Library (BPL) to lease BPL 6,500 square feet of space, generating an estimated \$200,000 in rental income annually and creating new program partnerships. The City of New York has allocated \$3.3 million in capital funding for this partnership.

**BROOKLYN CHILDREN'S MUSEUM CORPORATION****Notes to Financial Statements (continued)****June 30, 2017 and June 30, 2016****Note 13 – Unrestricted net assets deficit elimination plan (continued)**

7. **Investing in assets:** In the 2017 fiscal year, the assets associated with Museum exhibits will be fully depreciated. In FY2017, the Museum invested \$300,000 in furniture and fixtures for the rooftop, funded by the State of New York; in fiscal year 2018, the Museum will invest an additional \$300,000 in State funding and \$200,000 in Federal funding for rooftop construction and movable property.

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 over \$3.4 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 trade payables and other 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 two years, largely because the Museum has paid down over \$200,000 in debt since 2015. The Museum continues to reduce its debt, and anticipates paying down another \$100,000 in fiscal year 2018.

**Note 14 – 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.