

**THE CHILDREN'S MUSEUM OF MANHATTAN**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

**YEAR ENDED JUNE 30, 2012  
WITH SUMMARIZED INFORMATION FOR THE  
YEAR ENDED JUNE 30, 2011**

**THE CHILDREN'S MUSEUM OF MANHATTAN**  
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**WITH SUMMARIZED INFORMATION FOR THE**  
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## INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
The Children's Museum of Manhattan

We have audited the accompanying statement of financial position of The Children's Museum of Manhattan (legal name: The Children's Museum of Manhattan, G.A.M.E. Inc) (the "Museum") as of June 30, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Museum's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Museum's 2011 financial statements and, in our report dated March 13, 2012, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Children's Museum of Manhattan as of June 30, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*DDK & Company LLP*

March 7, 2013

**THE CHILDREN'S MUSEUM OF MANHATTAN**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2012**  
**With Summarized Information at June 30, 2011**

	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,154,031	\$ 3,007,662
Marketable securities	13,077	18,020
Contributions receivable	271,744	367,497
Prepaid expenses and other current assets	59,197	107,605
Museum store inventory	18,967	11,787
Property and equipment	16,294,475	18,848,150
Less: Accumulated depreciation and amortization	(12,408,319)	(14,815,428)
Investments - restricted	1,000,000	1,000,000
Total assets	\$ 8,403,172	\$ 8,545,293
 <b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 234,740	\$ 278,392
Deferred revenue	56,011	71,444
Refundable deposits	12,000	6,000
Total liabilities	302,751	355,836
 <b>Commitments and Contingencies</b>		
<b>Net Assets</b>		
Unrestricted	6,839,572	6,603,146
Temporarily restricted	260,849	586,311
Permanently restricted	1,000,000	1,000,000
Total net assets	8,100,421	8,189,457
Total liabilities and net assets	\$ 8,403,172	\$ 8,545,293

The accompanying notes are an integral part of these financial statements.

**THE CHILDREN'S MUSEUM OF MANHATTAN  
STATEMENTS OF ACTIVITIES**

Year Ended June 30, 2012

With Summarized Information for the Year Ended June 30, 2011

	2012			2011		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total	Total
<b>Revenue and Support</b>						
Contributions						
Government	\$ 477,922	-	\$ -	\$ 477,922	\$ -	\$ 706,017
Foundations	556,571	99,000	-	655,571	-	1,030,942
Corporations	38,051	91,667	-	129,718	-	317,080
Individuals	235,946	-	-	235,946	-	132,159
Benefit events, net of direct donor benefits of \$221,921 for 2012 and \$38,620 for 2011	704,737	-	-	704,737	-	165,542
Admissions donations	1,441,486	-	-	1,441,486	-	1,298,544
Membership dues	764,718	-	-	764,718	-	770,715
Education program services	335,331	-	-	335,331	-	376,437
Museum program fees	249,133	-	-	249,133	-	242,104
Museum store, less cost of sales of \$99,373 for 2012 and \$93,195 for 2011	70,466	-	-	70,466	-	56,911
Traveling exhibits	-	-	-	-	-	16,000
Donated goods and services	201,454	-	-	201,454	-	5,200
Loss on sale of asset	-	-	-	-	-	(10,807)
Interest	8,628	-	-	8,628	-	12,012
Gain (loss) on sale of investments	1,703	-	-	1,703	-	(457)
Unrealized gain (loss) on investments	(1,800)	-	-	(1,800)	-	1,871
Other	525,571	-	-	525,571	-	351,334
Net assets released from restriction	516,129	(516,129)	-	-	-	-
<b>Total revenue and support</b>	<b>6,126,046</b>	<b>(325,462)</b>	<b>-</b>	<b>5,800,584</b>	<b>-</b>	<b>5,471,604</b>

The accompanying notes are an integral part of these financial statements.

**THE CHILDREN'S MUSEUM OF MANHATTAN**  
**STATEMENTS OF ACTIVITIES (Continued)**

Year Ended June 30, 2012  
 With Summarized Information for the Year Ended June 30, 2011

	2012			2011
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Expenses</b>				
Program services	4,446,940	-	-	3,850,024
Supporting services	1,006,252	-	-	974,600
General and administrative	436,428	-	-	396,274
Fundraising				
Total expenses	<u>5,889,620</u>	<u>-</u>	<u>-</u>	<u>5,220,898</u>
Change in net assets	236,426	(325,462)	-	250,706
Net assets at beginning of year	<u>6,603,146</u>	<u>586,311</u>	<u>1,000,000</u>	<u>7,938,751</u>
Net assets at end of year	<u>\$ 6,839,572</u>	<u>\$ 260,849</u>	<u>\$ 1,000,000</u>	<u>\$ 8,100,421</u>
				<u>\$ 8,189,457</u>

The accompanying notes are an integral part of these financial statements.

**THE CHILDREN'S MUSEUM OF MANHATTAN  
STATEMENTS OF FUNCTIONAL EXPENSES**

Year Ended June 30, 2012

With Summarized Information for the Year Ended June 30, 2011

	2012			2011
	Program Services	General and Administrative	Fundraising	
<b>Expenses</b>				
Salaries	\$ 1,856,406	\$ 332,961	\$ 91,452	\$ 2,280,819
Payroll taxes and employee benefits	262,610	110,846	14,134	387,590
Advertising	69,492	-	-	69,492
Bad debt expense	-	30,000	-	30,000
China exhibit	-	-	-	9,104
Computer expenses	2,379	38,439	-	40,818
Contracted services	359,303	1,503	181,509	542,315
Credit card processing fees	38,398	-	29,192	67,590
Depreciation and amortization	666,998	276,978	-	943,976
Donated items	2,500	-	134,198	136,698
Equipment rental	26,319	28,080	47,734	102,133
Facility rental	218,154	25,665	100,556	344,375
Insurance	45,833	5,022	2,511	53,366
Interest	1,338	-	-	1,338
Maintenance and repairs	85,904	10,107	5,053	101,064
Memberships, dues, and subscription	6,170	7,366	4,177	17,713
Miscellaneous	-	9,873	-	9,873
Museum store - cost of sales	99,373	-	-	99,373
Organizational strategic planning	108,801	-	-	108,801
				\$ 2,164,508
				371,224
				53,106
				20,000
				9,104
				22,725
				575,814
				65,309
				714,609
				4,560
				31,985
				248,756
				49,371
				1,327
				92,605
				12,488
				4,881
				93,195
				123,801

The accompanying notes are an integral part of these financial statements.

**THE CHILDREN'S MUSEUM OF MANHATTAN**  
**STATEMENTS OF FUNCTIONAL EXPENSES (Continued)**  
Year Ended June 30, 2012  
With Summarized Information for the Year Ended June 30, 2011

	2012			2011
	Program Services	General and Administrative	Fundraising	Total
<b>Expenses (Continued)</b>				
Postage and shipping	11,852	1,034	8,937	21,823
Printing	45,734	-	22,244	67,978
Professional services	148,800	99,265	-	248,065
Security	133,812	-	-	133,812
Supplies and material	154,737	13,439	8,861	177,037
Stipends	25,800	-	-	25,800
Taxes	-	28	-	28
Telephone	19,635	2,310	1,155	23,100
Travel and entertainment	43,159	65	-	43,224
Utilities	112,806	13,271	6,636	132,713
	<b>4,546,313</b>	<b>1,006,252</b>	<b>658,349</b>	<b>6,210,914</b>
Less: Cost of goods sold and direct donor benefit	<b>99,373</b>	<b>-</b>	<b>221,921</b>	<b>321,294</b>
Total expenses, net of cost of goods sold and direct donor benefit	<b>\$ 4,446,940</b>	<b>\$ 1,006,252</b>	<b>\$ 436,428</b>	<b>\$ 5,889,620</b>
				<b>\$ 5,220,898</b>

The accompanying notes are an integral part of these financial statements.



**THE CHILDREN'S MUSEUM OF MANHATTAN**  
**STATEMENTS OF CASH FLOWS**  
Year Ended June 30, 2012  
With Summarized Information for the Year Ended June 30, 2011

	<u>2012</u>	<u>2011</u>
<b><i>Cash Flows From Operating Activities</i></b>		
Increase (decrease) in net assets	\$ (89,036)	\$ 250,706
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Bad debt expense	30,000	-
Depreciation and amortization	943,976	714,609
Contribution of marketable securities	(13,000)	(28,274)
Loss (gain) on sale of marketable securities	(1,703)	457
Loss on sale of assets	-	10,807
Unrealized loss (gain) on marketable securities	1,800	(1,871)
Changes in operating assets and liabilities:		
Contributions receivable	65,753	940,445
Prepaid expenses and other current assets	48,408	12,655
Museum store inventory	(7,180)	7,409
Accounts payable and accrued expenses	(43,652)	(13,241)
Deferred revenue	(15,433)	(20,166)
Refundable deposits	6,000	(16,000)
Investment - restricted	-	(334,000)
Net cash provided by operating activities	<u>925,933</u>	<u>1,523,536</u>
<b><i>Cash Flows From Investing Activities</i></b>		
Proceeds from sale of marketable securities	17,846	11,668
Proceeds from sale of asset	-	4,500
Purchases of property and equipment	<u>(797,410)</u>	<u>(466,831)</u>
Net cash used in investing activities	<u>(779,564)</u>	<u>(450,663)</u>
Net increase in cash and cash equivalents	146,369	1,072,873
Cash and cash equivalents at beginning of year	<u>3,007,662</u>	<u>1,934,789</u>
Cash and cash equivalents at end of year	<u>\$ 3,154,031</u>	<u>\$ 3,007,662</u>
<b><i>Supplemental Disclosure of Cash Flow Information</i></b>		
Interest paid	\$ 1,338	\$ 1,327
<b><i>Supplemental Disclosure of Non Cash Investing</i></b>		
Contributions of marketable securities received by the Museum	\$ 13,000	\$ 28,274

The accompanying notes are an integral part of these financial statements.

**THE CHILDREN'S MUSEUM OF MANHATTAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**Year Ended June 30, 2012**  
**With Summarized Information for the Year Ended June 30, 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Operations***

The Children's Museum of Manhattan (the "Museum") is a New York not-for-profit organization that operates as a private non-sectarian museum in New York City.

The Museum creates educational exhibitions and programs for families and children. Activities take place at the Museum's flagship location on West 83rd Street in New York City, as well as almost 50 offsite locations within the five boroughs of New York City, and across the United States. The Museum's traveling interactive exhibitions tour the United States. The Museum's programs focus on literacy and early childhood education, healthy lifestyles, and creativity in the arts, sciences and world cultures. The educational philosophy of the Museum focuses on adult-child interaction in interactive settings filled with workshop opportunities and exploration. Children of all skill levels, interests, and abilities can find ways to learn through the multiple techniques used by the Museum.

The Museum offers fee-based early childhood classes to various ages of children. In addition, the Museum rents out its exhibits to other museums for a contracted fee.

***Basis of Accounting***

The Museum's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which involve the application of accrual accounting; accordingly, the financial statements reflect all material receivables, payables, and other liabilities.

***Basis of Presentation***

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605, "Revenue Recognition", contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose 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.

The financial statement presentation is in conformity with FASB ASC 958, "Not-for-Profit Entities" which requires the Museum to report information regarding its financial position according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**THE CHILDREN'S MUSEUM OF MANHATTAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**Year Ended June 30, 2012**  
**With Summarized Information for the Year Ended June 30, 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

***Basis of Presentation*** *(Continued)*

Accordingly, the net assets of the Museum and changes therein are classified and reported as follows:

- 1) Unrestricted net assets include assets, revenues, and gains that are available for support of the Museum's general operations.
- 2) Temporarily restricted net assets include contributions that are donor restricted for uses which have not yet been fulfilled either by the passage of time or by purpose. When a time restriction ends or a purpose 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. The Museum has \$260,849 in temporarily restricted net assets at June 30, 2012.
- 3) Permanently restricted net assets represent endowments which are subject to restrictions requiring that the principal be invested in perpetuity and only the income be used for specified or general purposes. The Museum has \$1,000,000 in permanently restricted net assets at June 30, 2012.

***Summarized Financial Information***

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

***Cash and Cash Equivalents***

Cash equivalents include certain investments in highly liquid instruments with original maturities of three months or less.

***Marketable Securities***

Investments in marketable securities are classified and accounted for as available-for-sale and accordingly, carried at fair value based on market quotes, with unrealized and realized gains and/or losses included in earnings along with charges for impairments that are other than temporary.

**THE CHILDREN'S MUSEUM OF MANHATTAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**Year Ended June 30, 2012**  
**With Summarized Information for the Year Ended June 30, 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

***Basis of Presentation*** *(Continued)*

***Accounts Receivable***

The Museum provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Museum's estimate is based on historical collection experience and a review of the current status of accounts receivable. It is reasonably possible that the Museum's estimate of the allowance for doubtful accounts will change. An allowance for doubtful accounts was not deemed necessary at June 30, 2012.

***Unconditional Promises to Give***

Contributions are recognized when the donor makes a promise to give to the Museum that is, in substance, unconditional. The fair value of promises to give that are due in more than one year is estimated by discounting the future cash flows using a current risk free rate of return based on the yield of a U.S. Treasury security with a maturity date similar to the expected collection period.

The Museum provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Museum's estimate is based on historical collection experience and a review of the current status of unconditional promises to give. It is reasonably possible that the Museum's estimate of the allowance for doubtful accounts will change. At June 30, 2012, no allowance for uncollectible unconditional promises to give was deemed necessary.

***Inventory***

Inventory consists of finished goods and is stated at the lower of cost or market; cost is determined by using the first-in, first-out (FIFO) method. Market is determined on the basis of estimated realizable values.

***Property and Equipment***

Property and equipment are stated at cost, less depreciation and amortization. The cost of additions and improvements is capitalized and expenditures for repairs and maintenance are expensed as incurred. Fully depreciated assets are retained in property and depreciation accounts until they are removed from service. When assets are retired or otherwise disposed of, their cost and related accumulated depreciation and amortization are removed from the accounts and the resulting gains or losses are included in operations. Depreciation of property and equipment is accounted for on the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is calculated by the straight-line method over the shorter of the term of the related lease or the useful lives of the improvements.

**THE CHILDREN'S MUSEUM OF MANHATTAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**Year Ended June 30, 2012**  
**With Summarized Information for the Year Ended June 30, 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

***Impairment of Long-Lived Assets***

In accordance with FASB ASC 360, long-lived assets, including property and equipment and intangible assets subject to amortization, if any, are reviewed for impairment and written down to fair value whenever events or changes in circumstances indicate that the carrying amount may not be recoverable through future undiscounted cash flows. An impairment loss is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

***Website Development Costs***

The Museum accounts for website development costs based on the nature of each cost and uses four stages: planning (expense), web applications and infrastructure (capitalize), graphic development (capitalize), and operation (expense). Website development costs are amortized over their estimated useful lives on the straight-line basis.

***Contributions***

Contributions, including unconditional promises to give, are recorded in the period received at fair value which is net of estimated uncollectible amounts. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated by the donor for future periods or are restricted by the donor for specified purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

A donor restriction expires when a stipulated time restriction ends, when an unconditional promise with an implied time restriction is collected, or when a purpose restriction is accomplished. Upon expiration, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. Permanently restricted net assets include the principal amount of contributions accepted with the stipulation from the donor that the principal be maintained in perpetuity and only the income from the investments thereof is expended for either general purposes or a purpose specified by the donor.

***Donated Assets***

Donated marketable securities and other non-cash donations, if any, are recorded as contributions at their estimated fair value at the date of the donation.

***Donated Services***

Donated services, if any, are recognized as contributions in accordance with FASB ASC 958, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Museum. Volunteers provide services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria under FASB ASC 958 were not met.

**THE CHILDREN'S MUSEUM OF MANHATTAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**Year Ended June 30, 2012**  
**With Summarized Information for the Year Ended June 30, 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

***Income Taxes***

The Museum is a not-for-profit organization that is exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Code; the Museum is also exempt from state and local income taxes. Accordingly, no provision for income taxes has been made in the financial statements.

The Museum has concluded that there are no uncertain tax positions that would require recognition in the financial statements. If the Museum was to incur an income tax liability in the future, interest on any income tax liability would be reported as interest expense and penalties on any income tax liability would be reported as income taxes. The Museum's conclusions regarding uncertain tax positions may be subject to review and adjustment at a later date based upon ongoing analyses of tax laws, regulations and interpretations thereof as well as other factors. Generally, federal, state and local authorities may examine the Museum's tax returns for three years from the date of filing; consequently, the respective tax returns for years prior to 2008 are no longer subject to examination by tax authorities.

***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 reported amounts of assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

***Advertising***

In accordance with FASB ASC 720 "Other Expenses", advertising costs of \$69,492 for the year ended June 30, 2012 were expensed as incurred.

***Deferred Revenue***

The Museum offers a variety of early childhood classes for various ages of children at a fee. The classes commence in the summer and continue throughout the fall. Revenue received prior to the classes commencing is recorded as deferred revenue. Revenue derived from early childhood programs, included in education program services and museum program fees, is recognized by the Museum as the classes are attended. In addition, the Museum rents out museum exhibits to other museums for a contracted fee. Revenue received prior to the exhibition is recorded as deferred revenue. Revenue derived from the rental of museum exhibits is recognized by the Museum as the exhibits are displayed.

**THE CHILDREN'S MUSEUM OF MANHATTAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**Year Ended June 30, 2012**  
**With Summarized Information for the Year Ended June 30, 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

***Expense Allocation***

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

***Fair Values of Financial Instruments***

The carrying amounts of cash and cash equivalents, short-term contributions receivable, and accounts payable and accrued expenses approximate fair values because of the short maturities of those instruments.

Long-term unconditional promises to give: The fair value of promises to give that are due in more than one year is estimated by discounting the future cash flows using a current risk free rate of return based on the yield of a U.S. Treasury security with a maturity date similar to the expected collection period.

***Reclassification***

The 2011 financial statements have been reclassified to conform to the 2012 presentation. Such reclassification had no effect on net income.

***Subsequent Events***

Management has evaluated subsequent events or transactions occurring through March 7, 2013, the date the financial statements were available to be issued.

**NOTE 2 - CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Checking accounts	\$ 579,183	\$ -	\$ 579,183
Savings and money market accounts	2,223,414	348,334	2,571,748
Petty cash	<u>3,100</u>	<u>-</u>	<u>3,100</u>
	<u>\$ 2,805,697</u>	<u>\$ 348,334</u>	<u>\$ 3,154,031</u>

At June 30, 2012, bank account balances at two banks exceeded the insured \$250,000 FDIC limit by approximately \$2,834,000.

**THE CHILDREN'S MUSEUM OF MANHATTAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**Year Ended June 30, 2012**  
**With Summarized Information for the Year Ended June 30, 2011**

**NOTE 3 - INVESTMENTS**

Investments in marketable securities as of June 30, 2012 are reported at fair value and are summarized as follows:

	<u>Cost</u>	<u>Gross Unrealized Gain</u>	<u>Fair Value</u>
<b><u>Unrestricted</u></b>			
Equity securities	\$ 13,007	\$ 70	\$ 13,077

Investments in securities are generally exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risks associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term.

The following schedule summarizes the related investment return and its classification in the statement of activities for the year ended June 30, 2012:

	<u>Amount (Unrestricted)</u>
Net realized gain on sale of investments	\$ 1,703
Net unrealized loss on investments	<u>(1,800)</u>
	<u>\$ (97)</u>

**NOTE 4 - FAIR VALUE MEASUREMENTS**

As of the beginning of the fiscal year ended June 30, 2011, the Museum implemented FASB ASC 820-10, *Fair Value Measurements*. FASB ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted observable quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described below:



**THE CHILDREN'S MUSEUM OF MANHATTAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**Year Ended June 30, 2012**  
**With Summarized Information for the Year Ended June 30, 2011**

**NOTE 4 - FAIR VALUE MEASUREMENTS** *(Continued)*

***Basis of Fair Value Measurement***

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;
- Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following tables present by level, within the fair value hierarchy the Museum investment assets at fair value, as of June 30, 2012. As required by FASB ASC 820-10, investment assets are classified in their entirety based upon the lowest level of input that is significant to the fair value measurement.

The table below sets forth a summary of the fair value of the Museum's Level 1 investment assets for the year ended June 30, 2012:

<u>Description</u>	<u>6/30/12</u>	<u>Quoted Prices in Active Market for Identical Assets (Level 1)</u>
Available-for-sale securities	\$ 13,077	\$ 13,077

**THE CHILDREN'S MUSEUM OF MANHATTAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**Year Ended June 30, 2012**  
**With Summarized Information for the Year Ended June 30, 2011**

**NOTE 5 - PROPERTY AND EQUIPMENT**

Major classes of property and equipment are as follows:

	<u>Estimated Useful Lives - Years</u>	<u>Amounts</u>
Leasehold improvements	15	\$ 10,059,837
Exhibits	2 - 10	5,359,797
Office equipment	5 - 10	576,777
Furniture and fixtures	5 - 10	268,214
Website	3	<u>29,850</u>
		16,294,475
Less: Accumulated depreciation and amortization		<u>12,408,319</u>
Property and equipment, net		<u>\$ 3,886,156</u>

Related depreciation and amortization expense for the year ended June 30, 2012 was \$943,976.

Pursuant to the funding agreement between the Museum and the City of New York, acting by and through its Department of Design and Construction, the City of New York has a secured interest in the exhibits and leasehold improvements relating to the project funded by the City of New York. The collateral assignment was released on November 6, 2012.

**NOTE 6 - CONTRIBUTIONS RECEIVABLE**

As of June 30, 2012, unconditional promises to give were scheduled to be received as follows:

<u>Years Ending June 30,</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
2012	\$ 271,744	\$ -	\$ -	\$ 271,744
Less: Discounts	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net	<u>\$ 271,744</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 271,744</u>

**THE CHILDREN'S MUSEUM OF MANHATTAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**Year Ended June 30, 2012**  
**With Summarized Information for the Year Ended June 30, 2011**

**NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purpose or periods:

Islamic program	\$ 17,107
New York City Housing Authority	53,075
Jr. Staff internship program	25,000
Capital planning	50,000
Equipment purchase	11,000
FY 2013 activities	<u>104,667</u>
	<u>\$ 260,849</u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restriction specified by donors as follows:

Health Initiative	\$ 313,657
Islamic program	30,009
New York City Housing Authority	23,425
Jr. Staff internship program	25,000
FY 2012 activities	<u>124,038</u>
	<u>\$ 516,129</u>

**NOTE 8 - PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets of \$1,000,000 consist of an endowment fund from The Laurie M. Tisch Foundation. The investment income from the fund is expendable to support the operating activities of the Museum.

**NOTE 9 - MEMBERSHIP DUES**

Membership dues were received as follows:

Family membership	\$ 617,257
Corporate membership	115,000
Friend membership	27,546
Supporter membership	4,745
Access membership	<u>170</u>
	<u>\$ 764,718</u>

**THE CHILDREN'S MUSEUM OF MANHATTAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**Year Ended June 30, 2012**  
**With Summarized Information for the Year Ended June 30, 2011**

**NOTE 10 - TAX-DEFERRED ANNUITY PLAN**

During the year ended June 30, 1998, the Museum entered into a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers full-time employees of the Museum. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. There was no related pension expense for the year ended June 30, 2012.

**NOTE 11 - CONCENTRATION OF RISK**

Receivables from three donors represented approximately 61% of total unconditional promises to give as of June 30, 2012.

Approximately 21% of the Museum's revenue from contributions and fundraising was provided by the Museum's trustees and officers for the year ended June 30, 2012.

**NOTE 12 - LEASES**

The Museum leases space located in Manhattan, New York. The current operating lease expired on September 30, 2007 and was renewed for a 15-year term through September 30, 2022. For the first five-year period, the fixed monthly rent was \$19,826 plus applicable annual cost of living adjustments. The fixed rent from October 1, 2012 through September 30, 2022, which was to be agreed upon by January 1, 2012, is currently being negotiated.

Rent expense totaled \$344,375 for the year ended June 30, 2012.

The Museum also leases equipment under various operating leases expiring in 2016, the expense for which is not included in the above amount.

The following is a schedule of approximate future minimum rental payments required under the above operating leases as of June 30, 2012.

<b>Years Ending June 30,</b>	<b>Premises</b>	<b>Other</b>	<b>Total</b>
2013	\$ 64,746	\$ 9,480	\$ 74,226
2014	-	8,106	8,106
2015	-	6,534	6,534
2016	-	990	990
	<u>\$ 64,746</u>	<u>\$ 25,110</u>	<u>\$ 89,856</u>

**THE CHILDREN'S MUSEUM OF MANHATTAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**Year Ended June 30, 2012**  
**With Summarized Information for the Year Ended June 30, 2011**

**NOTE 13 - NYC DEPARTMENT OF CULTURAL AFFAIRS AWARD**

The City's investment of capital expenditures obligated the recipient organization to operate the facility during the respective bonding term as a non-profit entity, open to and used and maintained for the benefit of the people of the City for cultural, educational or artistic uses and/or related purpose approved by the City.

**NOTE 14 - FAIR VALUES OF FINANCIAL INSTRUMENTS**

The carrying amounts of the Museum's financial instruments, which include cash and cash equivalents, investments, accounts payable and accrued expenses approximate their fair values at June 30, 2012 due to the short-term nature of these instruments.

**NOTE 15 - COMMITMENTS AND CONTINGENCIES**

***Tax Examination***

The Museum was under examination by the New York State Department of Labor. During the year ended June 30, 2010, the Museum paid \$17,326 of New York State unemployment taxes. A balance of approximately \$7,800 of interest is due. The Museum continues to contest the imposition of the interest and the outcome is still indeterminable.

## **SUPPLEMENTARY INFORMATION**

**INDEPENDENT AUDITORS' REPORT ON  
SUPPLEMENTARY INFORMATION**

The Board of Trustees  
The Children's Museum of Manhattan

We have audited the financial statements of The Children's Museum of Manhattan as of and for the year ended June 30, 2012, and our report thereon dated March 7, 2013, which expressed an unqualified opinion on those financial statements, appears on page 3. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 24 - 27, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*DDK & Company LLP*

March 7, 2013

**THE CHILDREN'S MUSEUM OF MANHATTAN**  
**SUPPLEMENTARY INFORMATION**  
**STATEMENT OF FINANCIAL POSITION - BY NET ASSET CLASSIFICATION**  
**June 30, 2012**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Elimination	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 2,805,697	\$ 348,334	\$ -	\$ -	\$ 3,154,031
Marketable securities	13,077	-	-	-	13,077
Contributions receivable	271,744	-	-	-	271,744
Prepaid expenses and other current assets	54,197	5,000	-	-	59,197
Museum store inventory	18,967	-	-	-	18,967
Property and equipment	16,294,475	-	-	-	16,294,475
Less: Accumulated depreciation and amortization	(12,408,319)	-	-	-	(12,408,319)
Receivables due from other funds	92,485	-	-	(92,485)	-
Investments - restricted	-	-	1,000,000	-	1,000,000
<b>Total assets</b>	<b>\$ 7,142,323</b>	<b>\$ 353,334</b>	<b>\$ 1,000,000</b>	<b>\$ (92,485)</b>	<b>\$ 8,403,172</b>

See Independent Auditors' Report on Supplementary Information.



**THE CHILDREN'S MUSEUM OF MANHATTAN**  
**SUPPLEMENTARY INFORMATION**  
**STATEMENT OF FINANCIAL POSITION - BY NET ASSET CLASSIFICATION**  
**June 30, 2012**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Elimination	Total
<b>LIABILITIES AND NET ASSETS</b>					
<b>Liabilities</b>					
Accounts payable and accrued expenses	\$ 234,740	\$ -	\$ -	\$ -	\$ 234,740
Deferred revenue	56,011	-	-	-	56,011
Refundable deposits	12,000	-	-	-	12,000
Payables due to other funds	-	92,485	-	(92,485)	-
<b>Total liabilities</b>	<b>302,751</b>	<b>92,485</b>	<b>-</b>	<b>(92,485)</b>	<b>302,751</b>
<b>Commitments and Contingencies</b>					
<b>Net Assets</b>					
Unrestricted	6,839,572	-	-	-	6,839,572
Temporarily restricted	-	260,849	-	-	260,849
Permanently restricted	-	-	1,000,000	-	1,000,000
<b>Total net assets</b>	<b>6,839,572</b>	<b>260,849</b>	<b>1,000,000</b>	<b>-</b>	<b>8,100,421</b>
<b>Total liabilities and net assets</b>	<b>\$ 7,142,323</b>	<b>\$ 353,334</b>	<b>\$ 1,000,000</b>	<b>\$ (92,485)</b>	<b>\$ 8,403,172</b>

See Independent Auditors' Report on Supplementary Information.

**THE CHILDREN'S MUSEUM OF MANHATTAN**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF TEMPORARILY RESTRICTED NET ASSETS - BY FUND**  
**Year Ended June 30, 2012**

	Net Assets July 1, 2011	Support	Investment Income	Restrictions Satisfied by Payments/ Purpose	Net Assets June 30, 2012
Program Service Fund	\$ 586,311	\$ 190,667	-	\$ (516,129)	\$ 260,849

**THE CHILDREN'S MUSEUM OF MANHATTAN**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF PERMANENTLY RESTRICTED NET ASSETS - BY FUND**  
**Year Ended June 30, 2012**

	Net Assets		Investment Income	Restrictions Satisfied by		Net Assets June 30, 2012
	July 1, 2011	Support		Payments/ Purpose		
The Laurie M. Tisch Foundation	\$ 1,000,000	\$ -	\$ -	\$ -	-	\$ 1,000,000