

THE CHILDREN'S MUSEUM OF MANHATTAN

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

**YEAR ENDED JUNE 30, 2016
WITH SUMMARIZED INFORMATION FOR THE
YEAR ENDED JUNE 30, 2015**

THE CHILDREN'S MUSEUM OF MANHATTAN

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
The Children's Museum of Manhattan

We have audited the accompanying financial statements of The Children's Museum of Manhattan (a not-for-profit organization) (legal name: The Children's Museum of Manhattan, G.A.M.E. Inc.), which comprise the statements of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 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 auditors' 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 auditors consider 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.

INDEPENDENT AUDITORS' REPORT *(Continued)*

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, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The Children's Museum of Manhattan's 2015 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 28, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Disclaimer of Opinion on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of financial position - by net asset classification, schedule of temporarily restricted net assets - by fund, and schedule of permanently restricted net assets - by fund, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

DDK & Company LLP

New York, New York
November 3, 2016

THE CHILDREN'S MUSEUM OF MANHATTAN
STATEMENTS OF FINANCIAL POSITION
June 30, 2016
With Summarized Information at June 30, 2015

| | 2016 | 2015 |
|---|---------------------|---------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 2,253,913 | \$ 3,284,623 |
| Marketable securities | - | 15,050 |
| Accounts receivable | 67,850 | 28,372 |
| Contributions receivable | 311,171 | 111,815 |
| Prepaid expenses and other current assets | 104,225 | 86,348 |
| Museum store inventory | 11,648 | 19,962 |
| Property and equipment | 15,624,087 | 14,917,380 |
| Less: Accumulated depreciation and amortization | (12,552,921) | (12,345,852) |
| Investments - restricted | 1,000,000 | 1,000,000 |
| | \$ 6,819,973 | \$ 7,117,698 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 114,057 | \$ 235,024 |
| Deferred revenue | 108,563 | 101,199 |
| Refundable deposits | 44,823 | 49,645 |
| | 267,443 | 385,868 |
| Commitments and Contingencies | | |
| Net Assets | | |
| Unrestricted | 5,126,346 | 5,167,871 |
| Temporarily restricted | 426,184 | 563,959 |
| Permanently restricted | 1,000,000 | 1,000,000 |
| | 6,552,530 | 6,731,830 |
| Total net assets | 6,552,530 | 6,731,830 |
| Total liabilities and net assets | \$ 6,819,973 | \$ 7,117,698 |

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

THE CHILDREN'S MUSEUM OF MANHATTAN
STATEMENTS OF ACTIVITIES
Year Ended June 30, 2016
With Summarized Information for the Year Ended June 30, 2015

| | 2016 | | | 2015 | |
|--|------------------|---------------------------|---------------------------|------------------|------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Total |
| <i>Revenue and Support</i> | | | | | |
| Contributions | | | | | |
| Government | \$ 442,440 | \$ - | \$ - | \$ 442,440 | \$ 495,264 |
| Foundations | 918,041 | 76,184 | - | 994,225 | 1,274,145 |
| Corporations | 65,666 | 350,000 | - | 415,666 | 126,079 |
| Individuals | 135,757 | - | - | 135,757 | 241,274 |
| Benefit events, net of direct donor benefits of \$386,233 for 2016 and \$194,089 for 2015 | 882,335 | - | - | 882,335 | 220,065 |
| Admissions donations | 1,498,189 | - | - | 1,498,189 | 1,337,769 |
| Membership dues | 777,175 | - | - | 777,175 | 754,058 |
| Education program services | 345,479 | - | - | 345,479 | 327,175 |
| Museum program fees | 265,539 | - | - | 265,539 | 188,052 |
| Museum store, less cost of sales of \$92,758 for 2016 and \$76,415 for 2015 | 56,537 | - | - | 56,537 | 56,485 |
| Donated goods and services | 40,245 | - | - | 40,245 | 77,883 |
| Interest and dividends | 3,283 | - | - | 3,283 | 16,198 |
| Gain (loss) on sale of investments | (285) | - | - | (285) | 122 |
| Unrealized loss on investments | - | - | - | - | (4) |
| Other | 309,535 | - | - | 309,535 | 317,056 |
| Net assets released from restriction | 563,959 | (563,959) | - | - | - |
| | 6,303,895 | (137,775) | - | 6,166,120 | 5,431,621 |

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, 2016
With Summarized Information for the Year Ended June 30, 2015

| | <u>2016</u> | | | <u>2015</u> | |
|---------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|---------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> | <u>Total</u> |
| <i>Expenses</i> | | | | | |
| Program services | 4,615,384 | - | - | 4,615,384 | 4,490,310 |
| Supporting services | | | | | |
| General and administrative | 1,224,716 | - | - | 1,224,716 | 1,097,433 |
| Fundraising | 505,320 | - | - | 505,320 | 394,008 |
| | <u>6,345,420</u> | <u>-</u> | <u>-</u> | <u>6,345,420</u> | <u>5,981,751</u> |
| Total expenses | | | | | |
| Change in net assets | (41,525) | (137,775) | - | (179,300) | (550,130) |
| Net assets at beginning of year | <u>5,167,871</u> | <u>563,959</u> | <u>1,000,000</u> | <u>6,731,830</u> | <u>7,281,960</u> |
| Net assets at end of year | <u>\$ 5,126,346</u> | <u>\$ 426,184</u> | <u>\$ 1,000,000</u> | <u>\$ 6,552,530</u> | <u>\$ 6,731,830</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, 2016
With Summarized Information for the Year Ended June 30, 2015

| | 2016 | | | 2015 | |
|--------------------------------------|---------------------|-------------------------------|-------------|--------------|--------------|
| | Program Services | General and Administrative | Fundraising | Total | Total |
| Expenses | | | | | |
| Salaries | \$ 2,116,099 | \$ 416,221 | \$ 182,756 | \$ 2,715,076 | \$ 2,448,223 |
| Payroll taxes and employee benefits | 288,053 | 109,155 | 24,968 | 422,176 | 449,911 |
| Advertising | - | - | - | - | 18,001 |
| Bad debt expense | - | 39,250 | - | 39,250 | - |
| Computer expenses | - | 66,004 | - | 66,004 | 55,530 |
| Contracted services | 280,419 | 53,630 | 290,862 | 624,911 | 715,290 |
| Credit card processing fees | 49,498 | - | 54,152 | 103,650 | 64,149 |
| Depreciation and amortization | 513,707 | 278,583 | - | 792,290 | 601,733 |
| Donated items | - | - | 74,746 | 74,746 | - |
| Equipment rental | 17,736 | 49,934 | 120 | 67,790 | 66,683 |
| Facility rental | 230,681 | 27,139 | 154,843 | 412,663 | 358,789 |
| Insurance | 71,337 | 13,757 | 4,382 | 89,476 | 67,547 |
| Interest | 1,627 | 191 | 96 | 1,914 | 1,792 |
| Maintenance and repairs | 110,248 | 13,609 | 6,485 | 130,342 | 115,484 |
| Memberships, dues, and subscriptions | 12,309 | 15,470 | 14,834 | 42,613 | 30,542 |
| Miscellaneous | 3,015 | 22,211 | 2,868 | 28,094 | 8,310 |
| Museum store - cost of sales | 92,758 | - | - | 92,758 | 76,415 |
| Organizational strategic planning | 303,883 | - | - | 303,883 | 271,434 |

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, 2016
With Summarized Information for the Year Ended June 30, 2015

| | <u>2016</u> | | | <u>2015</u> | |
|---|-----------------------------|---------------------------------------|--------------------|---------------------|---------------------|
| | <u>Program Services</u> | <u>General and Administrative</u> | <u>Fundraising</u> | <u>Total</u> | <u>Total</u> |
| <i>Expenses (Continued)</i> | | | | | |
| Postage and shipping | 18,440 | 1,068 | 9,792 | 29,300 | 16,404 |
| Printing | 41,314 | - | 29,641 | 70,955 | 97,790 |
| Professional services | - | 92,180 | - | 92,180 | 133,898 |
| Security | 132,955 | - | - | 132,955 | 104,227 |
| Supplies and material | 216,444 | 11,190 | 27,636 | 255,270 | 264,835 |
| Stipends | - | - | - | - | 3,264 |
| Telephone | 23,557 | 2,849 | 1,386 | 27,792 | 27,064 |
| Travel and entertainment | 38,000 | - | 3,394 | 41,394 | 74,123 |
| Utilities | 146,062 | 12,275 | 8,592 | 166,929 | 180,817 |
| | <u>4,708,142</u> | <u>1,224,716</u> | <u>891,553</u> | <u>6,824,411</u> | <u>6,252,255</u> |
| Less: Cost of goods sold and direct donor benefit | <u>92,758</u> | <u>-</u> | <u>386,233</u> | <u>478,991</u> | <u>270,504</u> |
| Total expenses, net of cost of goods sold and direct donor benefit | <u>\$ 4,615,384</u> | <u>\$ 1,224,716</u> | <u>\$ 505,320</u> | <u>\$ 6,345,420</u> | <u>\$ 5,981,751</u> |

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, 2016
With Summarized Information for the Year Ended June 30, 2015

| | <u>2016</u> | <u>2015</u> |
|---|----------------------------|----------------------------|
| <i>Cash Flows From Operating Activities</i> | | |
| Decrease in net assets | \$ (179,300) | \$ (550,130) |
| Adjustments to reconcile decrease in net assets to net cash provided by operating activities: | | |
| Bad debt expense | 39,250 | - |
| Depreciation and amortization | 792,290 | 601,733 |
| Contributions of marketable securities | (28,801) | (44,754) |
| Loss (gain) on sale of marketable securities | 285 | (122) |
| Unrealized loss on marketable securities | - | 4 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (78,728) | 43,340 |
| Contributions receivable | (199,356) | 267,687 |
| Prepaid expenses and other current assets | (17,877) | (21,586) |
| Museum store inventory | 8,314 | 1,578 |
| Accounts payable and accrued expenses | (120,967) | (29,893) |
| Deferred revenue | 7,364 | 10,297 |
| Refundable deposits | (4,822) | 34,645 |
| | <u>217,652</u> | <u>312,799</u> |
| <i>Cash Flows From Investing Activities</i> | | |
| Proceeds from sale of marketable securities | 43,566 | 47,159 |
| Purchases of property and equipment | (1,291,928) | (1,016,816) |
| | <u>(1,248,362)</u> | <u>(969,657)</u> |
| Net cash used in investing activities | <u>(1,248,362)</u> | <u>(969,657)</u> |
| Net decrease in cash and cash equivalents | (1,030,710) | (656,858) |
| Cash and cash equivalents at beginning of year | <u>3,284,623</u> | <u>3,941,481</u> |
| Cash and cash equivalents at end of year | <u><u>\$ 2,253,913</u></u> | <u><u>\$ 3,284,623</u></u> |
| <i>Supplemental Disclosure of Cash Flow Information</i> | | |
| Interest paid | \$ 1,914 | \$ 1,792 |
| <i>Supplemental Disclosure of Non Cash Items</i> | | |
| Contributions of marketable securities received by the Museum | \$ 28,801 | \$ 44,754 |

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, 2016
With Summarized Information for the Year Ended June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of 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.

Basis of Presentation

Contributions that are restricted by the donor are 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 contributions are 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 statements of activities as net assets released from restrictions.

The Museum reports information regarding its financial position according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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.

THE CHILDREN'S MUSEUM OF MANHATTAN
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016
With Summarized Information for the Year Ended June 30, 2015

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

Basis of Presentation *(Continued)*

- 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 had \$426,184 in temporarily restricted net assets at June 30, 2016 that can be used to support programs during Fiscal Year 2017. The Museum had \$563,959 in temporarily restricted net assets at June 30, 2015 that were used to support programs during 2016.
- 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 had \$1,000,000 in permanently restricted net assets at June 30, 2016 and 2015.

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, 2015, 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.

Accounts and Contributions Receivable

Contributions are recognized when the donor makes a promise to give to the Museum that is, in substance, unconditional. The fair value of contributions receivable 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 CHILDREN'S MUSEUM OF MANHATTAN
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016
With Summarized Information for the Year Ended June 30, 2015

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

Accounts and Contributions Receivable *(Continued)*

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 and contributions receivable. It is reasonably possible that the Museum's estimate of the allowance for doubtful accounts may change. At June 30, 2016 and 2015, no allowance for uncollectible accounts and contributions receivable 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 on the straight-line method over the shorter of the term of the related lease or the useful lives of the improvements.

Impairment of Long-Lived Assets

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 the following four stages to account for such costs: planning (expense), web applications and infrastructure (capitalize), graphic development (capitalize), and operation (expense). Capitalized website development costs are amortized over their estimated useful lives on the straight-line basis.

THE CHILDREN'S MUSEUM OF MANHATTAN
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016
With Summarized Information for the Year Ended June 30, 2015

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

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 statements 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, 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 were not met.

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 CHILDREN'S MUSEUM OF MANHATTAN
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016
With Summarized Information for the Year Ended June 30, 2015

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

Income Taxes *(Continued)*

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 2012 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

There were no advertising costs incurred for the year ended June 30, 2016. Advertising costs of \$18,001 were expensed as incurred for the year ended June 30, 2015.

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.

Expense Allocation

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

THE CHILDREN'S MUSEUM OF MANHATTAN
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016
With Summarized Information for the Year Ended June 30, 2015

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

Subsequent Events

Management has evaluated subsequent events or transactions occurring through November 3, 2016, the date the financial statements were available to be issued.

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2016 consisted of the following:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|-----------------------------------|---------------------|-----------------------------------|---------------------|
| Checking accounts | \$ 564,670 | \$ 108 | \$ 564,778 |
| Savings and money market accounts | 1,182,769 | 503,016 | 1,685,785 |
| Petty cash | <u>3,350</u> | <u>-</u> | <u>3,350</u> |
| | <u>\$ 1,750,789</u> | <u>\$ 503,124</u> | <u>\$ 2,253,913</u> |

At June 30, 2016, bank account balances at two banks exceeded the insured \$250,000 FDIC limit by approximately \$2,497,000.

Cash and cash equivalents at June 30, 2015 consisted of the following:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|-----------------------------------|---------------------|-----------------------------------|---------------------|
| Checking accounts | \$ 495,479 | \$ - | \$ 495,479 |
| Savings and money market accounts | 2,232,743 | 553,051 | 2,785,794 |
| Petty cash | <u>3,350</u> | <u>-</u> | <u>3,350</u> |
| | <u>\$ 2,731,572</u> | <u>\$ 553,051</u> | <u>\$ 3,284,623</u> |

THE CHILDREN'S MUSEUM OF MANHATTAN
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016
With Summarized Information for the Year Ended June 30, 2015

NOTE 3 - MARKETABLE SECURITIES

As of June 30, 2016 the Museum held no marketable securities.

Investments in marketable securities as of June 30, 2015 are reported at fair value and are summarized as follows:

| | <u>Cost</u> | <u>Unrealized Loss</u> | <u>Fair Value</u> |
|----------------------------|-------------|----------------------------|-------------------|
| <u>Unrestricted</u> | | | |
| Equity securities | \$ 15,054 | \$ (4) | \$ 15,050 |

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 may occur in the near term.

The following schedule summarizes the related investment return and its classification in the statements of activities for the years ended June 30, 2016 and 2015:

| | <u>Amount (Unrestricted) 2016</u> | <u>Amount (Unrestricted) 2015</u> |
|--|---|---|
| Change in realized gain (loss) on sale of investments | \$ (285) | \$ 122 |
| Unrealized loss on investments | <u>-</u> | <u>(4)</u> |
| | <u>\$ (285)</u> | <u>\$ 118</u> |

NOTE 4 - FAIR VALUE MEASUREMENTS

A fair value hierarchy that prioritizes the inputs to valuation techniques is 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 are described below:

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.

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NOTE 4 - FAIR VALUE MEASUREMENTS *(Continued)*

Basis of Fair Value Measurement *(Continued)*

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The following table presents by level, within the fair value hierarchy the Museum's investment assets at fair value, as of June 30, 2016 and 2015. 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 years ended June 30, 2016 and 2015:

| <u>Description</u> | <u>Fair Value Measurements Using Quoted Prices in Active Market for Identical Assets (Level 1) 2016</u> | <u>Fair Value Measurements Using Quoted Prices in Active Market for Identical Assets (Level 1) 2015</u> |
|-------------------------------|---|---|
| Available-for-sale securities | \$ <u> -</u> | \$ <u> 15,050</u> |

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NOTE 5 - PROPERTY AND EQUIPMENT

Major classes of property and equipment consisted of the following:

| | Estimated Useful Lives - Years | 2016 | 2015 |
|---|---|---------------------|---------------------|
| Leasehold improvements | 15 | \$ 10,107,401 | \$ 10,107,401 |
| Exhibits | 2 - 10 | 4,396,594 | 3,795,450 |
| Office equipment | 5 - 10 | 765,628 | 660,065 |
| Furniture and fixtures | 5 - 10 | 268,214 | 268,214 |
| Website | 3 | <u>86,250</u> | <u>86,250</u> |
| | | <u>15,624,087</u> | <u>14,917,380</u> |
| Current year depreciation and amortization expense | | 792,290 | 601,733 |
| Accumulated depreciation and amortization at beginning of the fiscal year | | 12,345,852 | 11,754,619 |
| Write-off of accumulated depreciation and amortization | | <u>(585,221)</u> | <u>(10,500)</u> |
| Accumulated depreciation and amortization | | <u>12,552,921</u> | <u>12,345,852</u> |
| Property and equipment, net | | <u>\$ 3,071,166</u> | <u>\$ 2,571,528</u> |

Included in depreciation expense for the years ended June 30, 2016 and 2015, respectively, were approximately \$514,000 and \$329,000 of depreciation attributable to long term exhibits which have been capitalized and depreciated over the useful lives of the exhibits in accordance with US GAAP. During 2016, the Museum wrote off \$585,221 of exhibits with an accumulated depreciation of \$585,221, resulting in no gain or loss. During 2015, the Museum wrote off \$10,500 of exhibits with an accumulated depreciation of \$10,500, resulting in no gain or loss.

The Organization retains intellectual property rendered from development of exhibit assets which hold an undetermined value which can be monetized at a future date through exhibit travel or replication.

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NOTE 6 - CONTRIBUTIONS RECEIVABLE

As of June 30, 2016, unconditional promises to give were scheduled to be received as follows:

| <u>Year Ending June 30,</u> | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---------------------------------|---------------------|-----------------------------------|-----------------------------------|-------------------|
| 2016 | \$ <u>311,171</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>311,171</u> |

As of June 30, 2015, unconditional promises to give were scheduled to be received as follows:

| <u>Year Ending June 30,</u> | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---------------------------------|---------------------|-----------------------------------|-----------------------------------|-------------------|
| 2015 | \$ <u>111,815</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>111,815</u> |

Receivables from board members represent approximately 55% and 44% of total unconditional promises to give as of June 30, 2016 and 2015, respectively. In addition, approximately 98% and 63% of total unconditional promises to give as of June 30, 2016 and 2015, respectively, were related to the benefit events.

NOTE 7 - NET ASSETS AT JUNE 30, 2015

Net assets at June 30, 2015 were classified as the following:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Revenue and support | \$ 5,781,641 | \$ (350,020) | \$ - | \$ 5,431,621 |
| Expenses | <u>5,981,751</u> | <u>-</u> | <u>-</u> | <u>5,981,751</u> |
| Change in net assets | (200,110) | (350,020) | - | (550,130) |
| Net assets at June 30, 2014 | <u>5,367,981</u> | <u>913,979</u> | <u>1,000,000</u> | <u>7,281,960</u> |
| Net assets at June 30, 2015 | <u>\$ 5,167,871</u> | <u>\$ 563,959</u> | <u>\$ 1,000,000</u> | <u>\$ 6,731,830</u> |

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NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2016 and 2015 were available for the following purpose or periods:

| | <u>2016</u> | <u>2015</u> |
|--------------------------------|-------------------|-------------------|
| Muslim Cultures Exhibition | \$ - | \$ 205,318 |
| Spirit of New York | - | 123,642 |
| Hello from Japan Exhibit | 1,184 | - |
| Transforming Homeless Shelters | 250,000 | - |
| FY 2016 Activities | - | 234,999 |
| FY 2017 Activities | <u>175,000</u> | <u>-</u> |
| | <u>\$ 426,184</u> | <u>\$ 563,959</u> |

During 2016 and 2015, net assets were released from donor restrictions by incurring expenses satisfying the purpose restriction specified by donors as follows:

| | <u>2016</u> | <u>2015</u> |
|----------------------------|-------------------|-------------------|
| Muslim Cultures Exhibition | \$ 205,318 | \$ 290,076 |
| FY 2016 Activities | 234,999 | - |
| FY 2015 Activities | - | 100,000 |
| Eat Play Grow | - | 93,750 |
| Health Initiative | - | 75,000 |
| Hello from Japan Exhibit | - | 355,153 |
| Spirit of New York | <u>123,642</u> | <u>-</u> |
| | <u>\$ 563,959</u> | <u>\$ 913,979</u> |

NOTE 9 - 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.

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Year Ended June 30, 2016
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NOTE 10 - BENEFIT EVENTS

Benefit events revenue and the related direct donor benefits expenses were as follows:

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|-------------------|
| Revenues | | |
| Sunday Funday | \$ 292,896 | \$ 405,369 |
| Spring Gala | 967,302 | - |
| Fall benefit | <u>8,370</u> | <u>8,785</u> |
| | 1,268,568 | 414,154 |
| Less: Direct donor benefits | <u>386,233</u> | <u>194,089</u> |
| Benefit events, net direct donor benefit | <u>\$ 882,335</u> | <u>\$ 220,065</u> |

The Organization holds a biennial Gala and as a result causes a large variance in annual benefit income year to year.

NOTE 11 - MEMBERSHIP DUES

Membership dues were received as follows:

| | <u>2016</u> | <u>2015</u> |
|-------------------------------|-------------------|-------------------|
| Family membership | \$ 644,196 | \$ 573,007 |
| Corporate membership | 85,000 | 130,000 |
| Premium family membership | 32,963 | 31,681 |
| VIP membership | 7,950 | 12,500 |
| Community champion membership | 6,991 | 6,795 |
| Access membership | <u>75</u> | <u>75</u> |
| Total | <u>\$ 777,175</u> | <u>\$ 754,058</u> |

THE CHILDREN'S MUSEUM OF MANHATTAN
NOTES TO FINANCIAL STATEMENTS
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With Summarized Information for the Year Ended June 30, 2015

NOTE 12 - DONATED SERVICES

The fair value of donated services included as contributions in the financial statements and the corresponding program expenses for the years ended June 30, 2016 and 2015, were as follows:

| | <u>General and Administrative 2016</u> | <u>General and Administrative 2015</u> |
|----------------|--|--|
| Legal Services | \$ 40,245 | \$ 55,883 |
| Consulting | <u>-</u> | <u>22,000</u> |
| Total | <u>\$ 40,245</u> | <u>\$ 77,883</u> |

NOTE 13 - 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 years ended June 30, 2016 and 2015.

NOTE 14 - RELATED PARTY TRANSACTIONS

Approximately 25% and 23% of the Museum's revenue from contributions and fundraising was provided by the Museum's trustees and officers for the years ended June 30, 2016 and 2015, respectively.

NOTE 15 - CONCENTRATION OF RISK

Contribution receivables from four donors represented approximately 56% and 71% of total unconditional promises to give as of June 30, 2016 and 2015, respectively.

THE CHILDREN'S MUSEUM OF MANHATTAN
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016
With Summarized Information for the Year Ended June 30, 2015

NOTE 16 - 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. For the year ended June 30, 2016, the monthly rental lease payment continued at \$19,826 plus applicable annual cost of living adjustment.

Rent expense the years ended June 30, 2016 and 2015 consisted of the following:

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|-------------------|
| Museum lease base rent | \$ 237,912 | \$ 237,912 |
| Museum lease cost of living adjustment | 33,480 | 32,023 |
| Sunday Funday benefit | 67,741 | 83,026 |
| Spring Gala | 73,530 | - |
| Fall benefit | - | 5,828 |
| | <u>\$ 412,663</u> | <u>\$ 358,789</u> |

The Museum also leases equipment under various operating leases expiring in 2017, 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, 2016.

| <u>Years Ending June 30,</u> | <u>Premises</u> | <u>Other</u> | <u>Total</u> |
|----------------------------------|---------------------|-----------------|---------------------|
| 2017 | \$ 271,042 | \$ 4,288 | \$ 275,330 |
| 2018 | 271,042 | 204 | 271,246 |
| 2019 | 271,042 | - | 271,042 |
| 2020 | 271,042 | - | 271,042 |
| 2021 | 271,042 | - | 271,042 |
| Thereafter | <u>338,803</u> | <u>-</u> | <u>338,803</u> |
| | <u>\$ 1,694,013</u> | <u>\$ 4,492</u> | <u>\$ 1,698,505</u> |

THE CHILDREN'S MUSEUM OF MANHATTAN
NOTES TO FINANCIAL STATEMENTS
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With Summarized Information for the Year Ended June 30, 2015

NOTE 17 - 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 not-for-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.

SUPPLEMENTARY INFORMATION

THE CHILDREN'S MUSEUM OF MANHATTAN
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINANCIAL POSITION - BY NET ASSET CLASSIFICATION (Unaudited)
June 30, 2016

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Elimination</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|--------------------|---------------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 1,750,789 | \$ 503,124 | \$ - | \$ - | \$ 2,253,913 |
| Accounts receivable | 67,850 | - | - | - | 67,850 |
| Contributions receivable | 311,171 | - | - | - | 311,171 |
| Prepaid expenses and other current assets | 104,225 | - | - | - | 104,225 |
| Museum store inventory | 11,648 | - | - | - | 11,648 |
| Property and equipment | 15,624,087 | - | - | - | 15,624,087 |
| Less: Accumulated depreciation and amortization | (12,552,921) | - | - | - | (12,552,921) |
| Receivables due from other funds | 76,940 | - | - | (76,940) | - |
| Investments - restricted | - | - | 1,000,000 | - | 1,000,000 |
| | <u>-</u> | <u>-</u> | <u>1,000,000</u> | <u>-</u> | <u>1,000,000</u> |
| Total assets | <u>\$ 5,393,789</u> | <u>\$ 503,124</u> | <u>\$ 1,000,000</u> | <u>\$ (76,940)</u> | <u>\$ 6,819,973</u> |

THE CHILDREN'S MUSEUM OF MANHATTAN
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINANCIAL POSITION - BY NET ASSET CLASSIFICATION (Unaudited)
June 30, 2016

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Elimination</u> | <u>Total</u> |
|---------------------------------------|---------------------|-----------------------------------|-----------------------------------|--------------------|---------------------|
| LIABILITIES AND NET ASSETS | | | | | |
| Liabilities | | | | | |
| Accounts payable and accrued expenses | \$ 114,057 | \$ - | \$ - | \$ - | \$ 114,057 |
| Deferred revenue | 108,563 | - | - | - | 108,563 |
| Refundable deposits | 44,823 | - | - | - | 44,823 |
| Payables due to other funds | - | 76,940 | - | (76,940) | - |
| | <u>267,443</u> | <u>76,940</u> | <u>-</u> | <u>(76,940)</u> | <u>267,443</u> |
| Total liabilities | | | | | |
| Commitments and Contingencies | | | | | |
| Net Assets | | | | | |
| Unrestricted | 5,126,346 | - | - | - | 5,126,346 |
| Temporarily restricted | - | 426,184 | - | - | 426,184 |
| Permanently restricted | - | - | 1,000,000 | - | 1,000,000 |
| | <u>5,126,346</u> | <u>426,184</u> | <u>1,000,000</u> | <u>-</u> | <u>6,552,530</u> |
| Total net assets | <u>5,126,346</u> | <u>426,184</u> | <u>1,000,000</u> | <u>-</u> | <u>6,552,530</u> |
| Total liabilities and net assets | <u>\$ 5,393,789</u> | <u>\$ 503,124</u> | <u>\$ 1,000,000</u> | <u>\$ (76,940)</u> | <u>\$ 6,819,973</u> |

**THE CHILDREN'S MUSEUM OF MANHATTAN
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF TEMPORARILY RESTRICTED NET ASSETS - BY FUND (Unaudited)
 Year Ended June 30, 2016**

| | <u>Net Assets July 1, 2015</u> | <u>Support</u> | <u>Investment Income</u> | <u>Restrictions Satisfied by Payments/ Purpose</u> | <u>Net Assets June 30, 2016</u> |
|----------------------|------------------------------------|----------------|------------------------------|--|-------------------------------------|
| Program Service Fund | \$ 563,959 | \$ 426,184 | \$ - | \$ (563,959) | \$ 426,184 |

**THE CHILDREN'S MUSEUM OF MANHATTAN
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF PERMANENTLY RESTRICTED NET ASSETS - BY FUND (Unaudited)
 Year Ended June 30, 2016**

| | Net Assets July 1, 2015 | Support | Investment Income | Restrictions Satisfied by Payments/ Purpose | Net Assets June 30, 2016 |
|--------------------------------|------------------------------------|----------------|------------------------------|--|-------------------------------------|
| The Laurie M. Tisch Foundation | <u>\$ 1,000,000</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,000,000</u> |