

**MUSEUM OF THE CITY OF NEW YORK, INC.**

**FINANCIAL STATEMENTS  
AND AUDITOR'S REPORT**

**JUNE 30, 2014 AND 2013**

**MUSEUM OF THE CITY OF NEW YORK, INC.**

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## **Independent Auditor's Report**

**Board of Trustees  
Museum of the City of New York, Inc.**

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Museum of the City of New York, Inc., which comprise the balance sheet as of June 30, 2014 and 2013, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 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 Museum of the City of New York, Inc. as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Loeb & Troper LLP*

December 7, 2014

## MUSEUM OF THE CITY OF NEW YORK, INC.

## BALANCE SHEET

JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,449,295	\$ 1,602,829
Investments (Note 3)	23,237,601	20,296,052
Contributions and grants receivable - net (Note 5)	2,961,363	2,012,067
Prepaid expenses and other assets	90,009	54,718
Inventory	82,302	84,526
Building and equipment - net (Note 4)	<u>21,856,209</u>	<u>20,810,134</u>
Total assets	<u>\$ 51,676,779</u>	<u>\$ 44,860,326</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 591,083	\$ 631,305
Capital lease payable (Note 7)	0	3,960
Deferred rent (Note 8)	<u>114,057</u>	<u>131,237</u>
Total liabilities	<u>705,140</u>	<u>766,502</u>
Net assets (Exhibit B)		
Unrestricted		
Operating	3,101,467	2,374,506
Plant	<u>21,856,209</u>	<u>20,806,174</u>
Total unrestricted	24,957,676	23,180,680
Temporarily restricted (Note 9)	15,491,987	11,850,060
Permanently restricted (Note 9)	<u>10,521,976</u>	<u>9,063,084</u>
Total net assets	<u>50,971,639</u>	<u>44,093,824</u>
Total liabilities and net assets	<u>\$ 51,676,779</u>	<u>\$ 44,860,326</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

MUSEUM OF THE CITY OF NEW YORK, INC.

EXHIBIT B

STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2014 AND 2013

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support								
Membership	\$ 312,743	\$ 0	\$ 0	\$ 312,743	\$ 287,552	\$ 0	\$ 0	\$ 287,552
Rental fees	346,830	0	0	346,830	316,192	0	0	316,192
Licensing and other fees	379,859	0	0	379,859	218,199	0	0	218,199
Museum shop	\$ 662,933				\$ 473,506			
Cost of sales	(336,280)	0	0	326,653	(241,615)	0	0	231,891
Investment income (Note 3)	937,475	785,699	1,203,993	2,927,167	310,366	840,223	831,931	1,982,520
Educational programs	264,044	0	0	264,044	343,340	0	0	343,340
Admissions	804,874	0	0	804,874	639,867	0	0	639,867
Contributions and grants								
New York City - Department of Cultural Affairs	1,924,533	0	0	1,924,533	1,477,280	0	0	1,477,280
New York State - Council on the Arts	90,330	0	0	90,330	30,110	0	0	30,110
Pass-through grants to South Street Seaport Museum	0	0	0	0	1,402,553	0	0	1,402,553
Other grants and contributions	1,282,165	7,943,004	479,899	9,705,068	1,947,983	2,046,573	500,403	4,494,959
Special events	2,990,985				2,733,322			
Less direct expense of special events	(426,194)	0	0	2,564,791	(430,431)	0	0	2,302,891
Net revenue from special events	2,564,791	0	0	2,564,791	2,302,891	0	0	2,302,891
Net assets released from restrictions (Note 9)	5,296,868	(5,071,868)	(225,000)	0	5,269,724	(5,043,679)	(226,045)	0
Total revenues and other support	14,531,165	3,656,835	1,458,892	19,646,892	14,777,948	(2,156,883)	1,106,289	13,727,354
Expenses (Exhibit C)								
Program services								
Seaport Museum of New York					1,752,770	0	0	1,752,770
Museum shop	334,637	0	0	334,637	329,225	0	0	329,225
Collections care	2,213,694	0	0	2,213,694	2,262,956	0	0	2,262,956
Collections access	703,351	0	0	703,351	712,865	0	0	712,865
Educational programs	1,021,706	0	0	1,021,706	938,964	0	0	938,964
Renovation and expansion	367,499	0	0	367,499	521,141	0	0	521,141
Exhibitions and publications	5,301,533	0	0	5,301,533	5,148,705	0	0	5,148,705
Total program services	9,942,420	0	0	9,942,420	11,666,626	0	0	11,666,626
Supporting services								
Management and general	1,178,911	0	0	1,178,911	1,108,733	0	0	1,108,733
Fund raising								
Membership and development	1,794,188	0	0	1,794,188	1,785,668	0	0	1,785,668
Total supporting services	2,973,099	0	0	2,973,099	2,894,401	0	0	2,894,401
Total expenses	12,915,519	0	0	12,915,519	14,561,027	0	0	14,561,027
Change in net assets from operations	1,615,646	3,656,835	1,458,892	6,731,373	216,921	(2,156,883)	1,106,289	(833,673)
Provision for bad debt loss	0	(14,908)	0	(14,908)	0	0	0	0
Sale of collection material (net of direct cost of sales of \$89 in 2014 and \$12,384 in 2013) (Note 12)	161,350	0	0	161,350	0	257,630	0	257,630
Change in net assets (Exhibit D)	1,776,996	3,641,927	1,458,892	6,877,815	216,921	(1,899,253)	1,106,289	(576,043)
Net assets - beginning of year	23,180,680	11,850,060	9,063,084	44,093,824	22,963,759	13,749,313	7,956,795	44,669,867
Net assets - end of year (Exhibit A)	\$ 24,957,676	\$ 15,491,987	\$ 10,521,976	\$ 50,971,639	\$ 23,180,680	\$ 11,850,060	\$ 9,063,084	\$ 44,093,824

See independent auditor's report.

The accompanying notes are an integral part of these statements.

MUSEUM OF THE CITY OF NEW YORK, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2014 AND 2013

	2014										
	Program Services						Supporting Services				Total
	Museum Shop	Collections Care	Collections Access	Educational Programs	Renovation and Expansion	Exhibitions and Publications	Management and General	Membership and Development	Special Events		
Salaries and related expenses	\$ 190,176	\$ 1,218,788	\$ 580,247	\$ 674,385	\$ 228,558	\$ 2,492,010	\$ 5,384,164	\$ 588,634	\$ 1,218,723	\$ 0	\$ 7,191,521
Outside services	11,372	75,234	3,496	74,148	68,660	567,496	800,406	200,480	122,620	0	1,123,506
Legal and accounting	0	36,946					36,946	129,538	0	0	166,484
Depreciation and amortization	58,920	183,930	67,488	92,256	9,566	391,040	803,200	83,872	85,331	0	972,403
Public relations	279	215	29	761	74	54,903	56,261	7,565	5,328	0	69,154
Design, shipping and fabrication	7,013	57,836	13,284	7,675	21,229	763,320	870,357	8,073	63,857	0	942,287
Printing	156	0	0	13,607	8,250	111,361	133,374	332	57,718	0	191,424
Interest and bank charges	0	0	0	0	0	0	0	630	0	0	630
Occupancy (Note 8)	18,050	492,386	11,700	68,400	7,814	441,016	1,039,366	59,707	70,680	0	1,169,753
Supplies and expenses	12,755	103,651	6,217	34,729	12,042	232,803	402,197	27,624	9,717	86,352	525,890
Investment fees	0	0	0	0	0	0	0	122,053	0	0	122,053
Catering and entertainment	0	0	0	0	0	0	0	0	0	339,842	339,842
Computing services	7,441	20,697	8,608	11,291	3,714	78,730	130,481	16,032	10,410	0	156,923
Cost of sales	336,280	89	0	0	0	0	336,369	0	0	0	336,369
Insurance	1,109	14,235	739	3,975	370	27,731	48,159	3,513	3,882	0	55,554
Miscellaneous	27,366	9,776	11,543	40,479	7,222	141,123	237,509	52,911	145,922	0	436,342
<b>Total expenses</b>	<b>670,917</b>	<b>2,213,783</b>	<b>703,351</b>	<b>1,021,706</b>	<b>367,499</b>	<b>5,301,533</b>	<b>10,278,789</b>	<b>1,300,964</b>	<b>1,794,188</b>	<b>426,194</b>	<b>13,800,135</b>
Less direct cost of special events deducted from revenue on the statement of activities	0	0	0	0	0	0	0	0	0	(426,194)	(426,194)
Less investment fees netted against investment income	0	0	0	0	0	0	0	(122,053)	0	0	(122,053)
Less cost of sales netted against museum shop income	(336,280)	0	0	0	0	0	(336,280)	0	0	0	(336,280)
Less cost of sales netted against sale of collection material	0	(89)	0	0	0	0	(89)	0	0	0	(89)
<b>Total expenses reported by function on the statement of activities (Exhibit B)</b>	<b>\$ 334,637</b>	<b>\$ 2,213,694</b>	<b>\$ 703,351</b>	<b>\$ 1,021,706</b>	<b>\$ 367,499</b>	<b>\$ 5,301,533</b>	<b>\$ 9,942,420</b>	<b>\$ 1,178,911</b>	<b>\$ 1,794,188</b>	<b>\$ 0</b>	<b>\$ 12,915,519</b>

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MUSEUM OF THE CITY OF NEW YORK, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2014 AND 2013

	2013											
	Program Services							Supporting Services				
	Seaport Museum of New York	Museum Shop	Collections Care	Collections Access	Educational Programs	Renovation and Expansion	Exhibitions and Publications	Total	Management and General	Membership and Development	Special Events	Total
Salaries and related expenses	\$ 350,217	\$ 197,778	\$ 1,085,020	\$ 635,509	\$ 568,928	\$ 181,790	\$ 2,152,764	\$ 5,172,006	\$ 632,859	\$ 1,165,128	\$ 0	\$ 6,969,993
Outside services	0	217	64,660	8,709	138,656	217,708	322,072	752,022	39,779	65,484	0	857,285
Legal and accounting	0	0	75,936	0	0	0	0	75,936	168,014	0	0	243,950
Depreciation and amortization	0	78,971	236,891	24,408	99,426	12,204	449,374	901,274	117,427	115,437	0	1,134,138
Public relations	0	250	620	583	868	175	76,647	79,143	6,438	3,061	0	88,642
Design, shipping and fabrication	0	4,108	64,955	8,076	1,935	14,044	1,102,736	1,195,854	8,300	50,559	0	1,254,713
Printing	0	4,015	85	1,397	14,574	178	106,872	127,121	857	61,985	0	189,963
Interest and bank charges	0	0	0	0	0	0	0	0	671	0	0	671
Occupancy (Note 8)	0	9,351	395,559	6,234	33,613	7,167	235,055	686,979	31,131	33,218	0	751,328
Supplies and expenses	0	9,094	280,078	17,911	27,651	50,891	438,906	824,531	21,991	12,118	81,235	939,875
Investment fees	0	0	0	0	0	0	0	0	92,948	0	0	92,948
Catering and entertainment	0	0	0	0	0	0	0	0	0	0	349,196	349,196
Computing services	0	11,207	32,621	4,350	14,788	22,751	48,203	133,920	10,851	14,273	0	159,044
Cost of sales	0	241,615	12,384	0	0	0	0	253,999	0	0	0	253,999
Grants	1,402,553	0	0	0	0	0	0	1,402,553	0	0	0	1,402,553
Insurance	0	1,851	23,755	1,234	6,633	617	46,276	80,366	5,862	6,479	0	92,707
Miscellaneous	0	12,383	2,776	4,454	31,892	13,616	169,800	234,921	64,553	257,926	0	557,400
<b>Total expenses</b>	<b>1,752,770</b>	<b>570,840</b>	<b>2,275,340</b>	<b>712,865</b>	<b>938,964</b>	<b>521,141</b>	<b>5,148,705</b>	<b>11,920,625</b>	<b>1,201,681</b>	<b>1,785,668</b>	<b>430,431</b>	<b>15,338,405</b>
Less direct cost of special events deducted from revenue on the statement of activities	0	0	0	0	0	0	0	0	0	0	(430,431)	(430,431)
Less investment fees netted against investment income	0	0	0	0	0	0	0	0	(92,948)	0	0	(92,948)
Less cost of sales netted against museum shop income	0	(241,615)	0	0	0	0	0	(241,615)	0	0	0	(241,615)
Less cost of sales netted against sale of collection material	0	0	(12,384)	0	0	0	0	(12,384)	0	0	0	(12,384)
<b>Total expenses reported by function on the statement of activities (Exhibit B)</b>	<b>\$ 1,752,770</b>	<b>\$ 329,225</b>	<b>\$ 2,262,956</b>	<b>\$ 712,865</b>	<b>\$ 938,964</b>	<b>\$ 521,141</b>	<b>\$ 5,148,705</b>	<b>\$ 11,666,626</b>	<b>\$ 1,108,733</b>	<b>\$ 1,785,668</b>	<b>\$ 0</b>	<b>\$ 14,561,027</b>

See independent auditor's report.

The accompanying notes are an integral part of these statements.



## MUSEUM OF THE CITY OF NEW YORK, INC.

## STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 6,877,815	\$ (576,043)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	972,403	1,134,138
Sale of collection material	(161,439)	(257,630)
Investment gains	(2,759,831)	(1,763,325)
Permanently restricted contributions	(479,899)	(500,403)
Interest and dividends restricted for long-term investment	(43,818)	(45,947)
Decrease (increase) in assets		
Contributions and grants receivable	(949,296)	1,880,141
Prepaid expenses and other assets	(35,291)	16,208
Inventory	2,224	(17,500)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(40,222)	206,931
Deferred rent	(17,180)	(536)
Due to Seaport Museum New York	0	(98,270)
Net cash provided (used) by operating activities	<u>3,365,466</u>	<u>(22,236)</u>
Cash flows from investing activities		
Purchase of fixed assets	(2,018,478)	(1,163,487)
Purchase of investments	(8,638,202)	(1,478,074)
Proceeds from sale of investments	8,456,484	1,971,597
Proceeds from sale of collection material	161,439	257,630
Net cash used by investing activities	<u>(2,038,757)</u>	<u>(412,334)</u>
Cash flows from financing activities		
Proceeds from permanently restricted contributions	479,899	500,403
Principal payment of capital lease	(3,960)	(17,489)
Interest and dividends restricted for long-term investment	43,818	45,947
Net cash provided by financing activities	<u>519,757</u>	<u>528,861</u>
Net change in cash and cash equivalents	1,846,466	94,291
Cash and cash equivalents - beginning of year	<u>1,602,829</u>	<u>1,508,538</u>
Cash and cash equivalents - end of year	<u>\$ 3,449,295</u>	<u>\$ 1,602,829</u>
Supplemental disclosure of cash flow information		
Interest paid	<u>\$ 630</u>	<u>\$ 671</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**MUSEUM OF THE CITY OF NEW YORK, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2014 AND 2013**

**NOTE 1 - NATURE AND PURPOSE OF ORGANIZATION**

The Museum of the City of New York, Inc. (the "Museum") celebrates and interprets New York City (the "city"), educating the public about its distinctive character, especially its heritage of diversity, opportunity, and perpetual transformation. Founded in 1923 as a private, non-profit corporation, the Museum connects the past, present, and future of the City. It serves the people of New York and visitors from around the world through exhibitions, school and public programs, publications, and collections.

The Museum is located at 1220 Fifth Avenue, New York, N.Y.

The Museum's primary sources of revenues are grants, contributions and special events. The Museum also operates a gift shop that earns additional revenues.

The Museum is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and is a publicly supported organization as described in Section 509(a).

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of accounting*** - The financial statements are prepared on the accrual basis of accounting.

***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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Cash and cash equivalents*** - The Museum considers all highly liquid instruments with original maturities, when acquired, of three months or less to be cash equivalents, with the exception of cash and short-term investments managed for the long term by the Museum's investment advisors.

***Investments*** - Investments are recorded at fair value. The Museum invests in various investment securities. Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' fluctuations, and that such changes could materially affect the amounts reported in the financial statements.

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**MUSEUM OF THE CITY OF NEW YORK, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014 AND 2013****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*****Fair Value Measurements***

*Fair Value Measurements* establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Museum has the ability to access. 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. The asset or liability's fair value measurement 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 used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2014 as compared to those used at June 30, 2013.

***Cash and cash equivalents, money market funds, common stock, U.S. Government obligations, corporate obligations, and municipal obligations*** - Valued at the closing price reported on the active market on which the individual securities are traded.

***Foreign government obligations*** - Valued at the closing price reported on the active market on which the individual securities are traded or based upon yields currently available on comparable securities of issuers with similar credit ratings.

***Mutual funds*** - Valued at the net asset value ("NAV") of shares held at year end.

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**MUSEUM OF THE CITY OF NEW YORK, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014 AND 2013****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*****Fair Value Measurements (continued)***

***Limited partnership and managed funds*** - There are no observable inputs and certain of the underlying investments are not publicly traded and there is no secondary market for such funds. The fund of funds is valued at the NAV of shares held at year end by the managers of the underlying funds.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Museum believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

See Note 3 for table which sets forth by level, within the fair value hierarchy, the assets at fair value as of June 30, 2014 and 2013.

***Contributions and grants receivable*** - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. Grants receivable are recorded based on contracts for services provided. Interest is not charged on outstanding receivables.

***Allowance for doubtful accounts*** - Bad debt expense is charged if the receivable is determined to be uncollectible based on periodic review by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year end.

***Inventory*** - Inventory consists of finished goods held for sale in connection with the Museum's gift shop operation. Inventory is valued at cost or net realizable value, whichever is lower. Cost is determined by the first-in, first-out ("FIFO") method.

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**MUSEUM OF THE CITY OF NEW YORK, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014 AND 2013****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Collections*** - The Museum's collections, which were acquired through purchases and contributions since its inception, are not recognized as assets on the balance sheet. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the financial statements. Proceeds from deaccessions are reflected as increases in the appropriate net asset classes. Detailed inventory records, however, are maintained for collections. The value of the collection is not readily determinable and the Museum is not fully insured for the cost of its replacement.

***Building and equipment*** - The building occupied by the Museum was constructed with private funds on land owned by the City. Title to the building and land is held by the City; however, under an agreement with the City dated January 26, 1928, the Museum has the exclusive right to the use of the facility for the duration of its occupancy.

Building improvements and equipment with a cost of \$1,000 or more with a useful life of greater than one year are capitalized and stated at cost. Depreciation of assets is computed using the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is computed using the straight-line method over the lesser of the term of the lease or the estimated useful lives of the improvements. Computer equipment is depreciated over three to five years. Furniture and equipment are depreciated over two to ten years. Building improvements are depreciated over fifty years. Leasehold improvements are amortized over 10 years.

***Operating leases*** - Operating leases are straight-lined over the term of the lease. Deferred rent is recorded where there are material differences between the fixed payment and rent expense.

***Membership and rental fees*** - Membership dues and rental fees are recorded when earned.

***Contributions and grants*** - Unconditional contributions and grants, including promises to give cash and other assets, are reported at fair value at the date the contribution or grant is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limited the use of the donated assets. When a donor 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.

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**MUSEUM OF THE CITY OF NEW YORK, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014 AND 2013****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Contributions and grants (continued)*** - Revenues from government contracts are recognized when reimbursable expenses are incurred under the terms of the contract. Such revenues are subject to audit by the agencies. No provision for any disallowances is reflected in the financial statements, since management does not anticipate any material adjustments.

The Museum received a government grant to oversee operations and management of the Seaport Museum of the City of New York as well as to provide a grant to the Seaport Museum of the City of New York.

***Admissions*** - Fees received in connection with the tours of exhibitions organized by the Museum are recognized as revenues when the exhibition is shown. Fees received in advance are, accordingly, deferred as a liability on the balance sheet.

***Contributed services*** - Contributed services are recognized as revenue if the services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and typically need to be purchased if not provided by donation. The value of contributed services (principally goods and services) meeting the requirements for recognition in the accompanying financial statements amounted to approximately \$195,570 in 2014 and \$823,654 in 2013. The value of the services is based on information obtained from the providers, and are included in other grants and contributions.

***Grants*** - Grants are recorded when awarded.

***Functional allocation of expenses*** - The costs of providing the Museum's programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

***Measure of operations*** - The Museum includes in its measure of operations all revenues and expenses that are an integral part of its program and supporting activities and excludes sale of collection material and provision for bad debt loss from the operating measure.

***Uncertainty in income taxes*** - The Museum has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending June 30, 2011 and subsequent remain subject to examination by applicable taxing authorities.

***Subsequent events*** - Subsequent events have been evaluated through December 7, 2014, which is the date the financial statements were available to be issued.

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## MUSEUM OF THE CITY OF NEW YORK, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

## NOTE 3 - INVESTMENTS

The following table sets forth by level, within the fair value hierarchy, the assets at fair value:

	June 30, 2014			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 34,564	\$ -	\$ -	\$ 34,564
Money market funds	2,796,815	-	-	2,796,815
Common stock - domestic	7,462,224	-	-	7,462,224
Common stock - foreign	2,871,594	-	-	2,871,594
Fixed income				
U.S. Government obligations	788,486	-	-	788,486
Corporate obligations	1,217,299	-	-	1,217,299
Foreign government obligations	-	39,900	-	39,900
Mutual funds				
Fixed income	736,467	-	-	736,467
Equities	204,746	-	-	204,746
Limited partnership	-	-	2,881,957	2,881,957
Managed funds	-	-	4,203,549	4,203,549
	<u>\$ 16,112,195</u>	<u>\$ 39,900</u>	<u>\$ 7,085,506</u>	<u>\$ 23,237,601</u>
	June 30, 2013			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 148,367	\$ -	\$ -	\$ 148,367
Money market funds	852,451	-	-	852,451
Common stock - domestic	8,151,683	-	-	8,151,683
Fixed income				
U.S. Government obligations	1,602,378	-	-	1,602,378
Corporate obligations	1,729,265	-	-	1,729,265
Foreign government obligations	-	39,900	-	39,900
Mutual funds				
Short duration funds	1,327,797	-	-	1,327,797
Limited partnership	-	-	2,601,460	2,601,460
Managed funds	-	-	3,842,751	3,842,751
	<u>\$ 13,811,941</u>	<u>\$ 39,900</u>	<u>\$ 6,444,211</u>	<u>\$ 20,296,052</u>

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**MUSEUM OF THE CITY OF NEW YORK, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2014 AND 2013**

**NOTE 3 - INVESTMENTS (continued)**

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. The organization's assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy. The following table presents the Museum's Level 3 asset balances measured at fair value on a recurring basis as of June 30, 2014 and 2013.

	<u>Fair Value 2014</u>	<u>Fair Value 2013</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
King Street Limited Partnership (a)	\$ 2,881,957	\$ 2,601,460	Quarterly	65 days
Taconic Opportunity Offshore Fund (b)	1,295,915	1,179,288	Quarterly	60 days
Mason Capital Offshore Fund (c)	1,711,634	1,609,403	Quarterly	45 days
Riva Ridge Offshore Fund (d)	<u>1,196,000</u>	<u>1,054,060</u>	Quarterly	90 days
	<u>\$ 7,085,506</u>	<u>\$ 6,444,211</u>		

- (a) King Street Limited Partnership: Investments include public equity and fixed-income markets globally with a focus in distressed companies, equity, bonds, foreign exchange, warrants and options. The fair value is estimated with the net asset value per share of the investment.
- (b) Taconic Opportunity Offshore Fund: Multi-strategy fund with positions in arbitrage, credit, special situations and reorganizations. Additionally, portfolio hedging focuses on protecting the portfolio in a severe market dislocation. The fair value is estimated with the net asset value per share of the investment.
- (c) Mason Capital Offshore Fund: Principal objective is to achieve attractive capital appreciation over time relatively independent of the returns generated by the overall equity and debt markets by employing certain event-driven investment strategies such as merger, arbitrage, distressed securities and special situations. The fair value is estimated with the net asset value per share of the investment.

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## MUSEUM OF THE CITY OF NEW YORK, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

## NOTE 3 - INVESTMENTS (continued)

- (d) Riva Ridge Offshore Fund: Small event-driven/distressed hedge fund with long/short positions. Short portfolio predominantly composed of larger single-name, high dollar priced, high yield bonds. The fair value is estimated with the net asset value per share of the investment.

*Level 3 Gains and Losses*

The table below sets forth a summary of changes in the fair value of the Level 3 assets:

	<b>June 30, 2014</b>		
	<b>Managed Funds</b>	<b>Limited Partnership</b>	<b>Total</b>
Balance, beginning of year	\$ 3,842,751	\$ 2,601,460	\$ 6,444,211
Unrealized gains relating to instruments still held at the reporting date	<u>360,798</u>	<u>280,497</u>	<u>641,295</u>
Balance, end of year	<u>\$ 4,203,549</u>	<u>\$ 2,881,957</u>	<u>\$ 7,085,506</u>
	<b>June 30, 2013</b>		
	<b>Managed Funds</b>	<b>Limited Partnership</b>	<b>Total</b>
Balance, beginning of year	\$ 3,483,249	\$ 2,265,300	\$ 5,748,549
Unrealized gains relating to instruments still held at the reporting date	<u>359,502</u>	<u>336,160</u>	<u>695,662</u>
Balance, end of year	<u>\$ 3,842,751</u>	<u>\$ 2,601,460</u>	<u>\$ 6,444,211</u>

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**MUSEUM OF THE CITY OF NEW YORK, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2014 AND 2013**

**NOTE 3 - INVESTMENTS (continued)**

Investment income:

	<b>2014</b>	<b>2013</b>
Dividends and interest	\$ 289,389	\$ 312,143
Realized and unrealized gains	2,759,831	1,763,325
Investment fees	(122,053)	(92,948)
	<b>\$ 2,927,167</b>	<b>\$ 1,982,520</b>

**NOTE 4 - BUILDING AND EQUIPMENT**

	<b>2014</b>	<b>2013</b>
Building improvements	\$ 21,813,991	\$ 21,777,339
Furniture and equipment (includes capital lease equipment of \$81,076 in 2013)	3,290,230	2,739,368
Computer equipment	547,409	522,752
Leasehold improvements	64,506	64,506
Construction in progress	3,179,378	1,854,147
	28,895,514	26,958,112
Accumulated depreciation	(7,006,411)	(6,048,565)
Accumulated amortization*	(32,894)	(99,413)
Net	<b>\$ 21,856,209</b>	<b>\$ 20,810,134</b>

\* Amortization expense for the capital lease assets was \$8,107 and \$16,215 for the years ended June 30, 2014 and 2013, respectively. In 2013, accumulated amortization includes accumulated amortization of capital lease assets of \$72,969.

In 2014, the Museum elected not to purchase the capital lease equipment when the capital lease expired and wrote off \$81,076 of fully amortized capital lease equipment. The Museum retired \$304,311 of fully depreciated furniture and computer equipment in 2013.

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**MUSEUM OF THE CITY OF NEW YORK, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2014 AND 2013**

**NOTE 5 - CONTRIBUTIONS AND GRANTS RECEIVABLE**

Contributions and grants receivable have been recorded at present value. Those receivables that are due in more than one year have been discounted to their present value using discount rates of 3-6%. Contributions receivable consist of the following:

2015		\$ 2,462,139	
2016		282,745	
2017		232,745	
2018		<u>135,000</u>	
		3,112,629	
Less present value discount		<u>(57,766)</u>	
		3,054,863	
Less allowance for uncollectible accounts		<u>(93,500)</u>	
Net		<u>\$ 2,961,363</u>	

The allowance for uncollectible accounts was \$93,500 in both 2014 and 2013.

**NOTE 6 - PENSION PLAN**

All full-time employees of the Museum who have had one year of service and are over 21 years old are eligible for membership in the Cultural Institutions Retirement System's (CIRS) Pension Plan, a defined benefit plan. The expense for the years ended June 30, 2014 and 2013 were \$433,154 and \$412,284, respectively, and are included in salaries and related expenses.

The following information relates to the Museum's pension plan:

Pension Fund	EIN/ Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status  Pending/ Implemented	Contributions		Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
		2014	2013		2014	2013		
The Cultural Institutions Pension Plan	EIN 11- 2001170/ 001	Green*	Green	N/A	\$433,154	\$412,284	No	June 30, 2015

\* As of the date the financial statements were issued, Form 5500 was not available for the Plan's year end of June 30, 2014.

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**MUSEUM OF THE CITY OF NEW YORK, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2014 AND 2013**

**NOTE 7 - CAPITAL LEASE PAYABLE**

The Museum leased office equipment under a capital lease obligation. This capital lease matured in 2014. Interest expense related to capital lease was \$630 and \$671 in fiscal years 2014 and 2013, respectively.

**NOTE 8 - OPERATING LEASE**

The Museum leases warehouse space to house part of its permanent collection. Rental expense (including surcharges for utilities and maintenance) related to the warehouse lease was \$271,445 and \$275,281 in fiscal years 2014 and 2013, respectively.

This operating lease was set to expire in 2018. The Museum negotiated to relocate and on September 15, 2014, the Museum signed a new 14-year lease which will expire September 30, 2028. The landlord in Fiscal year 2015 contributed \$250,000 to the Museum for the relocation.

Future minimum payments under the new lease are as follows:

2015	\$ 187,500
2016	256,563
2017	265,542
2018	274,836
2019	284,455
Thereafter	<u>3,150,350</u>
Total future minimum lease payments	<u>\$ 4,419,246</u>

The Museum also leases office equipment from different vendors with maturity dates through July 31, 2019. Rent expense related to leased equipment was \$22,800 in 2014 and \$8,352 in 2013.

Future minimum payments under these leases are as follows:

2015	\$ 26,781
2016	28,641
2017	28,641
2018	23,900
2019	22,320
Thereafter	<u>1,860</u>
Total future minimum lease payments	<u>\$ 132,142</u>

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**MUSEUM OF THE CITY OF NEW YORK, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2014 AND 2013**

**NOTE 9 - RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following at June 30:

	<u>2014</u>	<u>2013</u>
Capital improvements	\$ 3,372,079	\$ 6,045,899
Collections, exhibitions and programs	<u>12,119,908</u>	<u>5,804,161</u>
	<u>\$ 15,491,987</u>	<u>\$ 11,850,060</u>

Temporarily restricted net assets of \$5,071,868 and \$5,043,679 in 2014 and 2013, respectively, were released from restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors for the following:

	<u>2014</u>	<u>2013</u>
Capital improvement	\$ 2,153,456	\$ 1,356,192
Collections, exhibitions and programs	<u>2,918,412</u>	<u>3,687,487</u>
	<u>\$ 5,071,868</u>	<u>\$ 5,043,679</u>

Permanently restricted net assets consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Louis Auchincloss Prize Endowment	\$ 644,754	\$ 582,369
Frederick AO Schwarz Family Endowment	1,732,827	1,572,197
Hearst Foundation - Education	226,202	226,202
Laura and Ray Johnson Fund	1,842,685	1,616,061
Mary Flagler Cary Endowment	145,052	126,707
Grace Mayer Conservation Fund	356,801	312,487
Charles E. Merrill - Education	58,319	58,319
Mary and Donald Oenslager Fund	290,602	253,408
Gallery Programming - Puffin Foundation	1,046,399	570,405
John and Barbara Robinson Fund - Education	1,102,876	961,758
Ronay Menschel Director/CEO of the Museum of the City of New York Endowment	3,046,399	2,757,831
Evelyn Spitalny - Music in Museum Concerts	<u>29,060</u>	<u>25,340</u>
	<u>\$ 10,521,976</u>	<u>\$ 9,063,084</u>

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**MUSEUM OF THE CITY OF NEW YORK, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014 AND 2013****NOTE 9 - RESTRICTED NET ASSETS (continued)****Permanently Restricted Net Assets (Endowment Funds)*****General***

The Museum has donor-restricted endowment funds established to help fund various projects at the Museum. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

***Interpretation of Relevant Law***

The Board of Trustees of the Museum has adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA moves away from the “historic dollar value” standard, and permits charities to apply a spending policy to endowments based on certain specified standards of prudence. The Museum is now governed by the NYPMIFA spending policy, which establishes a standard maximum prudent spending limit of 7% of the average of its previous five years’ balance. As a result of this interpretation, the Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standards of prudence prescribed by NYPMIFA.

***Return Objectives, Strategies Employed and Spending Policy***

The objective of the Museum is to maintain the principal endowment funds at the original amount designated by the donor and to generate investment income for the specified purpose. The investments are pooled and summarized in Note 3. Income is distributed on a total return basis to either unrestricted or temporarily restricted funds as designated by the donor. Certain donors have specified that investment income, net of investment fees, be added to the corpus of the endowment funds and have established criteria different from the spending rate formula.

***Funds with Deficiencies***

The Museum does not have any funds with deficiencies.

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## MUSEUM OF THE CITY OF NEW YORK, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

## NOTE 9 - RESTRICTED NET ASSETS (continued)

*Permanently Restricted Net Assets (Endowment Funds) (continued)**Endowment Net Asset Composition by Type of Fund*

	<u>2014</u>	<u>2013</u>
Donor-restricted endowment funds	\$ <u>10,521,976</u>	\$ <u>9,063,084</u>

*Changes in Endowment Net Assets for the Year Ended June 30, 2014*

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year		\$ <u>9,063,084</u>	\$ <u>9,063,084</u>
Contributions		<u>479,899</u>	<u>479,899</u>
Investment return			
Dividends and interest	\$ 29,877	43,818	73,695
Realized and unrealized gains	<u>45,404</u>	<u>1,160,175</u>	<u>1,205,579</u>
Total investment return	<u>75,281</u>	<u>1,203,993</u>	<u>1,279,274</u>
Appropriation of endowment assets for expenditures		<u>(225,000)*</u>	<u>(225,000)*</u>
Released from restriction	<u>(75,281)</u>		<u>(75,281)</u>
Endowment net assets, end of year	\$ <u>-</u>	\$ <u>10,521,976</u>	\$ <u>10,521,976</u>

\* This amount is comprised of the following:

\$25,000 was released from the Louis Auchincloss Prize Endowment to general operations.

\$125,000 was released from the Ronay Menschel Director/CEO of the Museum of the City of New York endowment to general operations.

\$75,000 was released from the Frederick AO Schwartz Family Endowment to general operations.

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## MUSEUM OF THE CITY OF NEW YORK, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

## NOTE 9 - RESTRICTED NET ASSETS (continued)

*Permanently Restricted Net Assets (Endowment Funds) (continued)**Changes in Endowment Net Assets for the Year Ended June 30, 2013*

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year		\$ <u>7,956,795</u>	\$ <u>7,956,795</u>
Contributions		<u>500,403</u>	<u>500,403</u>
Investment return			
Dividends and interest	\$ 32,000	45,947	77,947
Realized and unrealized gains	<u>29,119</u>	<u>785,984</u>	<u>815,103</u>
Total investment return	<u>61,119</u>	<u>831,931</u>	<u>893,050</u>
Appropriation of endowment assets for expenditures		<u>(226,045)*</u>	<u>(226,045)*</u>
Released from restriction	<u>(61,119)</u>		<u>(61,119)</u>
Endowment net assets, end of year	\$ <u>-</u>	\$ <u>9,063,084</u>	\$ <u>9,063,084</u>

\* This amount is comprised of the following:

\$1,045 was released from Endowment for ongoing Exhibits - Puffin Foundation to general operations.

\$25,000 was released from the Louis Auchincloss Prize Endowment to general operations.

\$125,000 was released from the Ronay Menschel Director/CEO of the Museum of the City of New York endowment to general operations.

\$75,000 was released from the Frederick AO Schwartz Family Endowment to general operations.

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**MUSEUM OF THE CITY OF NEW YORK, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014 AND 2013****NOTE 9 - RESTRICTED NET ASSETS (continued)*****Permanently Restricted Net Assets (Endowment Funds) (continued)***

In accordance with certain donor stipulations, investment income net of investment fees on said funds were added to the corpus.

Certain permanently restricted funds permitted release based on donor-specified criteria. \$225,000 and \$226,045 were released from restriction in 2014 and 2013, respectively.

**NOTE 10 - EXPANSION**

The City of New York has advised the Museum that they have paid \$6,191,824 in 2014 and \$508,872 in 2013 to improve the facility. The City has made a commitment to expend \$64,543,000 for Phases I, II and III. Historically, the City has contributed \$94,048,824 on capital expenses from 1999 to 2014. This has not been reflected on the accompanying financial statements.

**NOTE 11 - CONCENTRATIONS**

Financial instruments which potentially subject the Museum to a concentration of credit risk are cash accounts with financial institutions in excess of FDIC insurance limits.

The Museum utilizes a building owned by the City of New York.

**NOTE 12 - SALE OF COLLECTION MATERIAL**

In 2014 and 2013, the Museum deaccessioned a collection of books and other items that were determined to be off-mission. The books and other items belonging to the Museum were auctioned in 2014 and 2013. The net proceeds were \$161,439 and \$257,630 in 2014 and 2013, respectively.

**NOTE 13 - CONTINGENCY**

The Museum is party to litigation which, in the opinion of management, will not have an adverse effect on the financial statements of the Museum.