

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

**FINANCIAL STATEMENTS  
AND AUDITOR'S REPORT**

**JUNE 30, 2017 AND 2016**

**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, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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

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

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

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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, 2017 and 2016, 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 14, 2017

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

## BALANCE SHEET

JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,916,323	\$ 6,988,561
Investments (Note 3)	28,245,504	23,564,818
Contributions and grants receivable - net (Note 5)	2,114,426	3,517,853
Prepaid expenses and other assets	629,678	825,212
Inventory	166,784	149,439
Building and equipment - net (Note 4)	<u>23,065,585</u>	<u>22,998,141</u>
Total assets	<u>\$ 60,138,300</u>	<u>\$ 58,044,024</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 903,509	\$ 1,098,919
Deferred revenue	185,944	-
Deferred rent (Note 7)	<u>158,462</u>	<u>108,343</u>
Total liabilities	<u>1,247,915</u>	<u>1,207,262</u>
Net assets (Exhibit B)		
Unrestricted		
Operating	3,698,842	4,141,093
Board-designated endowment (Note 8)	4,474,660	4,346,219
Plant	<u>23,065,585</u>	<u>22,998,141</u>
Total unrestricted	31,239,087	31,485,453
Temporarily restricted (Note 8)	7,282,269	16,216,338
Permanently restricted (Note 8)	<u>20,369,029</u>	<u>9,134,971</u>
Total net assets	<u>58,890,385</u>	<u>56,836,762</u>
Total liabilities and net assets	<u>\$ 60,138,300</u>	<u>\$ 58,044,024</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2017 AND 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support								
Membership	\$ 301,808	\$ -	\$ -	\$ 301,808	\$ 287,262	\$ -	\$ -	\$ 287,262
Rental fees	522,931	-	-	522,931	505,866	-	-	505,866
Licensing and other fees	275,442	-	-	275,442	406,130	-	-	406,130
Museum shop	\$ 526,687			\$ 598,905				\$ 598,905
Cost of sales	<u>(383,551)</u>	-	-	<u>143,136</u>	<u>(273,155)</u>	-	-	<u>325,750</u>
Investment income (loss) (Note 3)	2,992,613			(509,664)				(509,664)
Investment fees	<u>(106,388)</u>	274,641	1,508,070	<u>2,886,225</u>	<u>(297,921)</u>	(58,075)	(246,231)	<u>(602,227)</u>
Educational programs	517,189	-	-	517,189	442,379	-	-	442,379
Admissions	1,035,704	-	-	1,035,704	907,535	-	-	907,535
Contributions and grants								
New York City - Department of Cultural Affairs	1,679,318	-	-	1,679,318	1,608,689	-	-	1,608,689
New York State - Council on the Arts	46,400	-	-	46,400	48,200	-	-	48,200
Other grants and contributions	2,075,104	2,438,805	10,000,000	14,513,909	2,241,583	7,458,792	250,000	9,950,375
Special events	3,088,241			3,049,990				3,049,990
Less direct expense of special events	<u>(619,207)</u>			<u>(550,821)</u>				<u>(550,821)</u>
Net revenue from special events	2,469,034	-	-	2,469,034	2,499,169	-	-	2,499,169
Net assets released from restrictions (Note 8)	<u>11,921,527</u>	<u>(11,647,515)</u>	<u>(274,012)</u>	<u>-</u>	<u>9,213,930</u>	<u>(8,922,370)</u>	<u>(291,560)</u>	<u>-</u>
Total revenues and other support	<u>22,091,107</u>	<u>(8,934,069)</u>	<u>11,234,058</u>	<u>24,391,096</u>	<u>18,188,572</u>	<u>(1,521,653)</u>	<u>(287,791)</u>	<u>16,379,128</u>
Expenses (Exhibit C)								
Program services								
Museum shop	505,729	-	-	505,729	464,685	-	-	464,685
Collections care	2,935,803	-	-	2,935,803	3,283,829	-	-	3,283,829
Educational programs	1,677,028	-	-	1,677,028	1,513,221	-	-	1,513,221
Renovation and expansion	265,932	-	-	265,932	432,566	-	-	432,566
Exhibitions and publications	13,218,970	-	-	13,218,970	9,237,355	-	-	9,237,355
Total program services	<u>18,603,462</u>	<u>-</u>	<u>-</u>	<u>18,603,462</u>	<u>14,931,656</u>	<u>-</u>	<u>-</u>	<u>14,931,656</u>
Supporting services								
Management and general	1,769,212	-	-	1,769,212	1,399,975	-	-	1,399,975
Fundraising								
Membership and development	1,993,569	-	-	1,993,569	1,994,693	-	-	1,994,693
Total supporting services	<u>3,762,781</u>	<u>-</u>	<u>-</u>	<u>3,762,781</u>	<u>3,394,668</u>	<u>-</u>	<u>-</u>	<u>3,394,668</u>
Total expenses	<u>22,366,243</u>	<u>-</u>	<u>-</u>	<u>22,366,243</u>	<u>18,326,324</u>	<u>-</u>	<u>-</u>	<u>18,326,324</u>
Change in net assets from operations	(275,136)	(8,934,069)	11,234,058	2,024,853	(137,752)	(1,521,653)	(287,791)	(1,947,196)
Sale of collection material (Note 11)	28,770	-	-	28,770	94,575	-	-	94,575
Change in net assets (Exhibit D)	(246,366)	(8,934,069)	11,234,058	2,053,623	(43,177)	(1,521,653)	(287,791)	(1,852,621)
Net assets - beginning of year	31,485,453	16,216,338	9,134,971	56,836,762	31,528,630	17,737,991	9,422,762	58,689,383
Net assets - end of year (Exhibit A)	<u>\$ 31,239,087</u>	<u>\$ 7,282,269</u>	<u>\$ 20,369,029</u>	<u>\$ 58,890,385</u>	<u>\$ 31,485,453</u>	<u>\$ 16,216,338</u>	<u>\$ 9,134,971</u>	<u>\$ 56,836,762</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2017 AND 2016

	2017									
	Program Services					Supporting Services				
	Museum Shop	Collections Care	Educational Programs	Renovation and Expansion	Exhibitions and Publications	Total	Management and General	Membership and Development	Special Events	Total
Salaries and related expenses	\$ 322,004	\$ 1,804,964	\$ 1,235,373	\$ 222,173	\$ 3,975,008	\$ 7,559,522	\$ 1,261,221	\$ 1,420,984	\$ -	\$ 10,241,727
Outside services	22,299	68,678	134,150	4,429	3,442,725	3,672,281	71,913	185,655	-	3,929,849
Legal and accounting	-	-	-	-	-	-	51,362	-	-	51,362
Depreciation and amortization	87,936	193,174	100,229	8,220	358,121	747,680	80,731	78,400	-	906,811
Public relations	24	207	4,608	86	55,569	60,494	7,044	3,063	-	70,601
Design, shipping and fabrication	17,014	3,868	4,951	12,455	3,732,978	3,771,266	26,941	77,833	-	3,876,040
Printing	-	350	23,796	-	71,720	95,866	7,273	93,828	-	196,967
Occupancy (Note 7)	12,475	560,667	44,701	4,158	313,024	935,025	41,015	43,661	-	1,019,701
Supplies and expenses	17,328	152,191	53,433	10,123	818,172	1,051,247	39,135	17,906	59,903	1,168,191
Investment fees	-	-	-	-	-	-	106,388	-	-	106,388
Catering and entertainment	-	-	-	-	-	-	-	-	559,304	559,304
Computing services	7,373	53,808	16,023	3,155	170,562	250,921	13,168	14,433	-	278,522
Cost of sales	383,551	-	-	-	-	383,551	-	-	-	383,551
Insurance	3,399	45,886	12,180	1,133	107,624	170,222	10,763	11,896	-	192,881
Miscellaneous	15,877	52,010	47,584	-	173,467	288,938	158,646	45,910	-	493,494
<b>Total expenses</b>	<b>889,280</b>	<b>2,935,803</b>	<b>1,677,028</b>	<b>265,932</b>	<b>13,218,970</b>	<b>18,987,013</b>	<b>1,875,600</b>	<b>1,993,569</b>	<b>619,207</b>	<b>23,475,389</b>
Less direct cost of special events deducted from revenue on the statement of activities	-	-	-	-	-	-	-	-	(619,207)	(619,207)
Less investment fees netted against investment income	-	-	-	-	-	-	(106,388)	-	-	(106,388)
Less cost of sales netted against museum shop income	(383,551)	-	-	-	-	(383,551)	-	-	-	(383,551)
<b>Total expenses reported by function on the statement of activities (Exhibit B)</b>	<b>\$ 505,729</b>	<b>\$ 2,935,803</b>	<b>\$ 1,677,028</b>	<b>\$ 265,932</b>	<b>\$ 13,218,970</b>	<b>\$ 18,603,462</b>	<b>\$ 1,769,212</b>	<b>\$ 1,993,569</b>	<b>\$ -</b>	<b>\$ 22,366,243</b>

## STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2017 AND 2016

	2016									
	Program Services					Supporting Services				
	Museum Shop	Collections Care	Educational Programs	Renovation and Expansion	Exhibitions and Publications	Total	Management and General	Membership and Development	Special Events	Total
Salaries and related expenses	\$ 313,618	\$ 2,069,548	\$ 1,072,800	\$ 221,390	\$ 3,499,958	\$ 7,177,314	\$ 1,055,609	\$ 1,485,786	\$ -	\$ 9,718,709
Outside services	14,383	110,538	148,459	12,924	1,034,527	1,320,831	72,039	157,566	-	1,550,436
Legal and accounting	-	-	-	-	-	-	42,452	-	-	42,452
Depreciation and amortization	66,591	190,316	104,701	8,147	373,903	743,658	80,026	82,906	-	906,590
Public relations	6	448	3,025	42	127,401	130,922	5,211	3,259	-	139,392
Design, shipping and fabrication	17,291	8,144	11,885	10,564	3,262,161	3,310,045	12,777	49,550	-	3,372,372
Printing	-	-	19,883	-	63,586	83,469	2,797	88,891	-	175,157
Occupancy (Note 7)	11,161	536,994	39,993	7,290	300,537	895,975	35,342	39,063	-	970,380
Supplies and expenses	13,144	216,609	45,358	122,245	200,864	598,220	26,914	15,889	47,081	688,104
Investment fees	-	-	-	-	-	-	92,563	-	-	92,563
Catering and entertainment	-	-	-	-	-	-	-	-	503,740	503,740
Computing services	5,653	82,151	18,221	13,909	101,443	221,377	11,246	12,426	-	245,049
Cost of sales	273,155	-	-	-	-	273,155	-	-	-	273,155
Insurance	3,553	47,964	13,315	1,184	88,821	154,837	11,251	12,435	-	178,523
Miscellaneous	19,285	21,117	35,581	34,871	184,154	295,008	44,311	46,922	-	386,241
<b>Total expenses</b>	<b>737,840</b>	<b>3,283,829</b>	<b>1,513,221</b>	<b>432,566</b>	<b>9,237,355</b>	<b>15,204,811</b>	<b>1,492,538</b>	<b>1,994,693</b>	<b>550,821</b>	<b>19,242,863</b>
Less direct cost of special events deducted from revenue on the statement of activities	-	-	-	-	-	-	-	-	(550,821)	(550,821)
Less investment fees netted against investment income	-	-	-	-	-	-	(92,563)	-	-	(92,563)
Less cost of sales netted against museum shop income	(273,155)	-	-	-	-	(273,155)	-	-	-	(273,155)
<b>Total expenses reported by function on the statement of activities (Exhibit B)</b>	<b>\$ 464,685</b>	<b>\$ 3,283,829</b>	<b>\$ 1,513,221</b>	<b>\$ 432,566</b>	<b>\$ 9,237,355</b>	<b>\$ 14,931,656</b>	<b>\$ 1,399,975</b>	<b>\$ 1,994,693</b>	<b>\$ -</b>	<b>\$ 18,326,324</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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 2,053,623	\$ (1,852,621)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation and amortization	906,811	906,590
Investment (gains) losses	(2,710,485)	733,444
Permanently restricted contributions	(10,000,000)	(250,000)
Interest and dividends restricted for long-term investment	(85,467)	(47,124)
Decrease (increase) in assets		
Contributions and grants receivable	1,153,427	42,948
Prepaid expenses and other assets	195,534	(379,264)
Inventory	(17,345)	(61,961)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(195,410)	309,425
Deferred revenue	185,944	
Deferred rent	50,119	59,098
	<u>(8,463,249)</u>	<u>(539,465)</u>
Net cash used by operating activities		
Cash flows from investing activities		
Purchase of fixed assets	(974,255)	(853,775)
Purchase of investments	(10,384,631)	(5,643,215)
Proceeds from sale of investments	8,414,430	4,618,258
	<u>(2,944,456)</u>	<u>(1,878,732)</u>
Net cash used by investing activities		
Cash flows from financing activities		
Proceeds from permanently restricted contributions	10,250,000	100,000
Interest and dividends restricted for long-term investment	85,467	47,124
	<u>10,335,467</u>	<u>147,124</u>
Net cash provided by financing activities		
Net change in cash and cash equivalents	(1,072,238)	(2,271,073)
Cash and cash equivalents - beginning of year	<u>6,988,561</u>	<u>9,259,634</u>
Cash and cash equivalents - end of year	<u>\$ 5,916,323</u>	<u>\$ 6,988,561</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, 2017 AND 2016**

**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 contributions and grants as well as net revenue from 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 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, 2017 AND 2016****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, 2017 as compared to those used at June 30, 2016.

***Common stock and U.S. government obligations*** - Valued at the closing price reported on the active market on which the individual securities are traded.

***Foreign government obligations*** - Valued 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 and are deemed to be actively traded.

***Corporate obligations*** - Valued based on a computerized pricing service, or for less actively traded issues by utilizing a yield-based matrix system to arrive at an estimated market value.

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**MUSEUM OF THE CITY OF NEW YORK, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2017 AND 2016****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*****Fair Value Measurements (continued)***

***Alternative investments*** - There are no observable inputs and certain of the underlying investments are not publicly traded and there is no secondary market for such funds. Alternative investments are 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 the table which sets forth by level, within the fair value hierarchy, the assets at fair value as of June 30, 2017 and 2016.

***Contributions 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*** - Grants are recorded as receivables to the extent that expenses have been incurred for the purpose specified by the grantor. Interest is not charged on the 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, 2017 AND 2016****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. As a matter of policy, proceeds from deaccessions shall be used to fund the purchase of other images or objects or the direct care of collections and 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. The Museum strives to preserve and maintain its collection.

***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.

Building improvements and equipment with a cost of \$5,000 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.

***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 based upon established rates. Rental fees for the use of the Museum for events are recognized according to the rental agreement.

***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.

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.

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**MUSEUM OF THE CITY OF NEW YORK, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2017 AND 2016****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 \$95,263 in 2017 and \$202,108 in 2016. The value of the services is based on information obtained from the providers, and are included in other grants and contributions.

**Special events** - The Museum conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. All proceeds received are recorded as special events revenues in the accompanying financial statements.

**Advertising** - Advertising costs of \$57,113 in 2017 and \$119,589 in 2016 were expensed as incurred and included in public relations.

**Net assets** - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets are investments that have been restricted by donors to be maintained in perpetuity.

**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 the sale of collection material.

**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, 2014 and subsequent remain subject to examination by applicable taxing authorities.

**Subsequent events** - Subsequent events have been evaluated through December 14, 2017, 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, 2017 AND 2016

## NOTE 3 - INVESTMENTS

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

	<b>June 30, 2017</b>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments at fair value				
Common stock - domestic	\$ 14,220,152	\$ -	\$ -	\$ 14,220,152
Common stock - foreign	2,350,942	-	-	2,350,942
Fixed income securities				
U.S. Government obligations	1,256,638	-	-	1,256,638
Corporate obligations	-	953,093	-	953,093
Foreign government obligations	-	39,900	-	39,900
Mutual funds				
Money market	822,159	-	-	822,159
Fixed income	487,329	-	-	487,329
Equities	157,539	-	-	157,539
Alternative investments	<u>-</u>	<u>-</u>	<u>7,879,497</u>	<u>7,879,497</u>
Total investments reported on the fair value hierarchy	<u>\$ 19,294,759</u>	<u>\$ 992,993</u>	<u>\$ 7,879,497</u>	28,167,249
Cash and cash equivalents				<u>78,255</u>
				<u>\$ 28,245,504</u>

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

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

## NOTE 3 - INVESTMENTS (continued)

	June 30, 2016			Total
	Level 1	Level 2	Level 3	
Investments at fair value				
Common stock - domestic	\$ 6,947,613	\$ -	\$ -	\$ 6,947,613
Common stock - foreign	1,676,458	-	-	1,676,458
Fixed income securities				
U.S. Government obligations	575,177	-	-	575,177
Corporate obligations	-	3,206,840	-	3,206,840
Foreign government obligations	-	39,900	-	39,900
Mutual funds				
Money market	2,492,607	-	-	2,492,607
Fixed income	464,676	-	-	464,676
Equities	136,180	-	-	136,180
Alternative investments	-	-	7,903,812	7,903,812
Total investments reported on the fair value hierarchy	<u>\$ 12,292,711</u>	<u>\$ 3,246,740</u>	<u>\$ 7,903,812</u>	23,443,263
Cash and cash equivalents				<u>121,555</u>
				<u>\$ 23,564,818</u>

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.

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

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017 AND 2016**

**NOTE 3 - INVESTMENTS (continued)**

The following table summarizes investments measured at fair value using NAV as a practical expedient as of June 30, 2017 and 2016:

	<u>Fair Value 2017</u>	<u>Fair Value 2016</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
King Street Capital, Ltd. (a) Taconic Opportunity Offshore Fund (b)	\$ 2,109,221	\$ 2,812,915	Quarterly	65 days
Mason Capital, Ltd. (c)	-	21,183	Quarterly	45 days
Riva Ridge Overseas Fund (d) Corre Partners Management, LLC (e)	1,331,430	1,289,380	Quarterly	90 days
Valinor Capital Partners Offshore, Ltd. (f)	1,231,549	1,020,251	Quarterly	90 days
	<u>1,825,531</u>	<u>1,515,705</u>	Quarterly	60 days
	<u>\$ 7,879,497</u>	<u>\$ 7,903,812</u>		

There were no unfunded commitments at June 30, 2017 and 2016.

- (a) King Street Capital, Ltd.: 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, Ltd.: 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. Redemptions are limited to once a year, beginning the date of the last redemption. As of June 30, 2017 this position was closed.
- (d) Riva Ridge Overseas 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.

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

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017 AND 2016**

**NOTE 3 - INVESTMENTS (continued)**

- (e) Corre Partners Management, LLC: Deep value, event driven funds that aim to achieve equity-like returns while taking less risk by investing across the capital structure. The fair value is estimated with the net asset value per share of the investment. Investors may also be charged a redemption fee of 5% of the amount redeemed if the redemption is not made at least one year from the date of purchase.
- (f) Valinor Capital Partners Offshore, Ltd. (Valinor): Valinor's investment objective, is to generate long-term, superior, risk-adjusted returns by investing primarily in publicly traded equity securities. Valinor will seek to achieve the investment objective by employing a strict fundamentals-based investment strategy. Valinor will generally invest in companies that it believes are trading at a discount to their intrinsic value and will cause the fund to short companies that the fund believes are trading at a premium to the intrinsic values. The fair value is estimated with the net asset value per share of the investment. Shares may be redeemed, in whole or in part, on the first quarter end occurring on or after the first anniversary of each investment and each one year anniversary thereafter.

***Level 3 Gains and Losses***

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

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 7,903,812	\$ 5,748,311
Sales	(914,430)	(393,000)
Purchases	-	3,000,000
Unrealized gains (losses) relating to instruments still held at the reporting date	<u>890,115</u>	<u>(451,499)</u>
Balance, end of year	<u>\$ 7,879,497</u>	<u>\$ 7,903,812</u>

There were no unfunded commitments at June 30, 2017 and 2016.

Investment income (loss):

	<u>2017</u>	<u>2016</u>
Dividends and interest	\$ 282,128	\$ 223,780
Realized and unrealized gains (losses)	<u>2,710,485</u>	<u>(733,444)</u>
	<u>\$ 2,992,613</u>	<u>\$ (509,664)</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017 AND 2016**

**NOTE 4 - BUILDING AND EQUIPMENT**

	<u>2017</u>	<u>2016</u>	
Building improvements	\$ 28,199,869	\$ 26,969,746	50 years
Furniture and equipment	3,650,307	3,513,071	2-10 years
Computer equipment	708,010	680,499	3-5 years
Leasehold improvements	64,506	64,506	10 years
Construction in progress	<u>135,682</u>	<u>556,297</u>	
	32,758,374	31,784,119	
Accumulated depreciation	(9,640,543)	(8,740,183)	
Accumulated amortization	<u>(52,246)</u>	<u>(45,795)</u>	
Net	<u>\$ 23,065,585</u>	<u>\$ 22,998,141</u>	

**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%. Contributions and grants receivable consist of the following:

2018	\$ 1,467,580
2019	<u>716,206</u>
	2,183,786
Less present value discount	<u>(20,860)</u>
	2,162,926
Less allowance for uncollectible accounts	<u>(48,500)</u>
Net	<u>\$ 2,114,426</u>

The allowance for uncollectible accounts was \$93,500 at June 30, 2016.

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

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017 AND 2016**

**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, 2017 and 2016 were \$674,882 and \$690,148, 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		FIP/RP Status	Contributions		Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
		Zone Status		Pending/ Implemented	2017	2016		
		2017	2016					
The Cultural Institutions Pension Plan	EIN 11-2001170/ 001	Green*	Green	N/A	\$674,882	\$690,148	No	June 30, 2020

\* As of the date the financial statements were issued, Form 5500 was not available for the Plan's year end of June 30, 2017.

The Plan was certified to be in "green zone" status as of July 1, 2017.

**NOTE 7 - OPERATING LEASE**

The Museum leases warehouse space to house part of its permanent collection under a 14-year lease which will expire September 30, 2028. Rental expense (including surcharges for utilities and maintenance) related to the warehouse lease was \$392,260 and \$384,404 in fiscal years 2017 and 2016, respectively.

Future minimum payments under the lease are as follows:

2018	\$ 274,836
2019	284,455
2020	294,411
2021	304,716
2022	315,381
Thereafter	<u>2,235,841</u>
Total future minimum lease payments	<u>\$ 3,709,640</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017 AND 2016**

**NOTE 7 - OPERATING LEASE (continued)**

The Museum also leases office equipment from different vendors with maturity dates through July 31, 2019. Rent expense related to leased equipment was \$30,649 in 2017 and \$28,112 in 2016.

Future minimum payments under these leases are as follows:

2018	\$ 23,900
2019	22,320
2020	<u>1,860</u>
Total future minimum lease payments	<u>\$ 48,080</u>

**NOTE 8 - RESTRICTED NET ASSETS**

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

	<u>2017</u>	<u>2016</u>
Capital improvements	\$ 683,574	\$ 2,189,123
Collections, exhibitions and programs	<u>6,598,695</u>	<u>14,027,215</u>
	<u>\$ 7,282,269</u>	<u>\$ 16,216,338</u>

Temporarily restricted net assets of \$11,647,515 and \$8,922,370 in 2017 and 2016, 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>2017</u>	<u>2016</u>
Capital improvement	\$ 1,566,906	\$ 1,198,276
Collections, exhibitions and programs	<u>10,080,609</u>	<u>7,724,094</u>
	<u>\$ 11,647,515</u>	<u>\$ 8,922,370</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017 AND 2016**

**NOTE 8 - RESTRICTED NET ASSETS (continued)**

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

	<u>2017</u>	<u>2016</u>
Louis Auchincloss Prize Endowment	\$ 616,126	\$ 579,352
Frederick AO Schwarz Family Endowment	1,645,127	1,533,534
Hearst Foundation - Education	264,508	250,429
Laura and Ray Johnson Fund	1,280,202	1,280,202
Mary Flagler Cary Endowment	100,000	100,000
Grace Mayer Conservation Fund	250,000	250,000
Charles E. Merrill - Education	50,000	50,000
Mary and Donald Oenslager Fund	200,000	200,000
Gallery Programming - Puffin Foundation	1,029,138	929,763
John and Barbara Robinson Fund - Education	1,131,400	1,005,019
Ronay Menschel Director/CEO of the Museum of the City of New York Endowment	2,864,615	2,682,591
Evelyn Spitalny - Music in Museum Concerts	27,619	24,081
Robert Jeffe - lecture series	261,750	250,000
Thompson Family Foundation Endowment - Education	<u>10,648,544</u>	<u>-</u>
	<u>\$ 20,369,029</u>	<u>\$ 9,134,971</u>

**Endowment Funds**

***General***

The Museum has 14 donor-restricted endowment funds established to help fund various projects at the Museum. In addition, the Museum has a board-designated endowment fund to support its operations. 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.

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**MUSEUM OF THE CITY OF NEW YORK, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2017 AND 2016****NOTE 8 - RESTRICTED NET ASSETS (continued)*****Endowment Funds (continued)******Interpretation of Relevant Law***

The Board of Trustees of the Museum 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 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 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 and losses, net of investment fees, be added to the corpus of the endowment funds and have established criteria different from the Museum’s spending rate formula of 5% of the prior 5-year average balance as measured on a quarterly basis.

***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, 2017 AND 2016

## NOTE 8 - RESTRICTED NET ASSETS (continued)

*Endowment Funds (continued)**Endowment Net Asset Composition by Type of Fund as of June 30, 2017*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 456,056	\$ 20,369,029	\$ 20,825,085
Board-designated endowment funds	<u>4,474,660</u>	<u>-</u>	<u>-</u>	<u>4,474,660</u>
Total	<u>\$ 4,474,660</u>	<u>\$ 456,056</u>	<u>\$ 20,369,029</u>	<u>\$ 25,299,745</u>

*Endowment Net Asset Composition by Type of Fund as of June 30, 2016*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 325,135	\$ 9,134,971	\$ 9,460,106
Board-designated endowment funds	<u>4,346,219</u>	<u>-</u>	<u>-</u>	<u>4,346,219</u>
Total	<u>\$ 4,346,219</u>	<u>\$ 325,135</u>	<u>\$ 9,134,971</u>	<u>\$ 13,806,325</u>

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

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

## NOTE 8 - RESTRICTED NET ASSETS (continued)

*Endowment Funds (continued)**Changes in Endowment Net Assets for the Year Ended June 30, 2017*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ <u>4,346,219</u>	\$ <u>325,135</u>	\$ <u>9,134,971</u>	\$ <u>13,806,325</u>
Contributions			10,000,000	10,000,000
Transfers to board- designated fund	<u>500,000</u>			<u>500,000</u>
Investment return				
Dividends and interest	29,608	20,924	85,467	135,999
Realized and unrealized gains	<u>556,405</u>	<u>251,997</u>	<u>1,422,603</u>	<u>2,231,005</u>
Total investment return	<u>586,013</u>	<u>272,921</u>	<u>1,508,070</u>	<u>2,367,004</u>
Appropriation of endowment assets for expenditures	<u>(957,572)</u>	<u>(142,000)</u>		<u>(1,099,572)</u>
Releases from restrictions			<u>(274,012)*</u>	<u>(274,012)</u>
Endowment net assets, end of year	\$ <u>4,474,660</u>	\$ <u>456,056</u>	\$ <u>20,369,029</u>	\$ <u>25,299,745</u>

\* This amount comprises the following:

\$35,000 was released from the Louis Auchincloss Prize Endowment to general operations.

\$16,277 was released from the Hearst Foundation - Education endowment to general operations.

\$146,064 was released from the Ronay Menschel Director/CEO of the Museum of the City of New York Endowment to general operations.

\$76,671 was released from the Frederick AO Schwarz Family Endowment to general operations.

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

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

## NOTE 8 - RESTRICTED NET ASSETS (continued)

*Endowment Funds (continued)**Changes in Endowment Net Assets for the Year Ended June 30, 2016*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ <u>937,706</u>	\$ <u>792,321</u>	\$ <u>9,422,762</u>	\$ <u>11,152,789</u>
Contributions			250,000	250,000
Transfers to board- designated fund	<u>3,500,000</u>			<u>3,500,000</u>
Investment return				
Dividends and interest	18,926	17,534	47,124	83,584
Realized and unrealized losses	<u>(110,413)</u>	<u>(76,978)</u>	<u>(293,355)</u>	<u>(480,746)</u>
Total investment return	<u>(91,487)</u>	<u>(59,444)</u>	<u>(246,231)</u>	<u>(397,162)</u>
Appropriation of endowment assets for expenditures		<u>(407,742)</u>		<u>(407,742)</u>
Releases from restrictions			<u>(291,560)*</u>	<u>(291,560)</u>
Endowment net assets, end of year	\$ <u>4,346,219</u>	\$ <u>325,135</u>	\$ <u>9,134,971</u>	\$ <u>13,806,325</u>

\* This amount comprises the following:

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

\$17,872 was released from the Hearst Foundation - Education endowment to general operations.

\$148,019 was released from the Ronay Menschel Director/CEO of the Museum of the City of New York Endowment to general operations.

\$82,801 was released from the Frederick AO Schwarz Family Endowment to general operations.

\$17,868 was released from the Puffin Foundation Endowment to general operations.

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**MUSEUM OF THE CITY OF NEW YORK, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2017 AND 2016****NOTE 8 - RESTRICTED NET ASSETS (continued)*****Endowment Funds (continued)***

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

Certain permanently restricted funds permitted release based on donor-specified criteria. \$274,012 and \$291,560 were released from restriction in 2017 and 2016, respectively.

**NOTE 9 - EXPANSION**

The City of New York has advised the Museum that they have paid \$1,334,505 in 2017 and \$4,389,209 in 2016 to improve the facility.

**NOTE 10 - 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 11 - SALE OF COLLECTION MATERIAL**

In 2017 and 2016, 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 2017 and 2016. The net proceeds were \$28,770 and \$94,575 in 2017 and 2016, respectively.