



THE BROOKLYN ACADEMY OF MUSIC, INC.

Financial Statements
(Together with Independent Auditors' Report)

Years Ended June 30, 2017 and 2016

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

THE BROOKLYN ACADEMY OF MUSIC, INC.

FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

YEARS ENDED JUNE 30, 2017 AND 2016

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities.....	3
Statements of Functional Expenses.....	4-5
Statements of Cash Flows.....	6
Notes to Financial Statements.....	7-14

INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
The Brooklyn Academy of Music, Inc.

We have audited the accompanying financial statements of The Brooklyn Academy of Music, Inc. ("BAM") which comprise the statements of financial position 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.

Auditors' 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 of 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 The Brooklyn Academy of Music, 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.

Marks Paneth LLP

New York, NY
December 13, 2017

THE BROOKLYN ACADEMY OF MUSIC, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
Cash and cash equivalents (Notes 2C, 8A and 15)	\$ 1,214,620	\$ 800,429
Accounts and other receivables (Note 2J)	407,686	382,470
Government receivables, net (Note 2J)	3,572,920	2,166,702
Pledges receivable, net (Notes 2F, 2J and 4)	8,993,299	14,968,641
Prepaid expenses and other current assets (Note 9)	1,375,817	1,379,098
Property and equipment, net (Notes 2G and 5)	18,964,648	17,945,456
Beneficial interest in BAM Endowment Trust (Notes 2K, 6, 10, 11 and 15)	95,779,598	91,574,003
TOTAL ASSETS	\$ 130,308,588	\$ 129,216,799
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses, net (Note 9)	\$ 4,880,255	\$ 6,167,410
Due to BAM Endowment Trust (Note 6)	25,000	975,000
Line of credit (Note 7)	-	1,750,000
Deferred revenue (Note 2D)	1,008,963	1,152,651
TOTAL LIABILITIES	5,914,218	10,045,061
COMMITMENTS AND CONTINGENCIES (Notes 7 and 14)		
NET ASSETS (Note 2E):		
Unrestricted:		
General operations	(1,288,487)	(1,128,340)
Cultural Institutions Retirement System (Note 9)	(1,670,602)	(1,925,066)
Net investment in property and equipment (Notes 2G and 5)	18,274,030	17,136,534
Total unrestricted	15,314,941	14,083,128
Temporarily restricted (Note 11)	24,404,877	20,567,411
Permanently restricted (Note 10)	84,674,552	84,521,199
TOTAL NET ASSETS	124,394,370	119,171,738
TOTAL LIABILITIES AND NET ASSETS	\$ 130,308,588	\$ 129,216,799

THE BROOKLYN ACADEMY OF MUSIC, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016
OPERATING ACTIVITIES (Note 2L):								
OPERATING REVENUE:								
Support:								
Special events revenue (Note 2H)	\$ 2,795,151	\$ 40,000	\$ -	\$ 2,835,151	\$ 1,292,765	\$ 123,000	\$ -	\$ 1,415,765
Less: direct special event expenses	(211,785)	-	-	(211,785)	(188,689)	-	-	(188,689)
Special events, net	2,583,366	40,000	-	2,623,366	1,104,076	123,000	-	1,227,076
The City of New York (Note 12)	3,049,229	-	-	3,049,229	2,948,626	-	-	2,948,626
New York State	-	-	-	-	27,383	174,500	-	201,883
Federal government	1,078,504	40,000	-	1,118,504	972,908	50,000	-	1,022,908
Private sector (Notes 2H and 3)	15,947,344	3,444,147	-	19,391,491	19,757,594	3,911,071	-	23,668,665
Distribution from BAM Endowment Trust (Note 6)	8,598,441	-	-	8,598,441	4,359,525	-	-	4,359,525
Net assets released from restrictions (Note 11)	3,051,846	(3,051,846)	-	-	7,401,043	(7,401,043)	-	-
Total Support	<u>34,308,730</u>	<u>472,301</u>	<u>-</u>	<u>34,781,031</u>	<u>36,571,155</u>	<u>(3,142,472)</u>	<u>-</u>	<u>33,428,683</u>
Earned Revenue:								
Performance and co-presenter income	11,295,787	-	-	11,295,787	14,635,865	-	-	14,635,865
BAM Rose Cinema	3,579,184	-	-	3,579,184	4,064,544	-	-	4,064,544
Rentals, BAMart sales, interest and other income	2,430,939	-	9	2,430,948	3,042,420	-	348	3,042,768
Total Earned Revenue	<u>17,305,910</u>	<u>-</u>	<u>9</u>	<u>17,305,919</u>	<u>21,742,829</u>	<u>-</u>	<u>348</u>	<u>21,743,177</u>
TOTAL OPERATING REVENUE	<u>51,614,640</u>	<u>472,301</u>	<u>9</u>	<u>52,086,950</u>	<u>58,313,984</u>	<u>(3,142,472)</u>	<u>348</u>	<u>55,171,860</u>
OPERATING EXPENSE:								
Program services	39,833,574	-	-	39,833,574	47,336,702	-	-	47,336,702
Management and general	4,017,658	-	-	4,017,658	4,031,947	-	-	4,031,947
Fundraising	6,915,595	-	-	6,915,595	7,260,953	-	-	7,260,953
TOTAL OPERATING EXPENSE (Note 13)	<u>50,766,827</u>	<u>-</u>	<u>-</u>	<u>50,766,827</u>	<u>58,629,602</u>	<u>-</u>	<u>-</u>	<u>58,629,602</u>
RESULTS FROM OPERATIONS	<u>847,813</u>	<u>472,301</u>	<u>9</u>	<u>1,320,123</u>	<u>(315,618)</u>	<u>(3,142,472)</u>	<u>348</u>	<u>(3,457,742)</u>
NON-OPERATING ACTIVITIES (Note 2L):								
Depreciation and amortization expense (Note 5)	(1,960,295)	-	-	(1,960,295)	(1,978,143)	-	-	(1,978,143)
Net assets released from restriction for capital projects (Note 11)	687,086	(687,086)	-	-	1,059,263	(1,059,263)	-	-
New York City Economic Development Corporation capital grant	1,637,921	-	-	1,637,921	1,445,663	-	-	1,445,663
Increase (decrease) in beneficial interest in BAM Endowment Trust (Note 6)	-	4,052,251	153,344	4,205,595	-	(8,452,268)	679,843	(7,772,425)
TOTAL NON-OPERATING ACTIVITIES	<u>364,712</u>	<u>3,365,165</u>	<u>153,344</u>	<u>3,883,221</u>	<u>526,783</u>	<u>(9,511,531)</u>	<u>679,843</u>	<u>(8,304,905)</u>
CHANGE IN NET ASSETS BEFORE PENSION RELATED CHANGES	1,212,525	3,837,466	153,353	5,203,344	211,165	(12,654,003)	680,191	(11,762,647)
Cultural Institutions Retirement System (Note 9)	19,288	-	-	19,288	(132,183)	-	-	(132,183)
CHANGE IN TOTAL NET ASSETS	1,231,813	3,837,466	153,353	5,222,632	78,982	(12,654,003)	680,191	(11,894,830)
Net Assets - Beginning of Year	14,083,128	20,567,411	84,521,199	119,171,738	14,004,146	33,221,414	83,841,008	131,066,568
NET ASSETS - END OF YEAR	<u>\$ 15,314,941</u>	<u>\$ 24,404,877</u>	<u>\$ 84,674,552</u>	<u>\$ 124,394,370</u>	<u>\$ 14,083,128</u>	<u>\$ 20,567,411</u>	<u>\$ 84,521,199</u>	<u>\$ 119,171,738</u>

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

THE BROOKLYN ACADEMY OF MUSIC, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

FOR THE YEAR ENDED JUNE 30, 2016

	PROGRAM SERVICES												SUPPORTING SERVICES			Total Expenses 2016		
	Next Wave	Theater	Opera	Dance	Dance Africa	Music	Education	Ancillary	Rose Cinema	Rentals	Programming & General Management	Marketing	Operations	Total Program Services	Management & General		Fundraising	Total Supporting Services
SALARIES AND BENEFITS:																		
Salaries and other personnel costs	\$ 2,217,285	\$ 1,902,696	\$ 305,544	\$ 459,521	\$ 167,855	\$ 197,070	\$ 1,484,065	\$ 348,742	\$ 1,459,077	\$ 1,233,004	\$ 5,711,126	\$ 3,911,814	\$ -	\$ 19,397,799	\$ 2,357,591	\$ 3,907,965	\$ 6,265,556	\$ 25,663,355
Payroll taxes and employee benefits	874,356	779,243	142,205	176,685	70,378	84,808	507,414	127,852	385,704	412,737	1,420,399	1,270,307	-	6,252,088	577,889	1,039,170	1,617,059	7,869,147
Total Salaries and Benefits	3,091,641	2,681,939	447,749	636,206	238,233	281,878	1,991,479	476,594	1,844,781	1,645,741	7,131,525	5,182,121	-	25,649,887	2,935,480	4,947,135	7,882,615	33,532,502
OTHER EXPENSES:																		
Company and artist fees	2,174,662	1,883,847	436,160	648,145	40,100	570,133	257,823	458,093	15,000	-	-	-	-	6,483,963	-	25,655	25,655	6,509,618
Production expenses	421,560	1,304,091	59,874	139,274	41,070	43,298	72,560	383,907	113,831	39,236	66,039	16,483	71,716	2,772,939	8,205	44,941	53,146	2,826,085
Travel, hotel and per diem	544,878	889,589	383,276	462,917	94,442	28,591	105,421	210,383	53,304	3,936	18,821	8,830	15,396	2,819,784	20,447	40,653	61,100	2,880,884
Freight	136,579	20,944	57,945	32,787	6,033	1,103	10,483	8,295	500	6,443	3,120	-	4,905	289,137	-	1,843	1,843	290,980
Consultants and production fees	88,486	100,048	71,068	7,123	43,000	-	468,378	128,145	61,079	2,172	143,551	95,214	79,909	1,288,173	72,398	93,639	166,037	1,454,210
Professional fees	-	-	-	9,000	6,500	-	-	450	-	-	850	28,765	830	46,395	209,644	-	209,644	256,039
Advertising and promotion	719,213	873,071	-	4,858	56,372	42,712	145,335	86,101	246,620	535	5,992	112,617	990	2,294,416	4,259	332,997	337,256	2,631,672
Film rental	-	-	-	-	-	-	2,814	2,641	1,510,527	-	-	-	-	1,515,982	-	-	-	1,515,982
Cinema concessions	-	-	-	-	-	-	13,592	-	136,191	5,440	-	-	-	155,223	108	-	108	155,331
Hospitality and special events	114	6,638	133	6,826	8,094	2,250	95,229	46,965	85,089	7,128	19,225	1,470	2,875	282,036	28,649	667,195	695,844	977,880
Patron services	-	-	-	48	-	-	678	328	370	-	1,079	5,643	733	8,879	2,427	35,093	37,520	46,399
Human resources and personnel training	-	-	-	2,000	170	-	1,150	-	-	-	10,300	17,261	38,765	69,646	117,179	1,470	118,649	188,295
Occupancy costs	-	-	-	7	15	-	-	-	-	-	-	-	833,851	833,873	-	1,375	1,375	835,248
Building maintenance	-	-	-	-	30,519	-	-	7,545	7,337	3,393	367	664	723,456	773,281	167	22,462	22,629	795,910
Computers, service, supplies	-	-	-	876	-	-	3,839	22,776	441	-	4,896	54,481	436,045	523,354	11,155	21,586	32,741	556,095
Telecommunications	-	-	-	1,182	-	-	2,710	35	1,490	-	6,874	1,940	141,795	156,026	1,753	2,505	4,258	160,284
Office supplies	-	-	-	4,867	-	-	21,199	1,032	40,319	517	257,554	36,059	118,228	479,775	10,159	23,219	33,378	513,153
Postage and shipping	61,444	57,402	162	1,492	5,284	268	10,942	8,213	76,310	307	9,877	20,964	5,037	257,702	6,981	106,182	113,163	370,865
Insurance expense	8,885	9,546	582	1,313	2,004	1,467	4,945	5,206	26,096	5,927	-	(97)	(5,152)	60,722	158,872	-	158,872	219,594
Bank and other finance charges	73	-	-	563	-	-	-	55	-	-	-	-	47	738	200,651	102	200,753	201,491
Bad debts	-	733	-	-	-	-	470	-	-	-	-	958	-	2,161	15,466	327,760	343,226	345,387
Organizational contributions	-	-	-	-	-	-	-	2,500	-	-	759	-	-	3,259	859	1,262	2,121	5,380
Miscellaneous	133,490	173,321	18,788	42,151	33,414	31,789	26,765	36,886	120,223	3,783	97,006	57,844	329,237	1,104,697	34,308	221,313	255,621	1,360,318
Operations allocation	370,631	401,771	74,103	100,510	30,392	50,389	162,483	94,711	217,904	86,597	390,557	283,269	(2,798,663)	(535,346)	192,780	342,566	535,346	-
Total expenses before depreciation and direct expenses for special events	7,751,656	8,402,940	1,549,840	2,102,145	635,642	1,053,878	3,398,295	1,980,861	4,557,412	1,811,155	8,168,392	5,924,486	-	47,336,702	4,031,947	7,260,953	11,292,900	58,629,602
Depreciation expense and amortization	261,968	283,979	52,377	71,042	21,482	35,616	114,846	66,943	154,019	61,208	276,052	200,219	-	1,599,751	136,260	242,132	378,392	1,978,143
Direct expenses for special events	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	188,689	188,689	188,689
Total Expenses	\$ 8,013,624	\$ 8,686,919	\$ 1,602,217	\$ 2,173,187	\$ 657,124	\$ 1,089,494	\$ 3,513,141	\$ 2,047,804	\$ 4,711,431	\$ 1,872,363	\$ 8,444,444	\$ 6,124,705	\$ -	\$ 48,936,453	\$ 4,168,207	\$ 7,691,774	\$ 11,859,981	\$ 60,796,434

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

THE BROOKLYN ACADEMY OF MUSIC, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 5,222,632	\$ (11,894,830)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,960,295	1,978,143
Loss on disposal of property and equipment	28,633	258,409
(Increase) decrease in beneficial interest in BAM Endowment Trust	(4,205,595)	7,772,425
Bad debt expense	145,022	345,387
Change in discount on pledges receivable	(19,245)	(181,564)
Interest - permanently restricted	(9)	(348)
Subtotal	3,131,733	(1,722,378)
(Increase) decrease in assets:		
Accounts and other receivables	(25,216)	622,161
Government receivables	(1,406,218)	(1,441,968)
Pledges receivable	5,849,565	1,925,353
Prepaid expenses and other current assets	3,281	208,851
(Decrease) increase in liabilities:		
Accounts payable and accrued expenses	(1,287,155)	406,281
Due to BAM Endowment Trust	(950,000)	843,194
Deferred revenue	(143,688)	134,113
Net Cash Provided by Operating Activities	5,172,302	975,607
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of property and equipment	(3,008,120)	(3,555,876)
Net Cash Used in Investing Activities	(3,008,120)	(3,555,876)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on line of credit	-	1,750,000
Repayments on line of credit	(1,750,000)	-
Interest - permanently restricted	9	348
Net Cash (Used in) Provided by Financing Activities	(1,749,991)	1,750,348
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	414,191	(829,921)
Cash and cash equivalents - beginning of the year	800,429	1,630,350
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,214,620	\$ 800,429

THE BROOKLYN ACADEMY OF MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

The Brooklyn Academy of Music, Inc. (“BAM”), founded in 1861, is a not-for-profit performing arts center located in the Fort Greene section of Brooklyn, New York. The primary mission of BAM is to be the home for adventurous artists, audiences and ideas.

BAM is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code, and similar provisions at the New York State and City level.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. **Basis of Accounting** – The financial statements of BAM have been prepared on the accrual basis of accounting. BAM adheres to accounting principles generally accepted in the United States of America (“U.S. GAAP”).
- B. **Use of Estimates** – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures at the date of the financial statements. Actual results could differ from those estimates.
- C. **Cash and Cash Equivalents** – BAM considers all highly liquid investments with a maturity of three months or less when purchased, to be cash equivalents. BAM has established a working capital reserve fund to be utilized to relieve cash shortfalls within the operating cycle.
- D. **Deferred Revenue** – BAM receives advances for ticket sales and records these sales as deferred revenue.
- E. **Net Assets** – BAM accounts for and reports its net assets based upon the existence or absence of donor-imposed restrictions. Unrestricted net assets include BAM’s net investment in property and equipment. Temporarily restricted net assets are those whose donor-imposed restrictions as to a specific purpose or time have not been met. Permanently restricted net assets are those with donor-imposed restrictions on the corpus of the gifts specifying they be maintained in perpetuity. Certain of the permanently restricted net assets require that earnings be restricted permanently. However, they do provide for BAM to access such earnings for short-term working capital needs provided such funds are restored within specified time periods as further discussed in Note 10. Unrestricted net assets include all resources that are not subject to donor-imposed restrictions. Temporarily restricted net assets that have been both earned and have had their restrictions met in the current year are recorded as unrestricted net assets.
- F. **Pledges Receivable** – Pledges are recorded as revenue when the pledge is made. BAM discounts long-term pledges using a risk-adjusted interest rate (ranging from 1.2% to 2.8%) for the expected term of the promise to give applicable to the years in which the pledges are received. As of June 30, 2017 and 2016, the discount on pledges receivable amounted to \$258,193 and \$277,438, respectively.
- G. **Property and Equipment** – Property and equipment is recorded at cost. Such amounts do not purport to represent replacement values. BAM capitalizes property and equipment, provided such acquisitions are \$10,000 or more and have a useful life of more than one year. Depreciation is recognized using the straight-line method over the estimated useful lives of the respective assets. Amortization of leasehold improvements is charged at the lesser of the life of the improvements or the lease.

The range of estimated useful lives follows:

Furniture and equipment	3-25 years
Capital additions and leasehold improvements	5-25 years
Commercial condominium	40 years

THE BROOKLYN ACADEMY OF MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- H. **Contributions in-Kind** – BAM records contributed goods and services at their fair value on the date of receipt. Donated goods and services amounted to \$262,832 and \$477,106 for the years ended June 30, 2017 and 2016, respectively. Donated goods for the years ended June 30, 2017 and 2016 include: floral décor, rental pianos, furniture, beverages, food, and gifts for attendees of special events, amounting to \$260,432 and \$386,246, respectively. Donated services for the years ended June 30, 2017 and 2016 include: consulting and DJ services, amounting to \$2,400 and \$90,860, respectively. These donations are reflected under private sector support at \$246,470 and \$435,488 and special events of \$16,362 and \$41,618 in the accompanying statements of activities for the years ended June 30, 2017 and 2016, respectively. BAM has three facilities in Brooklyn in which it carries out its activities. These facilities are provided at a nominal charge by The City of New York (“the City”) through long-term leases or license agreements. BAM, like many cultural institutions, does not reflect the value of the use of the long-lived assets as contributions in-kind, since to do so would be impracticable.
- I. **Allocation of Expenses** – The costs of program and supporting services have been summarized on a functional basis (excluding depreciation and amortization and direct expenses for special events) in the statements of activities. Certain indirect costs have been allocated by management between program and supporting services based on a percentage of direct program expenses. Note 13 provides expenses by functional category inclusive of depreciation and amortization.
- J. **Allowance for Doubtful Accounts** – BAM’s management evaluates the need for an allowance for doubtful accounts applicable to its accounts based on various factors including an assessment of the creditworthiness of its donors, agings of the amounts due and historical experience. As of June 30, 2017 and 2016, BAM’s management determined that no allowance for pledges receivable, accounts and other receivables was necessary. BAM’s management also determined that an allowance for doubtful accounts of \$25,000 and \$46,135 was necessary for government receivables as of June 30, 2017 and 2016, respectively.
- K. **Fair Value** – Fair value measurements are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels, as described in Note 15.
- L. **Operating and Non-Operating Activities** – BAM’s non-operating activities include: depreciation and amortization, capital grants and the change in value of its beneficial interest in the BAM Endowment Trust.

NOTE 3 – PRIVATE SECTOR SUPPORT

Private sector support consisted of the following for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Corporations	\$ 1,940,930	\$ 3,260,577
Foundations	13,003,168	11,432,443
Individuals	4,181,678	8,358,593
Donated goods and services	246,470	435,488
Change in net present value discount	<u>19,245</u>	<u>181,564</u>
Total private sector support	<u>\$ 19,391,491</u>	<u>\$ 23,668,665</u>

THE BROOKLYN ACADEMY OF MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 4 – PLEDGES RECEIVABLE

Pledges receivable due in more than one year are recorded at the net present value, determined using a discount rate commensurate with the rate on U.S. Treasury Bills. The discount rates range from 1.2 percent to 2.8 percent. Amortization of the discount is reflected as contribution revenue in the accompanying financial statements. Restricted pledges are reported as additions to the appropriate restricted net asset balances.

Pledges from various corporations, foundations and individuals consisted of the following as of June 30:

	<u>2017</u>	<u>2016</u>
Pledges due:		
Within one year	\$ 5,003,572	\$ 7,814,254
In one to five years	4,047,920	7,181,825
In five to ten years	<u>200,000</u>	<u>250,000</u>
Gross pledges receivable	9,251,492	15,246,079
Discount for net present value	<u>(258,193)</u>	<u>(277,438)</u>
Net pledges receivable	<u>\$ 8,993,299</u>	<u>\$ 14,968,641</u>

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30:

	<u>2017</u>	<u>2016</u>
General construction in progress	\$ 7,233,541	\$ 5,174,824
Capital additions and leasehold improvements	14,853,730	16,850,628
Furniture and equipment	4,461,161	5,242,194
Marquee	301,192	301,192
Works of art	250,000	250,000
Commercial condominium	<u>2,455,533</u>	<u>2,455,533</u>
Total cost	29,555,157	30,274,371
Less: accumulated depreciation and amortization	<u>(10,590,509)</u>	<u>(12,328,915)</u>
Net book value	<u>\$ 18,964,648</u>	<u>\$ 17,945,456</u>

Depreciation and amortization expense for the years ended June 30, 2017 and 2016 amounted to \$1,960,295 and \$1,978,143, respectively. During the year ended June 30, 2017, BAM disposed of fixed assets, some of which were fully depreciated amounting to \$3,727,334. As a result of disposal, BAM recognized a loss on disposal amounting to \$28,633 and \$258,409 for the years ended June 30, 2017 and 2016, respectively.

Included in construction in progress as of June 30, 2017 and 2016, was general operating improvements to various BAM facilities as well as the Fulton Street Redevelopment Project. Construction is expected to be completed by October 2019 with an estimated cost of \$34 million.

NOTE 6 – BENEFICIAL INTEREST BAM ENDOWMENT TRUST

BAM Endowment Trust (“BET”) was incorporated as a tax-exempt organization in 1992 to operate exclusively for the benefit and purposes of BAM. The endowment campaign of BET raises permanently restricted contributions that generate investment earnings. An annual distribution of BET’s investment income is made to BAM. All BET financial activity is maintained in a separate corporation with independently audited financial statements. The by-laws of BET state that the majority of its Board members cannot be affiliated with BAM’s Board of Trustees.

**THE BROOKLYN ACADEMY OF MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 6 – BENEFICIAL INTEREST IN BAM ENDOWMENT TRUST (Continued)

Since BAM and BET are financially interrelated organizations, in that the certificate of incorporation and bylaws of BET limit its activities to those that are beneficial to BAM and BAM has an ongoing economic interest in the net assets of BET, BAM recognizes its interest in the change in the net assets of BET as increases or decreases in BAM's restricted net assets.

BET adheres to the New York Prudent Management of Institutional Funds Act ("NYPMIFA"). BET recognizes that NYPMIFA permits the Board of Trustees to appropriate for expenditure all earnings of endowment funds (both realized and unrealized) with a presumption of prudence to a ceiling of 7% annually based on a quarterly rolling five year average of such endowment funds.

The Board of Trustees of BAM has interpreted NYPMIFA as allowing BAM to appropriate for expenditure or accumulate so much of an endowment fund as BAM determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. See Note 2E for the accounting treatment of net assets.

BAM's interest in the resources held by BET changed as follows during the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Beneficial interest, beginning of year	\$ 91,574,003	\$ 99,346,428
Change in BET permanently restricted net assets	153,344	679,843
Change in BET temporarily restricted net assets	<u>4,052,251</u>	<u>(8,452,268)</u>
Beneficial interest, end of year	<u>\$ 95,779,598</u>	<u>\$ 91,574,003</u>

The unrestricted and temporarily restricted earnings held by BET are temporarily restricted by BAM, since BAM cannot determine the timing and amount of the distribution from BET.

BAM owes BET \$25,000 and \$975,000 representing funds temporarily held in BAM as of June 30, 2017 and 2016, respectively. During the years ended June 30, 2017 and 2016, BAM received a management fee of \$200,000 for services performed on behalf of BET by BAM employees.

During the years ended June 30, 2017 and 2016, BET appropriated \$8,598,441 and \$4,359,525, respectively, as the distribution to BAM. This amount is reflected as revenue in the accompanying statements of activities.

NOTE 7 – LINE OF CREDIT

BAM has a line of credit with a bank in the amount of \$3,900,000 as of June 30, 2017. Loan proceeds obtained under this agreement are to be used to finance working capital. The line of credit bears interest at LIBOR plus .50 percent. Amounts which may be drawn down from the line of credit are subject to limitations based upon the balances of accounts receivable and unconditional promises to give to secure borrowing. The bank has a first priority security interest in all present and future assets of BAM. As of June 30, 2017 and 2016, the outstanding balance on the line of credit amounted to \$0 and \$1,750,000, respectively.

NOTE 8 – CONCENTRATIONS

- A. Cash and cash equivalents that potentially subject BAM to a concentration of credit risk include cash accounts with banks that exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limits. Interest-bearing accounts are insured up to \$250,000 per depositor. As of June 30, 2017 and 2016 there was approximately \$1,295,000 and \$790,000, respectively, of cash and cash equivalents held by banks that exceeded FDIC limits. Such excess includes outstanding checks.
- B. A number of BAM's employees are covered by collective bargaining agreements as of June 30, 2017 and 2016, respectively. The agreements stipulate wage levels and differentials, participation in group health and dental plans and certain policies with regard to paid time off and leave policies, work hours and schedules, personnel policies including grievance, as well as discharge and discipline procedures.

THE BROOKLYN ACADEMY OF MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 9 – PENSION AND OTHER RETIREMENT PLAN

All eligible BAM employees are members of the Cultural Institutions Retirement System (“CIRS”) Pension, 401(k) Savings, and Group Life and Welfare Benefits plans. Because the CIRS Pension Plan is a multiemployer plan, certain information with respect to vested and non-vested benefits, as well as plan assets relating to BAM’s employees, is not readily available. Pension and 401(k) expense for the years ended June 30, 2017 and 2016 amounted to \$1,763,724 and \$1,664,708, respectively, of which \$263,602 and \$244,887, respectively, was funded by an appropriation from the City (Note 12).

The risks of participating in multiemployer pension plans are different from single-employer plans in that: assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers; if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and if BAM stops participating in the multiemployer plan, BAM may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability. BAM has no plans to withdraw.

BAM’s participation in the Plan is outlined in the table below. The Pension Protection Act (“PPA”) Zone Status available in the Company’s year ended June 30, 2017 and 2016 financial statement is for the Plan’s years ended June 30, 2017 and 2016. The zone status is based on information obtained from the Plan and is certified by the Plan’s actuary. Among other factors, plans in the red zone are generally less than 65% funded.

Based on the Plan’s annual report on Form 5500, the Plan was 93.95% funded for its plan year beginning July 1, 2017. The “FIP/RP Status Pending/Implemented” column indicates if a funding improvement plan (“FIP”) or a rehabilitation plan (“RP”) is either pending or has been implemented.

According to the annual report on Form 5500, the Plan’s actuary certified that for the Plan year beginning July 1, 2017, the Plan was not in endangered or critical status.

Pension Plan	Employer Identification Number	Pension Plan Number	PPA Zone Status July 1, 2017	FIP/RP Status Pending/ Implemented	Surcharge Imposed	Expiration Date of Collective Bargaining Agreements
The Cultural Institutions Pension Plan	11-2001170	001	Green	No	No	June 30, 2020

In fiscal year 2015, the City of New York notified BAM that for fiscal years 2007-2012, the Cultural Institutions Retirement System (“CIRS”) had erroneously billed the City for prior pension costs that should have been paid by BAM. The total amount of overpayment by the City of New York was \$2,351,758. The City of New York has agreed to allow BAM to repay this amount over a period of 10 years, starting July 1, 2015. For the years ended June 30, 2017 and 2016, respectively, the liability of \$1,670,602 and \$1,925,066 is reflected as part of the accounts payable and accrued expenses balance in the accompanying statements of financial position. The corresponding expense is shown as a non-operating activity on the statements of activities. BAM has also added an unrestricted net assets category on the statements of financial position to reflect this transaction.

Effective September 1, 2011, BAM established a Section 457(b) deferred compensation plan for the benefit of its executives (the “Plan”). The annual contributions to the Plan are determined by each participant. Contributions to this Plan and net earnings/reinvestments amounted to \$94,216 and \$85,323 for the years ended June 30, 2017 and 2016, respectively. Included in prepaid expenses and other current assets, and accounts payable and accrued expenses is \$272,744 and \$178,528 as of June 30, 2017 and 2016, respectively, relating to this Plan.

THE BROOKLYN ACADEMY OF MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 10 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets amounted to \$84,674,552 and \$84,521,199 as of June 30, 2017 and 2016, respectively, and represent \$1,814,614 and \$1,814,605 of BAM's working capital reserve fund, as well as \$82,859,938 and \$82,706,594 of BAM's beneficial interest in the permanently restricted net assets of the BAM Endowment Trust ("BET"). The working capital reserve fund is available for use by BAM to cover short-term working capital needs. The working capital reserve fund must be fully funded for at least thirty consecutive days during the fiscal year. The working capital reserve fund, and any appreciation and earnings, are restricted for working capital in perpetuity.

NOTE 11 – TEMPORARILY RESTRICTED NET ASSETS

BAM's temporarily restricted net assets consisted of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Benefits, galas and special events	\$ 40,000	\$ 123,000
Capital Improvements	541,321	540,634
Cinema	-	42,500
Dance	700,000	857,000
Education	509,411	590,907
Fulton Street Redevelopment Project	5,268,453	5,952,539
Next Wave	497,088	379,200
Opera and music	560,000	1,187,500
Other	2,677,965	1,922,738
Theater	50,000	87,500
Time restricted: to be used for general purposes	640,979	16,484
Beneficial interest in BAM Endowment Trust	<u>12,919,660</u>	<u>8,867,409</u>
Total temporarily restricted net assets	<u>\$ 24,404,877</u>	<u>\$ 20,567,411</u>

During the years ended June 30, 2017 and 2016, BAM released temporarily restricted net assets by incurring program expenses or the passage of time, as follows:

	<u>2017</u>	<u>2016</u>
Benefits, galas and special events	\$ 123,000	\$ 61,001
Capital Improvements	21,313	61,098
Cinema	42,500	307,500
Dance	157,000	257,500
Education	403,642	731,892
Next Wave	229,200	334,903
Opera and music	637,500	-
Other	774,441	1,356,241
Theater	62,500	445,000
Time restricted: to be used for general purposes	<u>600,750</u>	<u>3,845,908</u>
Net assets released from restrictions for operations	<u>3,051,846</u>	<u>7,401,043</u>
Fulton Street Redevelopment Project	684,086	1,047,863
South Site Project	<u>3,000</u>	<u>11,400</u>
Total net assets released from restrictions	<u>\$ 3,738,932</u>	<u>\$ 8,460,306</u>

THE BROOKLYN ACADEMY OF MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 12 – PUBLIC SUPPORT APPROPRIATIONS FROM THE CITY OF NEW YORK

In connection with its operations, BAM has received the following appropriations from The City of New York (the “City”) for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Operations	\$ 2,083,778	\$ 2,017,395
Energy	681,849	656,344
Cultural Institutions Retirement System (Note 9)	<u>263,602</u>	<u>244,887</u>
Subtotal: New York City Department of Cultural Affairs	3,029,229	2,918,626
New York City Department for the Aging	-	10,000
Borough of Brooklyn	<u>20,000</u>	<u>20,000</u>
Total appropriation from The City of New York	<u>\$ 3,049,229</u>	<u>\$ 2,948,626</u>

NOTE 13 – FUNCTIONAL ALLOCATION OF EXPENSES

For the years ended June 30, 2017 and 2016, expenses by functional program (inclusive of depreciation and direct expenses of special events) are as follows:

	<u>2017</u>	<u>2016</u>
Program services	\$ 41,382,007	\$ 48,936,453
Management and general	4,173,835	4,168,207
Fundraising	<u>7,383,065</u>	<u>7,691,774</u>
Total expenses by functional program	<u>\$ 52,938,907</u>	<u>\$ 60,796,434</u>

NOTE 14 – COMMITMENTS AND CONTINGENCIES

- A. In 1973, BAM entered into an agreement with the City to lease for a nominal amount the premises known as The Peter Jay Sharp Building for ninety-nine years. In November 2016, BAM entered into a 25-year license agreement with the City to operate the BAM Harvey Lichtenstein Theater at a nominal fee. In December 2013, BAM entered into a 25-year license agreement with the City to operate the BAM Richard B. Fisher Building at a nominal fee. These 25-year license agreements have one 25-year renewal option. BAM has the responsibility to provide and pay for all services, ordinary maintenance and repairs of these three premises. BAM, however, receives annual public support appropriations from the City to offset a portion of these costs (Note 12).
- B. Government supported projects are subject to audit by the applicable government granting agencies.
- C. During the normal course of business, BAM is a defendant with respect to various claims involving accidents and other issues. Management and counsel believe the ultimate resolution of these pending claims will not have a material impact on the financial position and changes in net assets of BAM.
- D. BAM believes it has no uncertain tax positions as of June 30, 2017 and 2016 in accordance with Accounting Standards Codification (“ASC”) Topic 740, *Income Taxes* which provides standards for establishing and classifying any tax provision for uncertain tax positions.

THE BROOKLYN ACADEMY OF MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 15 – FAIR VALUE MEASUREMENTS

The fair value hierarchy defines three levels as follows:

Level 1: Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Valuations based on unobservable inputs are used when little or no market data is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

In determining fair value, BAM utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value.

Financial assets carried at fair value at June 30, 2017 are classified as Level 1, Level 2 and Level 3 in the table as follows:

	<u>Level 1</u>	<u>Level 3</u>	<u>2017</u>
ASSETS CARRIED AT FAIR VALUE			
Cash equivalents – money market funds	\$ 19,611	\$ -	\$ 19,611
Beneficial interest in the BAM Endowment Trust	<u>-</u>	<u>95,779,598</u>	<u>95,779,598</u>
TOTAL ASSETS AT FAIR VALUE	<u>\$ 19,611</u>	<u>\$ 95,779,598</u>	<u>\$ 95,799,209</u>

Financial assets carried at fair value at June 30, 2016 are classified as Level 1, Level 2 and Level 3 in the table as follows:

	<u>Level 1</u>	<u>Level 3</u>	<u>2016</u>
ASSETS CARRIED AT FAIR VALUE			
Cash equivalents – money market funds	\$ 19,520	\$ -	\$ 19,520
Beneficial interest in the BAM Endowment Trust	<u>-</u>	<u>91,574,003</u>	<u>91,574,003</u>
TOTAL ASSETS AT FAIR VALUE	<u>\$ 19,520</u>	<u>\$ 91,574,003</u>	<u>\$ 91,593,523</u>

The reconciliation of the alternative investments measured at estimated fair value classified as Level 3 follows for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 91,574,003	\$ 99,346,428
Additions	1,153,475	2,091,980
Expenses	(9,367,248)	(5,053,197)
Unrealized gain (loss)	9,925,725	(4,435,011)
Realized gain (loss)	<u>2,493,643</u>	<u>(376,197)</u>
Balance, end of year	<u>\$ 95,779,598</u>	<u>\$ 91,574,003</u>

NOTE 16 – SUBSEQUENT EVENTS

Management has evaluated events subsequent to the date of the statement of financial position through December 13, 2017, the date the financial statements were available to be issued.