



THE BROOKLYN ACADEMY OF MUSIC, INC.

**Financial Statements
(Together with Independent Auditors' Report)**

Years Ended June 30, 2018 and 2017

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, 2018 AND 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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 20, 2018

THE BROOKLYN ACADEMY OF MUSIC, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Cash and cash equivalents (Notes 2C, 8A and 15)	\$ 701,717	\$ 1,214,620
Accounts and other receivables (Note 2J)	309,463	407,686
Government receivables, net (Note 2J)	5,101,947	3,572,920
Pledges receivable, net (Notes 2F, 2J and 4)	12,853,765	8,993,299
Prepaid expenses and other current assets (Note 9)	1,112,203	1,375,817
Property and equipment, net (Notes 2G and 5)	20,365,535	18,964,648
Beneficial interest in BAM Endowment Trust (Notes 2K, 6, 10, 11 and 15)	99,853,636	95,779,598
TOTAL ASSETS	\$ 140,298,266	\$ 130,308,588
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses, net (Note 9)	\$ 5,531,043	\$ 4,880,255
Due to BAM Endowment Trust (Note 6)	1,429,735	25,000
Deferred revenue (Note 2D)	665,998	1,008,963
TOTAL LIABILITIES	7,626,776	5,914,218
COMMITMENTS AND CONTINGENCIES (Notes 7 and 14)		
NET ASSETS (Note 2E):		
Unrestricted:		
General operations	(413,292)	(1,288,487)
Cultural Institutions Retirement System (Note 9)	(1,453,700)	(1,670,602)
Net investment in property and equipment (Notes 2G and 5)	19,937,612	18,274,030
Total unrestricted	18,070,620	15,314,941
Temporarily restricted (Note 11)	27,078,606	24,404,877
Permanently restricted (Note 10)	87,522,264	84,674,552
TOTAL NET ASSETS	132,671,490	124,394,370
TOTAL LIABILITIES AND NET ASSETS	\$ 140,298,266	\$ 130,308,588

THE BROOKLYN ACADEMY OF MUSIC, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017
OPERATING ACTIVITIES (Note 2L):								
OPERATING REVENUE:								
Support:								
Special events revenue (Note 2H)	\$ 1,868,209	\$ 5,000	\$ -	\$ 1,873,209	\$ 2,795,151	\$ 40,000	\$ -	\$ 2,835,151
Less: direct special event expenses	(364,222)	-	-	(364,222)	(211,785)	-	-	(211,785)
Special events, net	1,503,987	5,000	-	1,508,987	2,583,366	40,000	-	2,623,366
The City of New York (Note 12)	3,068,289	-	-	3,068,289	3,049,229	-	-	3,049,229
New York State	118,000	200,000	-	318,000	-	-	-	-
Federal government	856,510	20,000	-	876,510	1,078,504	40,000	-	1,118,504
Private sector (Notes 2H and 3)	19,415,887	5,404,802	-	24,820,689	15,947,344	3,444,147	-	19,391,491
Distribution from BAM Endowment Trust (Note 6)	7,478,996	-	-	7,478,996	8,598,441	-	-	8,598,441
Net assets released from restrictions (Note 11)	3,861,719	(3,861,719)	-	-	3,051,846	(3,051,846)	-	-
Total Support	36,303,388	1,768,083	-	38,071,471	34,308,730	472,301	-	34,781,031
Earned Revenue:								
Performance and co-presenter income	10,150,306	-	-	10,150,306	11,295,787	-	-	11,295,787
BAM Rose Cinema	4,418,156	-	-	4,418,156	3,579,184	-	-	3,579,184
Rentals, BAMart sales, interest and other income	3,506,018	-	1,354	3,507,372	2,430,939	-	9	2,430,948
Total Earned Revenue	18,074,480	-	1,354	18,075,834	17,305,910	-	9	17,305,919
TOTAL OPERATING REVENUE	54,377,868	1,768,083	1,354	56,147,305	51,614,640	472,301	9	52,086,950
OPERATING EXPENSE:								
Program services	40,587,435	-	-	40,587,435	39,833,574	-	-	39,833,574
Management and general	3,847,815	-	-	3,847,815	4,017,658	-	-	4,017,658
Fundraising	7,255,694	-	-	7,255,694	6,915,595	-	-	6,915,595
TOTAL OPERATING EXPENSE (Note 13)	51,690,944	-	-	51,690,944	50,766,827	-	-	50,766,827
RESULTS FROM OPERATIONS	2,686,924	1,768,083	1,354	4,456,361	847,813	472,301	9	1,320,123
NON-OPERATING ACTIVITIES (Note 2L):								
Depreciation and amortization expense (Note 5)	(2,360,349)	-	-	(2,360,349)	(1,960,295)	-	-	(1,960,295)
Net assets released from restriction for capital projects (Note 11)	322,034	(322,034)	-	-	687,086	(687,086)	-	-
New York City Economic Development Corporation capital grant	2,125,344	-	-	2,125,344	1,637,921	-	-	1,637,921
Increase in beneficial interest in BAM Endowment Trust (Note 6)	-	1,227,680	2,846,358	4,074,038	-	4,052,251	153,344	4,205,595
TOTAL NON-OPERATING ACTIVITIES	87,029	905,646	2,846,358	3,839,033	364,712	3,365,165	153,344	3,883,221
CHANGE IN NET ASSETS BEFORE PENSION RELATED CHANGES	2,773,953	2,673,729	2,847,712	8,295,394	1,212,525	3,837,466	153,353	5,203,344
Cultural Institutions Retirement System (Note 9)	(18,274)	-	-	(18,274)	19,288	-	-	19,288
CHANGE IN TOTAL NET ASSETS	2,755,679	2,673,729	2,847,712	8,277,120	1,231,813	3,837,466	153,353	5,222,632
Net Assets - Beginning of Year	15,314,941	24,404,877	84,674,552	124,394,370	14,083,128	20,567,411	84,521,199	119,171,738
NET ASSETS - END OF YEAR	\$ 18,070,620	\$ 27,078,606	\$ 87,522,264	\$ 132,671,490	\$ 15,314,941	\$ 24,404,877	\$ 84,674,552	\$ 124,394,370

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, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017)

FOR THE YEAR ENDED JUNE 30, 2018

	PROGRAM SERVICES										SUPPORTING SERVICES						Total 2018	Total 2017	
	Next Wave	Theater	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	\$ 2,587,622	\$ 1,125,455	\$ 246,112	\$ 183,450	\$ 232,485	\$ 1,592,652	\$ 312,974	\$ 1,715,838	\$ 1,316,111	\$ 5,056,003	\$ 3,730,585	\$ -	\$ 18,099,287	\$ 2,006,514	\$ 3,909,980	\$ 5,916,494	\$ 24,015,781	\$ 23,009,348	
Payroll taxes and employee benefits	1,050,676	448,995	97,834	75,509	95,827	508,704	102,665	477,150	493,600	1,488,044	1,271,076	-	6,110,080	569,674	1,159,135	1,728,809	7,838,889	7,691,012	
Total Salaries and Benefits	3,638,298	1,574,450	343,946	258,959	328,312	2,101,356	415,639	2,192,988	1,809,711	6,544,047	5,001,661	-	24,209,367	2,576,188	5,069,115	7,645,303	31,854,670	30,700,360	
OTHER EXPENSES:																			
Company and artist fees	2,242,209	883,166	158,126	43,000	333,800	170,973	353,346	5,500	-	-	-	-	4,190,120	-	47,187	47,187	4,237,307	5,138,327	
Production expenses	384,829	399,942	72,547	72,251	18,114	111,933	43,456	93,417	29,434	118,959	12,534	116,658	1,474,074	7,734	68,539	76,273	1,550,347	1,396,686	
Travel, hotel and per diem	728,251	466,818	331,615	116,643	14,961	106,856	84,282	28,550	4,690	28,841	18,591	18,639	1,948,737	30,659	44,732	75,391	2,024,128	1,586,011	
Freight	145,683	60,588	2,814	709	2,364	1,671	8,200	442	6,481	1,447	-	5,375	235,774	-	7,040	7,040	242,814	235,654	
Consultants and production fees	30,268	33,314	17,156	40,998	16,000	404,285	232,248	102,638	1,445	218,001	59,537	328,209	1,484,099	92,472	67,099	159,571	1,643,670	1,744,609	
Professional fees	-	-	10,500	4,750	-	-	-	-	-	3,570	-	24,761	43,581	260,043	2,661	262,704	306,285	303,612	
Advertising and promotion	556,893	377,709	15,166	57,686	52,979	123,480	38,027	255,045	9,541	3,042	106,536	-	1,596,104	652	248,059	248,711	1,844,815	1,979,372	
Film rental	-	-	-	-	2,200	2,672	1,697,977	-	-	-	-	-	-	1,702,849	-	-	-	1,702,849	1,317,545
Cinema concessions	-	-	-	-	9,120	573	142,234	-	-	-	-	-	151,927	-	-	-	151,927	137,615	
Hospitality and special events	24,767	15,481	4,315	8,258	6,514	62,848	87,353	79,653	790	21,045	656	752	312,432	26,444	872,061	898,505	1,210,937	1,267,109	
Patron services	-	-	-	-	613	-	-	126	250	818	4,757	529	7,093	1,235	36,752	37,987	45,080	31,809	
Human resources and personnel training	-	-	214	-	-	1,511	100	262	-	2,695	11,271	18,651	34,704	196,708	4,607	201,315	236,019	266,361	
Occupancy costs	-	-	-	-	54	-	-	-	-	-	-	921,154	921,208	-	-	-	921,208	870,993	
Building maintenance	-	-	-	29,366	-	-	31,185	6,318	200	598	-	761,488	829,155	-	23,969	23,969	853,124	828,152	
Computers, service, supplies	-	-	5,060	-	-	5,813	-	7,178	9,947	8,988	17,675	565,167	619,828	12,733	30,186	42,919	662,747	604,818	
Telecommunications	50	250	934	-	-	1,965	90	900	-	5,553	2,880	89,359	101,981	1,414	2,027	3,441	105,422	149,059	
Office supplies	-	-	2,982	256	50	19,365	10,458	50,990	255	281,849	14,113	111,925	492,243	9,067	19,473	28,540	520,783	478,293	
Postage and shipping	29,216	22,993	675	3,076	34	10,654	5,734	70,568	74	3,148	11,428	1,939	159,539	3,478	73,862	77,340	236,879	293,524	
Insurance expense	8,185	3,836	-	4,507	1,575	3,437	1,596	27,713	5,875	-	-	-	56,724	168,603	27	168,630	225,354	225,612	
Bank and other finance charges	-	-	225	-	-	-	-	-	-	-	-	435	660	195,314	-	195,314	195,974	235,030	
Bad debts	-	-	-	-	-	-	-	-	-	-	80	-	80	-	62,495	62,495	145,022	145,022	
Organizational contributions	-	-	-	-	200	-	-	-	-	927	-	-	1,127	3,112	2,204	5,316	6,443	18,373	
Miscellaneous	132,570	111,887	2,391	32,536	22,007	25,326	22,840	139,761	3,177	31,060	63,225	61,287	648,067	35,163	166,357	201,520	849,587	812,881	
Operations allocation	496,132	247,429	60,671	42,152	49,901	198,150	83,791	307,045	117,868	455,632	333,519	(3,026,328)	(634,038)	226,796	407,242	634,038	-	-	
Total expenses before depreciation and direct expenses for special events	8,417,351	4,197,863	1,029,337	715,147	846,611	3,361,810	1,421,590	5,209,305	1,999,738	7,730,220	5,658,463	-	40,587,435	3,847,815	7,255,694	11,103,509	51,690,944	50,766,827	
Depreciation expense and amortization	386,952	192,979	47,319	32,876	38,919	154,545	65,352	239,476	91,929	355,365	260,124	-	1,865,836	176,887	317,626	494,513	2,360,349	1,960,295	
Direct expenses for special events	-	-	-	-	-	-	-	-	-	-	-	-	-	-	364,222	364,222	364,222	211,785	
Total Expenses	\$ 8,804,303	\$ 4,390,842	\$ 1,076,656	\$ 748,023	\$ 885,530	\$ 3,516,355	\$ 1,486,942	\$ 5,448,781	\$ 2,091,667	\$ 8,085,585	\$ 5,918,587	\$ -	\$ 42,453,271	\$ 4,024,702	\$ 7,937,542	\$ 11,962,244	\$ 54,415,515	\$ 52,938,907	

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, 2017

FOR THE YEAR ENDED JUNE 30, 2017

	PROGRAM SERVICES												SUPPORTING SERVICES			Total Expenses 2017	
	Next Wave	Theater	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	\$ 2,537,558	\$ 797,177	\$ 709,950	\$ 183,433	\$ 428,872	\$ 1,252,971	\$ 298,742	\$ 1,434,174	\$ 734,854	\$ 5,251,642	\$ 3,835,899	\$ -	\$ 17,465,272	\$ 2,068,934	\$ 3,475,142	\$ 5,544,076	\$ 23,009,348
Payroll taxes and employee benefits	982,145	300,729	281,113	74,391	168,720	479,355	104,427	417,162	270,043	1,550,797	1,341,225	-	5,970,107	600,531	1,120,374	1,720,905	7,691,012
Total Salaries and Benefits	3,519,703	1,097,906	991,063	257,824	597,592	1,732,326	403,169	1,851,336	1,004,897	6,802,439	5,177,124	-	23,435,379	2,669,465	4,595,516	7,264,981	30,700,360
OTHER EXPENSES:																	
Company and artist fees	2,327,387	700,103	902,410	58,966	553,835	230,788	304,760	5,000	-	-	-	-	5,083,249	-	55,078	55,078	5,138,327
Production expenses	535,644	115,075	174,221	54,636	30,426	60,709	64,389	82,695	15,451	80,074	42,036	77,858	1,333,214	13,068	50,404	63,472	1,396,686
Travel, hotel and per diem	554,038	231,037	432,569	35,911	50,656	87,096	62,132	37,213	3,690	20,712	10,763	9,380	1,535,197	26,931	23,883	50,814	1,586,011
Freight	126,022	36,081	16,142	12,248	4,998	20,834	10,412	-	2,125	2,303	-	4,188	235,353	-	301	301	235,654
Consultants and production fees	98,624	21,524	9,745	33,500	7,300	464,379	256,724	59,475	-	62,537	16,165	533,224	1,563,197	49,058	132,354	181,412	1,744,609
Professional fees	-	-	10,000	6,250	-	-	-	-	-	12,500	(587)	12,800	40,963	262,336	313	262,649	303,612
Advertising and promotion	643,530	492,174	14,257	56,091	20,442	124,042	42,557	240,492	48	1,200	102,372	768	1,737,973	1,819	239,580	241,399	1,979,372
Film rental	-	-	-	-	-	1,032	1,488	1,315,025	-	-	-	-	1,317,545	-	-	-	1,317,545
Cinema concessions	-	-	-	-	-	15,820	-	121,742	-	-	-	-	137,562	53	-	53	137,615
Hospitality and special events	18,384	8,936	11,956	5,725	9,986	79,697	44,113	67,622	2,093	21,584	559	772	271,427	24,991	970,691	995,682	1,267,109
Patron services	-	-	519	-	-	344	201	320	63	2,602	3,936	723	8,708	3,664	19,437	23,101	31,809
Human resources and personnel training	-	-	12	-	-	348	237	53	-	2,152	9,533	24,601	36,936	227,379	2,046	229,425	266,361
Occupancy costs	-	-	-	-	-	-	-	-	-	-	-	870,993	870,993	-	-	-	870,993
Building maintenance	250	-	-	49,670	-	-	15,453	5,022	250	-	11	737,504	808,160	-	19,992	19,992	828,152
Computers, service, supplies	-	-	7,790	-	-	1,380	93	750	-	2,981	15,450	535,349	563,793	22,855	18,170	41,025	604,818
Telecommunications	-	150	1,195	-	-	1,963	-	800	-	6,646	2,011	132,745	145,510	1,534	2,015	3,549	149,059
Office supplies	-	-	5,600	213	64	23,810	3,612	38,760	955	225,159	26,844	123,937	448,954	5,896	23,443	29,339	478,293
Postage and shipping	42,145	39,617	2,792	4,301	34	12,246	8,584	92,484	17	3,497	12,290	2,622	220,629	4,207	68,688	72,895	293,524
Insurance expense	9,643	3,607	2,304	1,877	2,778	3,696	3,526	19,838	6,384	-	-	(3,978)	49,675	175,937	-	175,937	225,612
Bank and other finance charges	35	-	58	-	-	-	-	-	-	-	6	70	169	234,861	-	234,861	235,030
Bad debts	-	-	-	-	-	-	-	-	-	-	-	-	-	1,200	143,822	145,022	145,022
Organizational contributions	-	-	-	-	10,000	-	2,000	-	-	1,008	-	-	13,008	2,370	2,995	5,365	18,373
Miscellaneous	158,310	66,108	36,783	34,179	31,736	25,240	14,764	99,274	3,884	24,656	64,865	75,755	635,554	39,925	137,402	177,327	812,881
Operations allocation	533,319	186,696	173,890	40,587	87,618	191,571	82,199	268,056	69,031	482,756	364,014	(3,139,311)	(659,574)	250,109	409,465	659,574	-
Total expenses before depreciation and direct expenses for special events	8,567,034	2,999,014	2,793,306	651,978	1,407,465	3,077,321	1,320,413	4,305,957	1,108,888	7,754,806	5,847,392	-	39,833,574	4,017,658	6,915,595	10,933,253	50,766,827
Depreciation expense and amortization	333,023	116,579	108,583	25,344	54,712	119,623	51,328	167,384	43,105	301,449	227,303	-	1,548,433	156,177	255,685	411,862	1,960,295
Direct expenses for special events	-	-	-	-	-	-	-	-	-	-	-	-	-	-	211,785	211,785	211,785
Total Expenses	\$ 8,900,057	\$ 3,115,593	\$ 2,901,889	\$ 677,322	\$ 1,462,177	\$ 3,196,944	\$ 1,371,741	\$ 4,473,341	\$ 1,151,993	\$ 8,056,255	\$ 6,074,695	\$ -	\$ 41,382,007	\$ 4,173,835	\$ 7,383,065	\$ 11,556,900	\$ 52,938,907

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, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 8,277,120	\$ 5,222,632
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,360,349	1,960,295
Loss on disposal of property and equipment	-	28,633
Increase in beneficial interest in BAM Endowment Trust	(4,074,038)	(4,205,595)
Bad debt expense	62,575	145,022
Change in discount on pledges receivable	12,653	(19,245)
Interest - permanently restricted	(1,354)	(9)
Subtotal	6,637,305	3,131,733
Decrease (increase) in assets:		
Accounts and other receivables	98,223	(25,216)
Government receivables	(1,529,027)	(1,406,218)
Pledges receivable	(3,935,694)	5,849,565
Prepaid expenses and other current assets	263,614	3,281
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	650,788	(1,287,155)
Due to BAM Endowment Trust	1,404,735	(950,000)
Deferred revenue	(342,965)	(143,688)
Net Cash Provided by Operating Activities	3,246,979	5,172,302
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of property and equipment	(3,761,236)	(3,008,120)
Net Cash Used in Investing Activities	(3,761,236)	(3,008,120)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on line of credit	-	(1,750,000)
Interest - permanently restricted	1,354	9
Net Cash Provided by (Used in) Financing Activities	1,354	(1,749,991)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(512,903)	414,191
Cash and cash equivalents - beginning of the year	1,214,620	800,429
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 701,717	\$ 1,214,620

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

THE BROOKLYN ACADEMY OF MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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 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 3.7%) for the expected term of the promise to give applicable to the years in which the pledges are received. As of June 30, 2018 and 2017, the discount on pledges receivable amounted to \$270,846 and \$258,193, 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 \$25,000 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, 2018 AND 2017

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 \$66,447 and \$262,832 for the years ended June 30, 2018 and 2017, respectively. Donated goods for the years ended June 30, 2018 and 2017 include: floral décor, beverages, food, and gifts for attendees of special events, amounting to \$50,597 and \$260,432, respectively. Donated services for the years ended June 30, 2018 and 2017 include: radio promotions and artwork storage services, amounting to \$15,850 and \$2,400, respectively. These donations are reflected under private sector support at \$58,697 and \$246,470 and special events of \$7,750 and \$16,362 in the accompanying statements of activities for the years ended June 30, 2018 and 2017, 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, aging of the amounts due and historical experience. As of June 30, 2018 and 2017, BAM’s management determined that no allowance was necessary for pledges receivable and accounts and other receivables. BAM’s management also determined that no allowance was necessary for government receivables as of June 30, 2018. An allowance for doubtful accounts for government receivables as of June 30, 2017 amounted to \$25,000.
- 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:

	<u>2018</u>	<u>2017</u>
Corporations	\$ 2,586,796	\$ 1,940,930
Foundations	14,902,723	13,003,168
Individuals	7,285,126	4,181,678
Donated goods and services	58,697	246,470
Change in net present value discount	<u>(12,653)</u>	<u>19,245</u>
Total private sector support	<u>\$ 24,820,689</u>	<u>\$ 19,391,491</u>

THE BROOKLYN ACADEMY OF MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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 3.7 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>2018</u>	<u>2017</u>
Pledges due:		
Within one year	\$ 9,158,486	\$ 5,003,572
In one to five years	3,866,125	4,047,920
In five to ten years	<u>100,000</u>	<u>200,000</u>
Gross pledges receivable	13,124,611	9,251,492
Discount for net present value	<u>(270,846)</u>	<u>(258,193)</u>
Net pledges receivable	<u>\$ 12,853,765</u>	<u>\$ 8,993,299</u>

NOTE 5 – PROPERTY AND EQUIPMENT

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

	<u>2018</u>	<u>2017</u>
General construction in progress	\$ 10,223,261	\$ 7,233,541
Capital additions and leasehold improvements	15,452,327	14,853,730
Furniture and equipment	4,579,694	4,461,161
Marquee	301,192	301,192
Works of art	250,000	250,000
Commercial condominium	<u>2,509,919</u>	<u>2,455,533</u>
Total cost	33,316,393	29,555,157
Less: accumulated depreciation and amortization	<u>(12,950,858)</u>	<u>(10,590,509)</u>
Net book value	<u>\$ 20,365,535</u>	<u>\$ 18,964,648</u>

Depreciation and amortization expense for the years ended June 30, 2018 and 2017 amounted to \$2,360,349 and \$1,960,295, 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 for the year ended June 30, 2017.

Included in construction in progress as of June 30, 2018 and 2017, was general operating improvements to various BAM facilities, as well as the BAM Strong Project. Construction is expected to be completed by October 2019 with an estimated cost of \$38 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.

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.

THE BROOKLYN ACADEMY OF MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Beneficial interest, beginning of year	\$ 95,779,598	\$ 91,574,003
Change in BET permanently restricted net assets	2,846,358	153,344
Change in BET temporarily restricted net assets	<u>1,227,680</u>	<u>4,052,251</u>
Beneficial interest, end of year	<u>\$ 99,853,636</u>	<u>\$ 95,779,598</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 \$1,429,735 and \$25,000 representing funds temporarily held in BAM as of June 30, 2018 and 2017, respectively. During the years ended June 30, 2018 and 2017, BAM received a management fee of \$200,000 for services performed on behalf of BET by BAM employees.

During the years ended June 30, 2018 and 2017, BET appropriated \$4,478,996 and \$4,598,441, respectively, as the distribution to BAM. In addition, BET authorized a special distribution amounting to \$3,000,000 and \$4,000,000, respectively, during the years ended June 30, 2018 and 2017. Those amounts are 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, 2018. 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, 2018 and 2017, there was no outstanding balance on the line of credit.

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, 2018 and 2017, there was approximately \$717,000 and \$1,295,000, respectively, of cash and cash equivalents held by one bank 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, 2018 and 2017, 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, 2018 AND 2017

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, 2018 and 2017 amounted to \$1,729,569 and \$1,763,724, respectively, of which \$264,494 and \$263,602, 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 years ended June 30, 2018 and 2017 financial statements is for the Plan’s years ended June 30, 2018 and 2017. 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 92.29% funded for its plan year beginning July 1, 2018. 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, 2018, the Plan was not in endangered or critical status.

Pension Plan	Employer Identification Number	Pension Plan Number	PPA Zone Status July 1, 2018	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 notified BAM that for fiscal years 2007-2012, the 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 was \$2,351,758. The City has agreed to allow BAM to repay this amount over a period of ten years, starting July 1, 2015.

For the years ended June 30, 2018 and 2017, the liability of \$1,453,700 and \$1,670,602, respectively, 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 \$116,306 and \$94,216 for the years ended June 30, 2018 and 2017, respectively. Included in prepaid expenses and other current assets, and accounts payable and accrued expenses is \$389,050 and \$272,744 as of June 30, 2018 and 2017, respectively, relating to this Plan.

THE BROOKLYN ACADEMY OF MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 10 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets amounted to \$87,522,264 and \$84,674,552 as of June 30, 2018 and 2017, respectively, and represent \$1,815,968 and \$1,814,614 of BAM's working capital reserve fund, as well as \$85,706,296 and \$82,859,938 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 30 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:

	<u>2018</u>	<u>2017</u>
BAM Karen Project	\$ 522,258	\$ 507,258
BAM Strong Project	4,946,418	5,268,453
Benefits, galas and special events	5,000	40,000
Dance	875,000	700,000
Education	365,940	509,411
Next Wave	198,000	497,088
Opera and music	100,000	560,000
Other	5,440,324	2,712,028
Theater	-	50,000
Time restricted: to be used for general purposes	478,326	640,979
Beneficial interest in BAM Endowment Trust	<u>14,147,340</u>	<u>12,919,660</u>
Total temporarily restricted net assets	<u>\$ 27,078,606</u>	<u>\$ 24,404,877</u>

During the years ended June 30, 2018 and 2017, BAM released temporarily restricted net assets by incurring program expenses or the passage of time, as follows:

	<u>2018</u>	<u>2017</u>
Benefits, galas and special events	\$ 40,000	\$ 123,000
Cinema	-	42,500
Dance	100,000	157,000
Education	333,958	403,642
Next Wave	422,088	229,200
Opera and music	460,000	637,500
Other	1,730,173	795,754
Theater	50,000	62,500
Time restricted: to be used for general purposes	<u>725,500</u>	<u>600,750</u>
Net assets released from restrictions for operations	3,861,719	3,051,846
BAM Karen Project	-	3,000
BAM Strong Project	<u>322,034</u>	<u>684,086</u>
Total net assets released from restrictions	<u>\$ 4,183,753</u>	<u>\$ 3,738,932</u>

THE BROOKLYN ACADEMY OF MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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 for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Operations	\$ 2,078,778	\$ 2,083,778
Energy	705,017	681,849
Cultural Institutions Retirement System (Note 9)	<u>264,494</u>	<u>263,602</u>
Subtotal: New York City Department of Cultural Affairs	3,048,289	3,029,229
Borough of Brooklyn	<u>20,000</u>	<u>20,000</u>
Total appropriation from The City of New York	<u>\$ 3,068,289</u>	<u>\$ 3,049,229</u>

NOTE 13 – FUNCTIONAL ALLOCATION OF EXPENSES

For the years ended June 30, 2018 and 2017, expenses by functional program (inclusive of depreciation and direct expenses of special events) are as follows:

	<u>2018</u>	<u>2017</u>
Program services	\$ 42,453,271	\$ 41,382,007
Management and general	4,024,702	4,173,835
Fundraising	<u>7,937,542</u>	<u>7,383,065</u>
Total expenses by functional program	<u>\$ 54,415,515</u>	<u>\$ 52,938,907</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 99 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, 2018 and 2017 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.

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.

THE BROOKLYN ACADEMY OF MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 15 – FAIR VALUE MEASUREMENTS (Continued)

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, 2018 are classified as Level 1, Level 2 and Level 3 in the table as follows:

	<u>Level 1</u>	<u>Level 3</u>	<u>2018</u>
ASSETS CARRIED AT FAIR VALUE			
Cash equivalents – money market funds	\$ 21,088	\$ -	\$ 21,088
Beneficial interest in the BAM Endowment Trust	<u>-</u>	<u>99,853,636</u>	<u>99,853,636</u>
TOTAL ASSETS AT FAIR VALUE	<u>\$ 21,088</u>	<u>\$ 99,853,636</u>	<u>\$ 99,874,724</u>

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>

The reconciliation of the alternative investments measured at estimated fair value classified as Level 3 follows for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 95,779,598	\$ 91,574,003
Additions	4,229,194	1,153,475
Expenses	(8,123,627)	(9,367,248)
Unrealized gain	3,900,839	9,925,725
Realized gain	<u>4,067,632</u>	<u>2,493,643</u>
Balance, end of year	<u>\$ 99,853,636</u>	<u>\$ 95,779,598</u>

NOTE 16 – SUBSEQUENT EVENTS

Management has evaluated events subsequent to the date of the statement of financial position through December 20, 2018, the date the financial statements were available to be issued.