



BROOKLYN ACADEMY OF MUSIC, INC.

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

Years Ended June 30, 2019 and 2018

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

BROOKLYN ACADEMY OF MUSIC, INC.
FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)
YEARS ENDED JUNE 30, 2019 AND 2018

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Brooklyn Academy of Music, Inc. ("BAM") which comprise the statements of financial position as of June 30, 2019 and 2018, 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 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 Brooklyn Academy of Music, Inc. as of June 30, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended June 30, 2019, BAM adopted Accounting Standards Update 2016-14, "Not-for-Profit Entities". Our opinion is not modified with respect to this matter.

Marks Paneth LLP

New York, NY
December 18, 2019

BROOKLYN ACADEMY OF MUSIC, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Cash and cash equivalents (Notes 2C, 9 and 15)	\$ 865,190	\$ 701,717
Accounts and other receivables (Note 2J)	470,770	309,463
Government receivables, net (Note 2J)	12,097,039	5,101,947
Pledges receivable, net (Notes 2F, 2J and 5)	12,805,022	12,853,765
Prepaid expenses and other current assets (Note 10)	1,087,441	1,112,203
Property and equipment, net (Notes 2G and 6)	27,831,900	20,365,535
Beneficial interest in BAM Endowment Trust (Notes 2K, 7, 11 and 15)	101,160,417	99,853,636
TOTAL ASSETS	\$ 156,317,779	\$ 140,298,266
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses, net (Note 10)	\$ 10,137,504	\$ 5,531,043
Due to BAM Endowment Trust (Note 7)	2,653,905	1,429,735
Line of credit (Note 8)	3,850,000	-
Loan payable, net (Notes 2M and 8)	2,723,290	-
Deferred revenue (Note 2D)	343,551	665,998
TOTAL LIABILITIES	19,708,250	7,626,776
COMMITMENTS AND CONTINGENCIES (Notes 14)		
NET ASSETS (Note 2E):		
Without donor restrictions		
General operations	(4,440,969)	(413,292)
Cultural Institutions Retirement System (Note 10)	(1,311,037)	(1,453,700)
Net investment in property and equipment (Notes 2G and 6)	27,554,645	19,937,612
Total without donor restrictions	21,802,639	18,070,620
With donor restrictions (Note 11)	114,806,890	114,600,870
TOTAL NET ASSETS	136,609,529	132,671,490
TOTAL LIABILITIES AND NET ASSETS	\$ 156,317,779	\$ 140,298,266

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

BROOKLYN ACADEMY OF MUSIC, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total 2019	Without Donor Restrictions	With Donor Restrictions	Total 2018
OPERATING ACTIVITIES (Note 2L):						
OPERATING REVENUE:						
Support:						
Special events revenue (Note 2H)	\$ 1,563,004	\$ 40,000	\$ 1,603,004	\$ 1,868,209	\$ 5,000	\$ 1,873,209
Less: direct special event expenses	(381,577)	-	(381,577)	(364,222)	-	(364,222)
Special events, net	1,181,427	40,000	1,221,427	1,503,987	5,000	1,508,987
The City of New York (Note 12)	3,205,098	-	3,205,098	3,068,289	-	3,068,289
New York State	17,500	250,000	267,500	118,000	200,000	318,000
Federal government	352,003	60,000	412,003	856,510	20,000	876,510
Private sector (Note 4)	18,548,336	4,050,230	22,598,566	19,415,887	5,404,802	24,820,689
Distribution from BAM Endowment Trust (Note 7)	4,449,813	-	4,449,813	7,478,996	-	7,478,996
Net assets released from restrictions (Note 11)	4,517,407	(4,517,407)	-	3,861,719	(3,861,719)	-
Total Support	32,271,584	(117,177)	32,154,407	36,303,388	1,768,083	38,071,471
Earned Revenue:						
Performance and co-presenter income	8,648,278	-	8,648,278	10,150,306	-	10,150,306
BAM Rose Cinema	3,605,007	-	3,605,007	4,418,156	-	4,418,156
Rentals, BAMart sales, interest and other income	5,141,681	10	5,141,691	3,506,018	1,354	3,507,372
Total Earned Revenue	17,394,966	10	17,394,976	18,074,480	1,354	18,075,834
TOTAL OPERATING REVENUE	49,666,550	(117,167)	49,549,383	54,377,868	1,769,437	56,147,305
OPERATING EXPENSE:						
Program services	39,639,024	-	39,639,024	40,587,435	-	40,587,435
Management and general	4,619,115	-	4,619,115	3,847,815	-	3,847,815
Fundraising	8,044,959	-	8,044,959	7,255,694	-	7,255,694
TOTAL OPERATING EXPENSE (Notes 2I and 13)	52,303,098	-	52,303,098	51,690,944	-	51,690,944
RESULTS FROM OPERATIONS	(2,636,548)	(117,167)	(2,753,715)	2,686,924	1,769,437	4,456,361
NON-OPERATING ACTIVITIES (Note 2L):						
Depreciation and amortization expense (Notes 2G and 6)	(1,811,928)	-	(1,811,928)	(2,360,349)	-	(2,360,349)
Net assets released from restriction for capital projects (Note 11)	983,594	(983,594)	-	322,034	(322,034)	-
New York City Economic Development Corporation capital grant	7,289,414	-	7,289,414	2,125,344	-	2,125,344
Increase in beneficial interest in BAM Endowment Trust (Note 7)	-	1,306,781	1,306,781	-	4,074,038	4,074,038
TOTAL NON-OPERATING ACTIVITIES	6,461,080	323,187	6,784,267	87,029	3,752,004	3,839,033
CHANGE IN NET ASSETS BEFORE PENSION RELATED CHANGES	3,824,532	206,020	4,030,552	2,773,953	5,521,441	8,295,394
Cultural Institutions Retirement System (Note 10)	(92,513)	-	(92,513)	(18,274)	-	(18,274)
CHANGE IN TOTAL NET ASSETS	3,732,019	206,020	3,938,039	2,755,679	5,521,441	8,277,120
Net Assets - Beginning of Year	18,070,620	114,600,870	132,671,490	15,314,941	109,079,429	124,394,370
NET ASSETS - END OF YEAR	\$ 21,802,639	\$ 114,806,890	\$ 136,609,529	\$ 18,070,620	\$ 114,600,870	\$ 132,671,490

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

BROOKLYN ACADEMY OF MUSIC, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

FOR THE YEAR ENDED JUNE 30, 2018

	PROGRAM SERVICES											SUPPORTING SERVICES					Total 2018
	Next Wave	Theater	Dance	Dance Africa	Music	Education	Ancillary	Film	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
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
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
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
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	248,051	255,785	1,729,859
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
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
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
Professional fees	-	-	10,500	4,750	-	-	-	-	-	3,570	-	24,761	43,581	260,043	2,661	262,704	306,285
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	253,059	253,711	1,849,815
Film rental	-	-	-	-	-	2,200	2,672	1,697,977	-	-	-	-	1,702,849	-	-	-	1,702,849
Cinema concessions	-	-	-	-	-	9,120	573	142,234	-	-	-	-	151,927	-	-	-	151,927
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	1,051,771	1,078,215	1,390,647
Patron services	-	-	-	-	-	613	-	126	250	818	4,757	529	7,093	1,235	36,752	37,987	45,080
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
Occupancy costs	-	-	-	-	-	54	-	-	-	-	-	921,154	921,208	-	-	-	921,208
Building maintenance	-	-	-	29,366	-	-	31,185	6,318	200	598	-	761,488	829,155	-	23,969	23,969	853,124
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
Telecommunications	50	250	934	-	-	1,965	90	900	-	5,553	2,880	89,359	101,981	1,414	2,027	3,441	105,422
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
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
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
Bank and other finance charges	-	-	225	-	-	-	-	-	-	-	-	435	660	195,314	-	195,314	195,974
Bad debts	-	-	-	-	-	-	-	-	-	-	80	-	80	-	62,495	62,495	62,575
Organizational contributions	-	-	-	-	-	200	-	-	-	927	-	-	1,127	3,112	2,204	5,316	6,443
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
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	-
	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	7,619,916	11,467,731	52,055,166
Costs of direct benefit to donors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(364,222)	(364,222)	(364,222)
Total expenses before depreciation and amortization	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
Depreciation 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
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	\$ 7,573,320	\$ 11,598,022	\$ 54,051,293

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

BROOKLYN ACADEMY OF MUSIC, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 3,938,039	\$ 8,277,120
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,811,928	2,360,349
Amortization of debt issuance costs	4,228	-
Increase in beneficial interest in BAM Endowment Trust	(1,306,781)	(4,074,038)
Bad debt expense	35,344	62,575
Change in discount on pledges receivable	90,059	12,653
Subtotal	4,572,817	6,638,659
Decrease (increase) in assets:		
Accounts and other receivables	(161,307)	98,223
Government receivables	(6,995,092)	(1,529,027)
Pledges receivable	(76,660)	(3,935,694)
Prepaid expenses and other current assets	24,762	263,614
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	4,606,461	650,788
Due to BAM Endowment Trust	1,224,170	1,404,735
Deferred revenue	(322,447)	(342,965)
Net Cash Provided by Operating Activities	2,872,704	3,248,333
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of property and equipment	(9,278,293)	(3,761,236)
Net Cash Used in Investing Activities	(9,278,293)	(3,761,236)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	3,850,000	-
Debt issuance costs	(126,839)	-
Proceeds from loan payable	2,850,000	-
Repayment of loan payable	(4,099)	-
Net Cash Provided by Financing Activities	6,569,062	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	163,473	(512,903)
Cash and cash equivalents - beginning of the year	701,717	1,214,620
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 865,190	\$ 701,717
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 55,268	\$ 10,821

BROOKLYN ACADEMY OF MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

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.
- 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. The net assets are categorized into the following two classes:

Without Donor Restrictions – represents net assets not subject to any donor-imposed stipulations or other restrictions over which the Board of Trustees have discretionary control.

With Donor Restrictions – represents net assets whose use by BAM is limited by donor-imposed restrictions as to a specific purpose or time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. In addition, this class includes assets with donor-imposed restrictions on the corpus of the gifts specifying they be maintained in perpetuity. Certain of such net assets require that earnings be restricted in perpetuity. 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 11.

- 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, 2019 and 2018, the discount on pledges receivable amounted to \$360,905 and \$270,846, 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

BROOKLYN ACADEMY OF MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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 \$47,880 and \$66,447 for the years ended June 30, 2019 and 2018, respectively. Donated goods for the years ended June 30, 2019 and 2018 include: beverages, food, and gifts for attendees of special events, amounting to \$47,330 and \$50,597, respectively. Donated services for the years ended June 30, 2019 and 2018 include: radio promotions and photo booth services, amounting to \$550 and \$15,850, respectively. These donations are reflected under private sector support at \$42,880 and \$58,697 and special events of \$5,000 and \$7,750 in the accompanying statements of activities for the years ended June 30, 2019 and 2018, 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. **Functional Expense Allocation** – The costs of program and supporting services have been summarized on a functional basis in the statements of functional expenses. BAM allocates expenses that are attributed to more than one program or supporting function based on its formal functional expense allocation guidelines that are consistently applied. The expenses that are allocated include salaries and benefits, and other expenses of operations (IT, Facilities, Securities and Capital Project Departments), which are allocated based on a percentage of total expenses. Salaries and benefits, and other expenses of President’s Office are allocated based on reasonable estimates of time and efforts. 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, 2019 and 2018, management determined that no allowance was necessary for pledges receivable and accounts and other receivables. Management also determined that no allowance was necessary for government receivables as of June 30, 2019 and 2018.
- 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 BAM Endowment Trust.
- M. **Debt Issuance Costs** – Debt issuance costs are deferred and amortized on a straight-line basis over the life of the related debt, which approximates the effective interest method. Amortization expense for the year ended June 30, 2019 and 2018 was \$4,228 and \$0, respectively.
- N. **Reclassification** – Certain line items in the June 30, 2018 financial statements were reclassified to conform to the June 30, 2019 presentation. Such reclassification had no impact on the change in net assets for the year ended June 30, 2018.
- O. **Recent Accounting Pronouncements** – Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities* (Topic 958) *Presentation of Financial Statements of Not-for-Profit Entities*, was adopted for the year ended June 30, 2019. ASU 2016-14 provides for a number of changes, including the presentation of two classes of net assets and enhanced disclosure on liquidity resources and functional expense allocation. These changes had no impact on the change in net assets for the year ended June 30, 2019. As a result of implementing ASU 2016-14, BAM reports net assets in two classes (see Note 2E), enhanced disclosures on methodologies used to allocate expenses by function (see Note 2I) and provides additional information about liquidity (see Note 3). Net assets as of June 30, 2018 were reclassified to conform to the current year presentation.

BROOKLYN ACADEMY OF MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 3 – LIQUIDITY AND AVAILABILITY

BAM regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. BAM has various sources of liquidity at its disposal, including cash and cash equivalents, accounts and pledges receivables and line of credit that provide funding for operations as needed. For purposes of analyzing resources available to meet general expenditures over a 12-month period, BAM considers all expenditures related to its ongoing activities. In addition to financial assets available to meet general expenditures over the next 12 months, BAM expects and anticipates collecting sufficient revenue to cover general expenditures.

As of June 30, 2019, financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, included the following:

Cash and cash equivalents	\$ 865,190
Accounts and other receivables	470,770
Government receivables	12,097,039
Pledges receivables	<u>13,165,927</u>
Total	26,598,926
Less: pledges receivable in more than one year	(4,403,833)
Less: time or purpose restricted contributions	<u>(287,219)</u>
Total financial assets available	<u>\$ 21,907,874</u>

NOTE 4 – PRIVATE SECTOR SUPPORT

Private sector support consisted of the following for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Corporations	\$ 3,171,483	\$ 2,586,796
Foundations	10,464,303	14,902,723
Individuals	9,009,959	7,285,126
Donated goods and services	42,880	58,697
Change in net present value discount	<u>(90,059)</u>	<u>(12,653)</u>
Total private sector support	<u>\$ 22,598,566</u>	<u>\$ 24,820,689</u>

NOTE 5 – 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. Pledges with donor restrictions are reported as additions to the appropriate net asset balance.

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

	<u>2019</u>	<u>2018</u>
Pledges due:		
Within one year	\$ 8,762,094	\$ 9,158,486
In one to five years	4,403,833	3,866,125
In five to ten years	<u>-</u>	<u>100,000</u>
Gross pledges receivable	13,165,927	13,124,611
Discount for net present value	<u>(360,905)</u>	<u>(270,846)</u>
Net pledges receivable	<u>\$ 12,805,022</u>	<u>\$ 12,853,765</u>

BROOKLYN ACADEMY OF MUSIC, INC.
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NOTE 6 – PROPERTY AND EQUIPMENT

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

	<u>2019</u>	<u>2018</u>
General construction in progress	\$ 18,696,522	\$ 10,223,261
Capital additions and leasehold improvements	15,937,709	15,452,327
Furniture and equipment	4,899,344	4,579,694
Marquee	301,192	301,192
Works of art	250,000	250,000
Commercial condominium	<u>2,509,919</u>	<u>2,509,919</u>
Total Cost	42,594,686	33,316,393
Less: accumulated depreciation and amortization	<u>(14,762,786)</u>	<u>(12,950,858)</u>
Net book value	<u>\$ 27,831,900</u>	<u>\$ 20,365,535</u>

Depreciation and amortization expense for the years ended June 30, 2019 and 2018 amounted to \$1,811,928 and \$2,360,349, respectively.

Included in construction in progress as of June 30, 2019 and 2018, was general operating improvements to various BAM facilities as well as BAM Strong Project. Construction is expected to be completed by February 2020 with an estimated cost of approximately \$39 million.

NOTE 7 – BENEFICIAL INTEREST IN 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 donor-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 net assets with donor restrictions.

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:

	<u>2019</u>	<u>2018</u>
Beneficial interest, beginning of year	\$ 99,853,636	\$ 95,779,599
Change in BET net assets with donor restrictions	<u>1,306,781</u>	<u>4,074,037</u>
Beneficial interest, end of year	<u>\$ 101,160,417</u>	<u>\$ 99,853,636</u>

BROOKLYN ACADEMY OF MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 7 – BENEFICIAL INTEREST IN BAM ENDOWMENT TRUST (Continued)

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

BAM owes BET \$2,653,905 and \$1,429,735, representing funds temporarily held in BAM as of June 30, 2019 and 2018, respectively. During each of the years ended June 30, 2019 and 2018, BAM received a management fee of \$200,000 for services performed on behalf of BET by BAM employees.

During the years ended June 30, 2019 and 2018, BET appropriated \$4,449,813 and \$4,478,996, respectively, as the distribution to BAM. In addition, BET authorized a special distribution amounting to \$3,000,000 during the year ended June 30, 2018. Those amounts are reflected as revenue in the accompanying statements of activities.

NOTE 8 – NOTES PAYABLE

- A. BAM has a line of credit with a bank with maximum borrowing limit of \$3,900,000 as of June 30, 2019. 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 expiring on March 1, 2020. 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 the borrowing. The bank has a first priority security interest in all present and future assets of BAM. As of June 30, 2019 and 2018, the outstanding balance on the line of credit amounted to \$3,850,000 and \$0, respectively. The outstanding balance on the line of credit amounted to \$2,900,000 as of December 18, 2019.
- B. In April 2019, BAM obtained a loan from Bank of America, N.A. in the amount of \$2,850,000. The loan is secured by a lien covering real property owned by BAM located at 230 Ashland Place, Brooklyn, NY. The loan has a maturity date of May 1, 2024 and a fixed annual interest rate of 3.67%. Monthly principal and interest payments commenced on June 1, 2019 amounting to \$16,882. The outstanding balance as of June 30, 2019 amounted to \$2,845,901.

The loan payable balance reported in the accompanying statements of financial position is presented net of the unamortized balance of debt issuance costs of \$122,611 and \$0 as of June 30, 2019 and 2018, respectively.

Minimum annual principal payments are as follows for each of the years ending after June 30, 2019:

2020	\$ 98,000
2021	102,000
2022	105,000
2023	110,000
2024	2,431,000

NOTE 9 – 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, 2019 and 2018, there was approximately \$996,000 and \$717,000, 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, 2019 and 2018, 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.

BROOKLYN ACADEMY OF MUSIC, INC.
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NOTE 10 – 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, 2019 and 2018 amounted to \$1,836,396 and \$1,729,569, respectively, of which \$273,520 and \$264,494, 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 BAM’s year ended June 30, 2019 and 2018 financial statements is for the Plan’s years ended June 30, 2019 and 2018. 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 90.29% funded for its plan year beginning July 1, 2019. 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, 2019, the Plan was not in endangered or critical status.

Pension Plan	Employer Identification Number	Pension Plan Number	PPA Zone	FIP/RP Status	Surcharge Imposed	Expiration Date of Collective Bargaining Agreements
			Status July 1, 2019			
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, 2019 and 2018, the liability of \$1,311,037 and \$1,453,700, 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 a category of net assets without donor restrictions 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 \$91,826 and \$116,306 for the years ended June 30, 2019 and 2018, respectively. Included in prepaid expenses and other assets, and accounts payable and accrued expenses is \$480,877 and \$389,050 as of June 30, 2019 and 2018, respectively, relating to this Plan.

BROOKLYN ACADEMY OF MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS

BAM's net assets with donor restrictions consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
BAM Karen Project	\$ 532,258	\$ 522,258
BAM Strong Project	3,990,387	4,946,418
Benefits, galas and special events	40,000	5,000
Dance	500,000	875,000
Education	403,099	365,940
Next Wave	82,597	198,000
Opera and music	180,000	100,000
Other	6,241,507	5,440,324
Time restricted: to be used for general purposes	9,095	478,325
Working capital reserve fund	1,667,530	1,815,969
Beneficial interest in BAM Endowment Trust	<u>101,160,417</u>	<u>99,853,636</u>
Total donor-restricted net assets	<u>\$ 114,806,890</u>	<u>\$ 114,600,870</u>

During the years ended June 30, BAM released donor-restricted net assets by incurring program expenses or the passage of time, as follows:

	<u>2019</u>	<u>2018</u>
Benefits, galas and special events	\$ 5,000	\$ 40,000
Dance	375,000	100,000
Education	137,033	333,958
Next Wave	198,000	422,088
Opera and music	100,000	460,000
Other (education, ancillary, capital projects, marketing)	2,916,874	1,730,173
Theater	-	50,000
Time restricted: to be used for general purposes	<u>785,500</u>	<u>725,500</u>
Net assets released from restrictions for operations	4,517,407	3,861,719
BAM Strong Project	<u>983,594</u>	<u>322,034</u>
Total net assets released from restrictions	<u>\$ 5,501,001</u>	<u>\$ 4,183,753</u>

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:

	<u>2019</u>	<u>2018</u>
Operations	\$ 2,167,294	\$ 2,078,778
Energy	693,595	705,017
Energy Conservation Upgrades	41,689	-
Cultural Institutions Retirement System (Note 10)	<u>273,520</u>	<u>264,494</u>
Subtotal: New York City Department of Cultural Affairs	3,176,098	3,048,289
New York City Department for the Aging	9,000	-
Borough of Brooklyn	<u>20,000</u>	<u>20,000</u>
Total appropriation from The City of New York	<u>\$ 3,205,098</u>	<u>\$ 3,068,289</u>

BROOKLYN ACADEMY OF MUSIC, INC.
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NOTE 13 – EXPENSES BY FUNCTIONAL PROGRAM

For the years ended June 30, expenses by functional program (inclusive of depreciation and amortization) are as follows:

	<u>2019</u>	<u>2018</u>
Program services	\$ 41,014,782	\$ 42,453,271
Management and general	4,784,005	4,024,702
Fundraising	<u>8,316,239</u>	<u>7,573,320</u>
Total expenses by functional program	<u>\$ 54,115,026</u>	<u>\$ 54,051,293</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 BAM Strong at a nominal fee. In December 2013, BAM entered into a 25-year license agreement with the City to operate 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, 2019 and 2018 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.

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.

BROOKLYN ACADEMY OF MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 15 – FAIR VALUE MEASUREMENTS (Continued)

Financial assets carried at fair value at June 30, 2019 are classified as Level 1 and Level 3 in the table as follows:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
ASSETS CARRIED AT FAIR VALUE			
Cash equivalents – money market funds	\$ 21,362	\$ -	\$ 21,362
Beneficial interest in BAM Endowment Trust	<u>-</u>	<u>101,160,417</u>	<u>101,160,417</u>
TOTAL ASSETS AT FAIR VALUE	<u>\$ 21,362</u>	<u>\$ 101,160,417</u>	<u>\$ 101,181,779</u>

Financial assets carried at fair value at June 30, 2018 are classified as Level 1 and Level 3 in the table as follows:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
ASSETS CARRIED AT FAIR VALUE			
Cash equivalents – money market funds	\$ 21,088	\$ -	\$ 21,088
Beneficial interest in 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>

The reconciliation of the financial assets measured at estimated fair value classified as Level 3 follows for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 99,853,636	\$ 95,779,598
Additions	2,031,867	3,838,963
Expenses	(4,690,241)	(7,723,396)
Unrealized gain	3,349,421	3,900,839
Realized gain	<u>615,734</u>	<u>4,067,632</u>
Balance, end of year	<u>\$ 101,160,417</u>	<u>\$ 99,853,636</u>

NOTE 16 – SUBSEQUENT EVENTS

Management has evaluated events subsequent to the date of the statement of financial position through December 18, 2019, the date the financial statements were available to be issued. Subsequent to year end, BAM obtained a bridge loan from the New York City Economic Development Corporation to bridge BAM until BAM receives funds under its Funding Agreement for BAM Strong construction project. The loan is a short-term bridge loan with an interest rate of 3%, maximum drawing power of \$18MM and a maturity date of January 15, 2020. The outstanding balance as of December 18, 2019 is \$11,252,011.