

THE CHILDREN'S MUSEUM

Financial Statements

June 30, 2017 and 2016

THE CHILDREN’S MUSEUM

June 30, 2017 and 2016

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Independent Auditor's Report

To the Board of Trustees
The Children's Museum
Boston, Massachusetts

We have audited the accompanying financial statements of The Children's Museum (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Edelstein & Company LLP

Boston, Massachusetts
December 13, 2017

THE CHILDREN'S MUSEUM

Statements of Financial Position June 30,

	2017	2016
Assets		
Current assets:		
Cash	\$ 8,322,729	\$ 6,446,810
Accounts receivable	274,883	228,974
Pledges receivable	600,066	882,702
Prepaid expenses	78,830	61,632
Total current assets	<u>9,276,508</u>	<u>7,620,118</u>
Pledges receivable	190,900	335,535
Marketable securities	15,891,565	14,788,889
Property, exhibits and equipment	33,837,170	35,535,628
Other assets	<u>620,261</u>	<u>706,687</u>
Total assets	<u>\$ 59,816,404</u>	<u>\$ 58,986,857</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 586,549	\$ 505,709
Accrued liabilities	719,374	698,636
Bonds payable, net (\$750,000 and \$750,000 bond, less \$18,394 and \$11,904 unamortized bond issuance costs in 2017 and 2016 respectively)	<u>731,606</u>	<u>738,096</u>
Total current liabilities	<u>2,037,529</u>	<u>1,942,441</u>
Long-term liabilities:		
Derivative instruments	94,347	711,756
Notes payable	303,696	292,579
Bonds payable, net (\$12,500,000 and \$13,250,000 bond, less \$200,254 and \$226,180 unamortized bond issuance costs in 2017 and 2016 respectively)	<u>12,299,746</u>	<u>13,023,820</u>
Total long-term liabilities	<u>12,697,789</u>	<u>14,028,155</u>
Net assets:		
Unrestricted:		
Undesignated operating	6,022,881	5,442,353
Quasi-endowment	2,133,001	1,992,158
Board designated	4,359,822	4,071,937
Property, plant and equipment	<u>20,634,432</u>	<u>21,048,675</u>
Total unrestricted net assets	33,150,136	32,555,123
Temporarily restricted	7,700,668	6,335,944
Permanently restricted	<u>4,230,282</u>	<u>4,125,194</u>
Total net assets	<u>45,081,086</u>	<u>43,016,261</u>
Total liabilities and net assets	<u>\$ 59,816,404</u>	<u>\$ 58,986,857</u>

THE CHILDREN'S MUSEUM

**Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2017**

	Unrestricted				Total	Temporarily Restricted	Permanently Restricted	Total
	Undesignated Operating	Quasi-Endowment	Board Designated	Property, Plant and Equipment				
Revenues and other support:								
Admissions	\$ 3,311,552	\$ -	\$ -	\$ -	\$ 3,311,552	\$ -	\$ -	\$ 3,311,552
Gifts, contributions and grants	1,046,855	-	-	-	1,046,855	2,050,267	105,088	3,202,210
Contracts	284,118	-	-	-	284,118	-	-	284,118
Membership	1,552,628	-	-	-	1,552,628	-	-	1,552,628
Other earned income	583,729	-	-	-	583,729	-	-	583,729
Museum store	131,376	-	-	-	131,376	-	-	131,376
Traveling exhibits	70,000	-	-	-	70,000	-	-	70,000
Other income	6,369	-	-	-	6,369	-	-	6,369
Special events	560,967	-	-	-	560,967	-	-	560,967
In-kind contributions	16,834	-	-	-	16,834	-	-	16,834
Rental income	2,401,724	-	-	-	2,401,724	-	-	2,401,724
Investment income	746	237,947	486,359	-	725,052	1,043,707	-	1,768,759
	9,966,898	237,947	486,359	-	10,691,204	3,093,974	105,088	13,890,266
Net assets released from restrictions	1,729,250	-	-	-	1,729,250	(1,729,250)	-	-
Total revenues and other support	11,696,148	237,947	486,359	-	12,420,454	1,364,724	105,088	13,890,266
Expenses:								
Program services:								
Exhibits	-	-	-	1,092,439	1,092,439	-	-	1,092,439
Museum programs	1,928,839	-	-	-	1,928,839	-	-	1,928,839
Visitor services	2,442,376	-	-	-	2,442,376	-	-	2,442,376
Membership services	255,977	-	-	-	255,977	-	-	255,977
Supporting services:								
Administration and general	1,022,482	-	-	-	1,022,482	-	-	1,022,482
Facilities costs	1,401,798	-	-	-	1,401,798	-	-	1,401,798
Fundraising	479,747	-	-	-	479,747	-	-	479,747
Special events	226,666	-	-	-	226,666	-	-	226,666
Marketing	639,928	-	-	-	639,928	-	-	639,928
In-kind services	16,834	-	-	-	16,834	-	-	16,834
Total expenses	8,414,647	-	-	1,092,439	9,507,086	-	-	9,507,086
Change in net assets before depreciation, interest and gains	3,281,501	237,947	486,359	(1,092,439)	2,913,368	1,364,724	105,088	4,383,180
Depreciation, interest and gains:								
Depreciation	-	-	-	2,510,896	2,510,896	-	-	2,510,896
Interest	11,117	-	-	413,751	424,868	-	-	424,868
Unrealized gain on derivative financial instruments	-	-	-	(617,409)	(617,409)	-	-	(617,409)
Total depreciation, interest and gains	11,117	-	-	2,307,238	2,318,355	-	-	2,318,355
Change in net assets before transfers	3,270,384	237,947	486,359	(3,399,677)	595,013	1,364,724	105,088	2,064,825
Transfers, net	(2,689,856)	(97,104)	(198,474)	2,985,434	-	-	-	-
Change in net assets	580,528	140,843	287,885	(414,243)	595,013	1,364,724	105,088	2,064,825
Net assets, beginning of year	5,442,353	1,992,158	4,071,937	21,048,675	32,555,123	6,335,944	4,125,194	43,016,261
Net assets, end of year	\$ 6,022,881	\$ 2,133,001	\$ 4,359,822	\$ 20,634,432	\$ 33,150,136	\$ 7,700,668	\$ 4,230,282	\$ 45,081,086

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

THE CHILDREN'S MUSEUM

**Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2016**

	Unrestricted				Total	Temporarily Restricted	Permanently Restricted	Total
	Undesignated Operating	Quasi- Endowment	Board Designated	Property, Plant and Equipment				
Revenues and other support:								
Admissions	\$ 3,016,682	\$ -	\$ -	\$ -	\$ 3,016,682	\$ -	\$ -	\$ 3,016,682
Gifts, contributions and grants	1,110,637	-	-	-	1,110,637	2,466,548	-	3,577,185
Contracts	111,425	-	-	-	111,425	-	-	111,425
Membership	1,406,166	-	-	-	1,406,166	-	-	1,406,166
Other earned income	465,736	-	-	-	465,736	-	-	465,736
Museum store	110,156	-	-	-	110,156	-	-	110,156
Traveling exhibits	83,000	-	-	-	83,000	-	-	83,000
Other income	9,736	-	-	-	9,736	-	-	9,736
Special events	468,780	-	-	-	468,780	-	-	468,780
In-kind contributions	500	-	-	-	500	-	-	500
Rental income	2,148,457	-	-	-	2,148,457	-	-	2,148,457
Investment income	(11,631)	(67,684)	(138,345)	-	(217,660)	(296,244)	-	(513,904)
	8,919,644	(67,684)	(138,345)	-	8,713,615	2,170,304	-	10,883,919
Net assets released from restrictions	4,220,211	-	-	-	4,220,211	(4,220,211)	-	-
Total revenues and other support	13,139,855	(67,684)	(138,345)	-	12,933,826	(2,049,907)	-	10,883,919
Expenses:								
Program services:								
Exhibits	-	-	-	1,112,693	1,112,693	-	-	1,112,693
Museum programs	1,801,897	-	-	-	1,801,897	-	-	1,801,897
Visitor services	2,263,218	-	-	-	2,263,218	-	-	2,263,218
Membership services	229,615	-	-	-	229,615	-	-	229,615
Supporting services:								
Administration and general	906,081	-	-	-	906,081	-	-	906,081
Facilities costs	1,251,552	-	-	-	1,251,552	-	-	1,251,552
Fundraising	456,601	-	-	-	456,601	-	-	456,601
Special events	171,895	-	-	-	171,895	-	-	171,895
Marketing	580,976	-	-	-	580,976	-	-	580,976
In-kind services	500	-	-	-	500	-	-	500
Total expenses	7,662,335	-	-	1,112,693	8,775,028	-	-	8,775,028
Change in net assets before depreciation, interest and losses	5,477,520	(67,684)	(138,345)	(1,112,693)	4,158,798	(2,049,907)	-	2,108,891
Depreciation, interest and losses:								
Depreciation	-	-	-	2,526,611	2,526,611	-	-	2,526,611
Interest	10,711	-	-	453,532	464,243	-	-	464,243
Unrealized loss on derivative financial instruments	-	-	-	621,124	621,124	-	-	621,124
Loss on disposals of property, exhibits and equipment	-	-	-	440,241	440,241	-	-	440,241
Total depreciation, interest and losses	10,711	-	-	4,041,508	4,052,219	-	-	4,052,219
Change in net assets before transfers	5,466,809	(67,684)	(138,345)	(5,154,201)	106,579	(2,049,907)	-	(1,943,328)
Transfers, net	(4,636,938)	(97,924)	(200,126)	4,934,988	-	-	-	-
Change in net assets	829,871	(165,608)	(338,471)	(219,213)	106,579	(2,049,907)	-	(1,943,328)
Net assets, beginning of year	4,612,482	2,157,766	4,410,408	21,267,888	32,448,544	8,385,851	4,125,194	44,959,589
Net assets, end of year	\$ 5,442,353	\$ 1,992,158	\$ 4,071,937	\$ 21,048,675	\$ 32,555,123	\$ 6,335,944	\$ 4,125,194	\$ 43,016,261

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

THE CHILDREN'S MUSEUM

Statements of Cash Flows

For the Years Ended June 30,

	2017	2016
Cash flows provided by operating activities:		
Change in net assets	\$ 2,064,825	\$ (1,943,328)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Allowance for uncollectible pledges and accounts receivable	(3,784)	41,360
Depreciation and amortization	2,582,974	2,581,173
Loss on disposals of property, exhibits and equipment	-	440,241
Realized investment gains	(293,311)	(475,645)
Unrealized investment (gains) losses	(1,421,278)	1,150,542
Unrealized (gains) losses on derivative instruments	(617,409)	621,124
Discount for contribution of below market interest debt	11,117	10,711
Contributions restricted for capital improvements	(926,000)	(251,000)
Contributions restricted for debt repayment	-	(1,637,352)
Changes in operating assets and liabilities:		
Accounts receivable	(45,909)	24,789
Pledges receivable	431,055	753,694
Prepaid expenses	(17,198)	430
Accounts payable	80,840	137,084
Accrued liabilities	20,738	(30,039)
Other assets	33,784	(394,261)
Net cash provided by operating activities	<u>1,900,444</u>	<u>1,029,523</u>
Cash flows used in investing activities:		
Proceeds from the sale of marketable securities	720,299	725,771
Purchase of marketable securities	(108,386)	(172,480)
Purchase of exhibits, property, equipment and construction in-process	(812,438)	(1,130,304)
Net cash used in investing activities	<u>(200,525)</u>	<u>(577,013)</u>
Cash flows provided by (used in) financing activities:		
Contributions restricted for capital improvements	926,000	251,000
Contributions restricted for debt repayment	-	1,637,352
Repayment of bonds payable	(750,000)	(2,250,000)
Net cash provided by (used in) financing activities	<u>176,000</u>	<u>(361,648)</u>
Increase in cash	1,875,919	90,862
Cash, beginning of year	<u>6,446,810</u>	<u>6,355,948</u>
Cash, end of year	<u>\$ 8,322,729</u>	<u>\$ 6,446,810</u>
Supplemental financial information:		
Cash paid during the year for interest	<u>\$ 393,126</u>	<u>\$ 447,132</u>

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

THE CHILDREN'S MUSEUM

Notes to Financial Statements

1. Organization Purpose

The Children's Museum (the "Museum") is a nonprofit corporation founded in 1913 for cultural and educational purposes. Its mission is to "engage children and families in joyful discovery experiences that instill an appreciation of our world, develop foundational skills, and spark a lifelong love of learning". For that purpose, the Museum offers educational exhibits and programs to families, children and other educators.

2. Summary of Significant Accounting Policies

Financial Statement Presentation

In order to ensure the observance of limitations and restrictions placed on the use of resources available to the Museum, the Museum determines the classification of its net assets and its revenues, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions.

The net assets of the Museum are reported in three categories as follows:

- (1) Unrestricted net assets represent funds whose use is not restricted by donors. Unrestricted net assets are further classified as follows:

Undesignated operating net assets represent resources available for support of the Museum's general operations. *The Quasi-Endowment Fund* represents resources designated by the Board for annual operating support. The funds are distributed according to the Museum's spending policy. The *Board Designated Fund* is composed of resources that have been earmarked for capital and other projects. Disbursement of funds is subject to annual Board approval which is provided as part of the budget approval process.

Transfers to/from undesignated operating represent allocations for property, plant and equipment funding, for payment of bond and other long term principal and for allocations from the Board and quasi-endowment funds as provided in the spending policy.

- (2) Temporarily restricted net assets represent resources restricted by donors for a specific period or purpose.
- (3) Permanently restricted net assets represent the principal portion of endowment funds which cannot be expended. Income from endowment funds is utilized in accordance with the donors' stipulations.

Recently Adopted Accounting Pronouncement

During the year ended June 30, 2017, the Museum retrospectively adopted the requirements in the Financial Accounting Standards Board's Accounting Standards Update ("FASB ASU") No. 2015-03 *Simplifying the Presentation of Debt Issuance Costs* to present debt issuance costs as a reduction of the carrying amount of the debt rather than as an asset. In addition, under the new guidance, amortization of bond issuance costs is reported as a component of interest expense. In the June 30, 2016 financial statements, under previous guidance, debt issuance costs were reported as a separate asset on the statement of financial position, and amortization of bond issuance costs was reported as amortization on the statement of activities. The bond issuance costs are being amortized using the effective interest method.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurements

The Museum values its financial assets and liabilities 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 that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

Level 1 - Quoted prices in active markets 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 - Observable inputs other than *Level 1* inputs 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 market data.

Level 3 - 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, the Museum utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

Revenues, Gains, and Other Support

Admissions represent visitor fees paid for access to the Museum as well as gift passes sold. Museum store sales represent fees paid to the Museum by an outsourced retail vendor as provided in the contract.

Contributions and pledges are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are classified as temporarily restricted support are reclassified to unrestricted net assets upon satisfaction of the purpose restriction or expiration of the time restriction.

Membership dues represent fees paid by individual and corporate members in exchange for benefits that include admission to the Museum, invitation to member events and exhibit openings, and discounts to the Museum store and special events.

The Museum receives various types of in-kind support in the form of contributed services and other assets. Contributed services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, as provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of marketable securities and other tangible assets, such as property, equipment and inventory, are recognized at fair value when received.

Additionally, the Museum receives contributed time by volunteers which does not meet the criteria described above. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements.

Certain space within the Museum is leased primarily to nonprofit and commercial tenants under operating leases. Rental revenue is recorded as income on a straight-line basis over the lease term.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Revenues, Gains, and Other Support (continued)

The Museum records interest and dividends on its marketable securities when earned. Gains or losses are recorded when realized. Unrealized gains or losses are recorded based upon changes in the fair value of securities held.

Cash

Cash consists of checking and savings accounts at banks.

The Museum maintains deposits at banks in excess of federally insured limits.

Property, Exhibits and Equipment

Expenditures for property and equipment are stated at cost. Expenditures for maintenance, repairs, and renewals are charged to expense when incurred, whereas additions in excess of \$5,000 are capitalized. The Museum capitalizes the costs of constructing exhibits. Depreciation is recorded to allocate the cost of these assets over their estimated useful lives using the straight-line method. Estimated useful lives are as follows:

Equipment	Three to ten years
Exhibits	Three to ten years
Capital improvements and major renovations	Ten to thirty years
Building	Thirty years

Construction in-process is comprised of expenditures that are anticipated to have significant future benefit and are stated at cost. Cost includes contracting and construction, and architectural design services. Exhibits in-process includes expenditures for staff directly involved with exhibit development, consultants, materials used in building exhibits, and design services. Upon completion of construction, the project cost is reclassified to a property and equipment account and depreciated.

Management periodically evaluates its property and equipment assets for indications that the value has been impaired. Based on this assessment, management believes that impairment in value has not occurred.

Museum Collection

In conformity with the practice followed by many museums, the value of property donated for the Museum collection is not reflected on the statement of financial position. The collection is deemed inexhaustible. The collection is maintained for education and research and furtherance of the Museum's goals rather than financial gain. The collection is protected, kept unencumbered and is subject to an organizational policy that encourages permanent possession.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Functional Expenses

The costs of providing programs and other activities have been summarized on a functional basis in these financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates and Subsequent Events

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Museum's management has evaluated the effect which subsequent events may have on these financial statements. Management's evaluation was completed on December 13, 2017, the date these financial statements became available to be issued. No events have occurred subsequent to the statement of financial position date and through the date of evaluation that meet the criteria required for disclosure or accrual.

Income Taxes

The Museum operates as a publicly supported tax-exempt organization pursuant to Section 501(c)(3) of the Internal Revenue Code and, accordingly, is exempt from federal income taxes on related income pursuant to Section 509(a)(2) of the Code. The Organization is also exempt from Massachusetts income tax under Massachusetts General Law Chapter 180. Returns for tax years beginning with those filed for June 30, 2014 are open to examination.

3. Accounts Receivable

Accounts receivable are stated at the amount management expects to collect on outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and a corresponding reserve based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance and a credit to the receivable. As of June 30, 2017 and 2016, the allowance for uncollectible amounts was \$3,725 and \$2,931, respectively.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

4. Pledges Receivable

Pledges as of June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Receivable in less than one year:		
Corporations	\$ 10,000	\$ 140,333
Foundations	150,000	480,000
Government	206,336	276,461
Individuals	249,539	6,000
	<u>615,875</u>	<u>902,794</u>
Less - allowance for uncollectible pledges	(15,809)	(20,092)
Net pledges receivable in less than one year	<u>\$ 600,066</u>	<u>\$ 882,702</u>
Receivable in one to five years:		
Foundations	\$ -	\$ 150,000
Less - discount to net present value	-	(865)
Less - allowance for uncollectible pledges	-	(4,500)
Net pledges receivable in one to five years	<u>-</u>	<u>144,635</u>
Interest in Charitable Remainder Trust	190,900	190,900
Net pledges receivable, non-current portion	<u>\$ 190,900</u>	<u>\$ 335,535</u>

Pledges expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are recorded at the net present value of estimated future cash flows.

The present value of estimated future cash flows was measured utilizing a discount rate of .58% for the year ended June 30, 2016, an estimate of the risk free rate of return.

The Museum has been named the beneficiary of an irrevocable charitable remainder trust. Upon the death of the beneficiary, the Museum will receive a share of the remaining trust property. The Museum's interest in the trust residuary is adjusted annually based upon the trust's market value, actuarial tables and discounting at prevailing market rates. An adjustment to the charitable remainder trust was not recorded in 2017 because it was not material.

At June 30, 2017, the Museum had conditional pledges of \$623,843 which will not be recognized as assets in the statements of financial position until such time as the Museum meets the conditions of the promises to give.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

5. Endowment

Activity in the Museum's endowment funds for the years ended June 30, 2017 and 2016 was:

	<u>2017</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at beginning of year	\$ 6,064,095	\$ 4,599,600	\$ 4,125,194	\$ 14,788,889
Contributions	-	-	105,088	105,088
Investment return:				
Interest and dividends	21,854	31,443	-	53,297
Realized gains	120,271	173,040	-	293,311
Unrealized gains	582,181	839,097	-	1,421,278
Total investment return	<u>724,306</u>	<u>1,043,580</u>	<u>-</u>	<u>1,767,886</u>
Entry and exit fees	-	-	-	-
Amounts appropriated for current operations per spending policy	(295,578)	(424,720)	-	(720,298)
Balance at end of year	<u>\$ 6,492,823</u>	<u>\$ 5,218,460</u>	<u>\$ 4,230,282</u>	<u>\$ 15,941,565</u>
	<u>2016</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at beginning of year	\$ 6,568,174	\$ 5,323,709	\$ 4,125,194	\$ 16,017,077
Contributions	-	-	-	-
Investment return:				
Interest and dividends	70,730	101,750	-	172,480
Realized gains	195,049	280,596	-	475,645
Unrealized losses	(471,808)	(678,734)	-	(1,150,542)
Total investment return	<u>(206,029)</u>	<u>(296,388)</u>	<u>-</u>	<u>(502,417)</u>
Entry and exit fees	(1,292)	(1,855)	-	(3,147)
Amounts appropriated for current operations per spending policy	(296,758)	(425,866)	-	(722,624)
Balance at end of year	<u>\$ 6,064,095</u>	<u>\$ 4,599,600</u>	<u>\$ 4,125,194</u>	<u>\$ 14,788,889</u>

THE CHILDREN'S MUSEUM

Notes to Financial Statements

5. Endowment (continued)

The Museum's endowment consists of donor-restricted endowment funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment net asset composition by type of fund at June 30, 2017 and 2016, respectively, were:

	<u>2017</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted	\$ -	\$ 5,218,460	\$ 4,230,282	\$ 9,448,742
Quasi-Endowment Fund	2,133,001	-	-	2,133,001
Board Designated Fund	4,359,822	-	-	4,359,822
Total	<u>\$ 6,492,823</u>	<u>\$ 5,218,460</u>	<u>\$ 4,230,282</u>	<u>\$ 15,941,565</u>

	<u>2016</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted	\$ -	\$ 4,599,600	\$ 4,125,194	\$ 8,724,794
Quasi-Endowment Fund	1,992,158	-	-	1,992,158
Board Designated Fund	4,071,937	-	-	4,071,937
Total	<u>\$ 6,064,095</u>	<u>\$ 4,599,600</u>	<u>\$ 4,125,194</u>	<u>\$ 14,788,889</u>

THE CHILDREN'S MUSEUM

Notes to Financial Statements

5. Endowment (continued)

Endowment net assets were comprised of the following at June 30, 2017 and 2016:

	<u>2017</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Marketable securities	\$ 6,492,823	\$ 5,218,460	\$ 4,180,282	\$ 15,891,565
Pledges receivable	-	-	50,000	50,000
Total	<u>\$ 6,492,823</u>	<u>\$ 5,218,460</u>	<u>\$ 4,230,282</u>	<u>\$ 15,941,565</u>

	<u>2016</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Marketable securities	<u>\$ 6,064,095</u>	<u>\$ 4,599,600</u>	<u>\$ 4,125,194</u>	<u>\$ 14,788,889</u>

The Museum has interpreted the *Uniform Prudent Management of Institutional Funds Act of 2006* (“UPMIFA”) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until appropriated and expended. Accordingly, the income earned and appreciation/depreciation of the permanently restricted endowment has been classified as temporarily restricted net assets.

In accordance with UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization.

Accordingly, under the Museum’s endowment spending policy, four-and-a-half percent of the average of the fair value of each of the previous twelve quarters is appropriated to support the current operations. For the years ended June 30, 2017 and 2016, the amounts drawn down from the endowment per the Museum’s spending policy were \$720,298 and \$722,624, respectively. Amounts appropriated for current operations include the spending policy net of investment management and custody fees.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

6. Marketable Securities

Marketable securities at June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>		<u>2016</u>	
	<u>Fair Value</u>	<u>Cost (Average)</u>	<u>Fair Value</u>	<u>Cost (Average)</u>
TIFF Multi-Asset Fund	<u>\$ 15,891,565</u>	<u>\$ 15,101,824</u>	<u>\$ 14,788,889</u>	<u>\$ 15,420,426</u>

The Multi-Asset Fund incurs annual management and other fees which were approximately 1.07% and .73% of the Fund's net asset value during the years ended June 30, 2017 and 2016, respectively. In addition, entry fees on purchases and exit fees on redemptions are charged at the rate of .50% with the exception of the drawdown for the spending policy.

7. Property and Equipment

Property and equipment consisted of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Property and land	\$ 49,329,582	\$ 48,436,363
Equipment and furniture	2,444,758	2,328,291
Exhibits	12,685,707	12,416,635
Construction in process:		
Building additions and renovations	91,477	618,495
Exhibits	169,275	108,577
	<u>64,720,799</u>	<u>63,908,361</u>
Less - accumulated depreciation	<u>(30,883,629)</u>	<u>(28,372,733)</u>
	<u>\$ 33,837,170</u>	<u>\$ 35,535,628</u>

8. Other Assets

Other assets consisted of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Deferred leasing costs, net of accumulated amortization	\$ 226,657	\$ 279,298
Rent receivable	393,604	427,389
	<u>\$ 620,261</u>	<u>\$ 706,687</u>

THE CHILDREN'S MUSEUM

Notes to Financial Statements

8. Other Assets (continued)

Amortization expense of the deferred leasing costs for each of the following five years and thereafter is as follows:

<u>Years ending June 30,</u>	<u>Amount</u>
2018	\$ 53,669
2019	53,669
2020	48,907
2021	33,180
2022	26,280
Thereafter	10,952

9. Bonds Payable

On September 26, 2006, the Museum issued \$30 million in Variable Rate Demand Revenue Bonds through the Massachusetts Development Finance Agency ("MDFA"). Bond proceeds were used, in part, to refinance The Children's Museum Issue Series 2001 bond issuance which had an outstanding balance of \$6,905,000 at the time of the refinancing. Bond proceeds also provided the financing associated with a renovation and construction project which was completed in 2007.

On July 2, 2012, and consistent with the provisions provided for in the original MDFA bond agreement, Citizens Bank (the "Bank") purchased the Museum's outstanding bond obligations of \$18 million. Under the terms of the purchase, the Museum is obligated to pay variable interest at a rate based on adjusted LIBOR and is subject to certain restrictive covenants including attaining certain liquidity and debt service covenants and additional indebtedness. In addition, the Museum entered into swap agreements (see Note 10) that provide for fixed interest rate payments on a significant portion of its outstanding debt.

The bonds mature on April 1, 2036 as provided for in the original bond issuance through MDFA. Interest on the bonds is payable monthly and the principal is payable each April 1. During the years ended June 30, 2017 and 2016, the sum of the interest on the bonds and the amortization of the bond issuance costs was \$413,751 and \$453,532, respectively, of which \$19,436 and \$11,904 was amortization of the bond issuance costs.

Under the terms of the Agreement, the Museum is subject to certain restrictive covenants involving attaining certain liquidity ratios, additional indebtedness, and the use of assets financed by the bonds. The Museum was in compliance with all debt covenant requirements at June 30, 2017.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

9. Bonds Payable (continued)

On March 26, 2016, the bond agreement with the Bank was modified to make adjustments to the principal payments required for 2016 through 2019. Accordingly, the bond issue requires future principal repayments in accordance with the following schedule:

<u>Years ending June 30,</u>	<u>Amount</u>
2018	\$ 750,000
2019	750,000
2020	500,000
2021	500,000
2022	500,000
Thereafter	10,250,000

Amortization expense of the bond issuance costs for each of the following five years and thereafter is as follows:

<u>Years ending June 30,</u>	<u>Amount</u>
2018	\$ 18,394
2019	17,353
2020	16,312
2021	15,618
2022	14,924
Thereafter	136,047

10. Derivative Instruments

The Museum entered into two interest rate swap agreements on July 2, 2012 and April 27, 2016 with the Bank. The swap agreements were designated as a cash flow hedge of the floating-rate debt. The effect of the swaps is to convert floating-rate interest expense to fixed-rate interest expense. Under the 2012 interest rate contract, the Museum makes the variable interest payments required under the bond indenture and either receives or pays additional interest to arrive at a fixed rate of 1.4225%. Under the 2016 interest rate contract, which applies to interest payments after July 1, 2022, the Museum will make the variable interest payments required under the bond indenture and either receive or pay additional interest to arrive at a fixed rate of 1.895%. The fair value of the swap contract liabilities was \$94,347 and \$711,756 at June 30, 2017 and 2016, respectively.

The estimated fair value of the interest rate swap agreements was computed by using the net present value of the difference between fixed and floating future cash flows estimated through the use of various forward interest rate yield curves. The net unrealized gain or loss on the interest rate swaps is reflected in the statement of activities and changes in net assets.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

11. Fair Value Disclosures

The valuation of the Museum's assets and liabilities within the fair value hierarchy, as described in Note 2, consisted of the following at June 30, 2017 and 2016, respectively:

	<u>2017</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:			
TIFF Multi-Asset Fund	\$ 15,891,565	\$ -	\$ -
Liabilities:			
Interest rate swap	\$ -	\$ 94,347	\$ -
	<u>2016</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:			
TIFF Multi-Asset Fund	\$ 14,788,889	\$ -	\$ -
Liabilities:			
Interest rate swap	\$ -	\$ 711,756	\$ -

12. Line-of-Credit

The Museum has a line-of-credit with its bank permitting advances up to \$1,000,000. Advances bear interest at the LIBOR rate plus 2.75%. The line-of-credit agreement was extended through January 31, 2019. There were no outstanding balances on the line-of-credit at June 30, 2017 and 2016, or during the years then ended.

13. Note Payable

In May 2007 the Museum borrowed \$900,000 from the City of Boston, the proceeds of which were used to finance the building renovations. The loan bears interest at 1% and has a term of fifty years, at which time the outstanding balance and accrued interest will be due and payable. Interest has been imputed at the risk-free rate of 3.8% at the time the loan was made. The dollar value of the difference between the stated rate of 1% and the imputed rate of 3.8% was recorded as a contribution during year end June 30, 2007. The associated interest expense is recorded over the life of the loan, and was \$11,117 and \$10,711 during the years ended June 30, 2017 and 2016, respectively. Amounts shown as notes payable on the statement of financial position were \$303,696 and \$292,579 on June 30, 2017 and 2016, respectively.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

14. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Exhibits	\$ 908,267	\$ 254,723
Capital improvements	544,100	366,124
Other programs	1,029,841	1,115,497
Appropriation of endowment - spending policy and fees	5,218,460	4,599,600
	<u>\$ 7,700,668</u>	<u>\$ 6,335,944</u>

Net assets released from restrictions for the years ending June 30, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Capital campaign - debt repayment	\$ -	\$ 2,015,729
Exhibits	206,579	411,519
Capital improvements	272,150	597,187
Other programs	825,801	768,055
Appropriation of endowment - spending policy and fees	424,720	427,721
	<u>\$ 1,729,250</u>	<u>\$ 4,220,211</u>

15. Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following named funds at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Sadanbu Oda Fund	\$ 682,715	\$ 682,715
John and Dorothy Wilson Fund	200,000	200,000
J. H. and E. V. Wade Fund I	134,040	134,040
J. H. and E. V. Wade Fund II	1,000,000	1,000,000
O'Connor Early Childhood Fund	550,000	550,000
Growdon Science Program and Collections Funds	572,161	567,073
de Gunzburg Fund	920,349	920,349
Other endowment funds	171,017	71,017
	<u>\$ 4,230,282</u>	<u>\$ 4,125,194</u>

THE CHILDREN'S MUSEUM

Notes to Financial Statements

16. Retirement Plan

The Museum participates in a contributory retirement plan and makes contributions to the plan for the benefit of all eligible employees. The Museum's contributions were \$89,297 and \$64,423 for the years ended June 30, 2017 and 2016, respectively.

17. Advertising Costs

The Museum expenses the costs of advertising when the advertisement takes place. Advertising expenses for the years ended June 30, 2017 and 2016 were \$141,979 and \$65,473, respectively.

18. Rental Income

The Museum leases a portion of its space to outside tenants. Minimum future base rentals to be received on these leases are:

<u>Years ending June 30,</u>	<u>Amount</u>
2018	\$ 2,008,424
2019	1,512,882
2020	1,347,186
2021	1,015,436
2022	854,436
Thereafter	356,015

19. Leases

In 2000, the Museum entered into a twenty-year non-cancellable lease for exhibit production and storage space. The lease requires the Museum to pay base rental payments, real estate taxes and insurance. Rent expense was \$125,429 and \$122,552 for the years ended June 30, 2017 and 2016, respectively.

Future minimum base lease payments are as follows:

<u>Years ending June 30,</u>	<u>Amount</u>
2018	\$ 125,429
2019	125,429
2020	114,976