

THE CHILDREN'S MUSEUM

Financial Statements

June 30, 2018 and 2017

THE CHILDREN’S MUSEUM

June 30, 2018 and 2017

CONTENTS

Independent Auditor’s Report.....1

Statements of Financial Position.....2

Statements of Activities and Changes in Net Assets.....3

Statements of Cash Flows5

Notes to Financial Statements.....6

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, 2018 and 2017, 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 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 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, 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.

Edelstein & Company LLP

Boston, Massachusetts
November 28, 2018

THE CHILDREN'S MUSEUM

Statements of Financial Position June 30,

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,640,494	\$ 8,322,729
Accounts receivable, net	201,926	274,883
Pledges receivable, net	308,033	600,066
Prepaid expenses	59,463	78,830
Total current assets	<u>10,209,916</u>	<u>9,276,508</u>
Pledges receivable, net	190,900	190,900
Derivative instruments	258,973	-
Marketable securities	16,394,624	15,891,565
Property, exhibits and equipment	31,954,795	33,837,170
Other assets	541,695	620,261
Total assets	<u>\$ 59,550,903</u>	<u>\$ 59,816,404</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 508,323	\$ 586,549
Accrued and other short-term liabilities	871,552	719,374
Bonds payable, net (\$1,500,000 and \$750,000 bond, less \$17,353 and \$18,394 unamortized bond issuance costs in 2018 and 2017, respectively)	1,482,647	731,606
Total current liabilities	<u>2,862,522</u>	<u>2,037,529</u>
Long-term liabilities:		
Derivative instruments	-	94,347
Notes payable	315,237	303,696
Bonds payable, net (\$11,750,000 and \$12,500,000 bond, less \$182,901 and \$200,254 unamortized bond issuance costs in 2018 and 2017, respectively)	11,567,099	12,299,746
Total long-term liabilities	<u>11,882,336</u>	<u>12,697,789</u>
Net assets:		
Unrestricted:		
Undesignated operating	7,047,502	6,022,881
Quasi-endowment	2,192,881	2,133,001
Board designated	4,482,217	4,359,822
Property, exhibits and equipment	19,061,055	20,634,432
Total unrestricted net assets	<u>32,783,655</u>	<u>33,150,136</u>
Temporarily restricted	7,786,958	7,700,668
Permanently restricted	4,235,432	4,230,282
Total net assets	<u>44,806,045</u>	<u>45,081,086</u>
Total liabilities and net assets	<u>\$ 59,550,903</u>	<u>\$ 59,816,404</u>

THE CHILDREN'S MUSEUM

**Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2018**

	Unrestricted					Temporarily Restricted	Permanently Restricted	Total
	Undesignated Operating	Quasi- Endowment	Board Designated	Property, Exhibits and Equipment	Total			
Revenues and other support:								
Admissions	\$ 3,496,519	\$ -	\$ -	\$ -	\$ 3,496,519	\$ -	\$ -	\$ 3,496,519
Gifts, contributions and grants	1,153,541	-	-	-	1,153,541	786,602	5,150	1,945,293
Contracts	232,747	-	-	-	232,747	-	-	232,747
Membership	1,557,814	-	-	-	1,557,814	-	-	1,557,814
Other earned income	567,360	-	-	-	567,360	-	-	567,360
Museum store	125,862	-	-	-	125,862	-	-	125,862
Traveling exhibits	60,000	-	-	-	60,000	-	-	60,000
Other income	50,276	-	-	-	50,276	-	-	50,276
Special events	580,001	-	-	-	580,001	-	-	580,001
In-kind contributions	60,542	-	-	-	60,542	-	-	60,542
Rental income	2,290,904	-	-	-	2,290,904	-	-	2,290,904
Investment income	5,380	155,049	316,917	-	477,346	682,423	-	1,159,769
	10,180,946	155,049	316,917	-	10,652,912	1,469,025	5,150	12,127,087
Net assets released from restrictions	1,382,735	-	-	-	1,382,735	(1,382,735)	-	-
Total revenues and other support	11,563,681	155,049	316,917	-	12,035,647	86,290	5,150	12,127,087
Expenses:								
Program services:								
Exhibits	-	-	-	955,884	955,884	-	-	955,884
Museum programs	2,019,869	-	-	-	2,019,869	-	-	2,019,869
Visitor services	2,677,576	-	-	-	2,677,576	-	-	2,677,576
Membership services	273,825	-	-	-	273,825	-	-	273,825
Supporting services:								
Administration and general	987,902	-	-	-	987,902	-	-	987,902
Facilities costs	1,534,683	-	-	-	1,534,683	-	-	1,534,683
Fundraising	601,049	-	-	-	601,049	-	-	601,049
Special events	246,734	-	-	-	246,734	-	-	246,734
Marketing	684,537	-	-	-	684,537	-	-	684,537
In-kind services	60,542	-	-	-	60,542	-	-	60,542
Total expenses	9,086,717	-	-	955,884	10,042,601	-	-	10,042,601
Change in net assets before depreciation, interest and gains	2,476,964	155,049	316,917	(955,884)	1,993,046	86,290	5,150	2,084,486
Depreciation, interest and gains:								
Depreciation	-	-	-	2,300,776	2,300,776	-	-	2,300,776
Interest	11,541	-	-	400,530	412,071	-	-	412,071
Unrealized gain on derivative financial instruments	-	-	-	(353,320)	(353,320)	-	-	(353,320)
Total depreciation, interest and gains	11,541	-	-	2,347,986	2,359,527	-	-	2,359,527
Change in net assets before transfers	2,465,423	155,049	316,917	(3,303,870)	(366,481)	86,290	5,150	(275,041)
Transfers, net	(1,440,802)	(95,169)	(194,522)	1,730,493	-	-	-	-
Change in net assets	1,024,621	59,880	122,395	(1,573,377)	(366,481)	86,290	5,150	(275,041)
Net assets, beginning 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
Net assets, end of year	\$ 7,047,502	\$ 2,192,881	\$ 4,482,217	\$ 19,061,055	\$ 32,783,655	\$ 7,786,958	\$ 4,235,432	\$ 44,806,045

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, 2017**

	Unrestricted				Total	Temporarily Restricted	Permanently Restricted	Total
	Undesignated Operating	Quasi-Endowment	Board Designated	Property, Exhibits 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

Statements of Cash Flows

For the Years Ended June 30,

2018

2017

Cash flows from operating activities:

Change in net assets	\$ (275,041)	\$ 2,064,825
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Allowance for uncollectible pledges and accounts receivable	(12,252)	(3,784)
Depreciation and amortization	2,372,839	2,582,974
Realized investment gains	(1,552,239)	(293,311)
Unrealized investment losses (gains)	1,175,304	(1,421,278)
Unrealized gain on derivative financial instruments	(353,320)	(617,409)
Discount for contribution of below market interest debt	11,541	11,117
Contributions restricted for capital improvements	-	(926,000)
Changes in operating assets and liabilities:		
Accounts receivable	72,957	(45,909)
Pledges receivable	304,285	431,055
Prepaid expenses	19,367	(17,198)
Accounts payable	(78,226)	80,840
Accrued and other short-term liabilities	152,178	20,738
Other assets	24,897	33,784
Net cash provided by operating activities	<u>1,862,290</u>	<u>1,900,444</u>

Cash flows from investing activities:

Proceeds from the sale of marketable securities	706,480	720,299
Purchase of marketable securities	(832,604)	(108,386)
Purchase of exhibits, property, equipment and construction in process	(418,401)	(812,438)
Net cash used in investing activities	<u>(544,525)</u>	<u>(200,525)</u>

Cash flows from financing activities:

Contributions restricted for capital improvements	-	926,000
Repayment of bonds payable	-	(750,000)
Net cash provided by financing activities	<u>-</u>	<u>176,000</u>

Increase in cash	1,317,765	1,875,919
Cash, beginning of year	<u>8,322,729</u>	<u>6,446,810</u>
Cash and cash equivalents, end of year	<u>\$ 9,640,494</u>	<u>\$ 8,322,729</u>

Supplemental financial information:

Cash paid during the year for interest	<u>\$ 382,016</u>	<u>\$ 393,126</u>
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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 Pronouncements

During the year ended June 30, 2018, the Museum retrospectively adopted Financial Accounting Standards Board's Accounting Standard Update ("FASB ASU") No. 2015-07 *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. As a result, the Museum does not include the investment in TIFF within the fair value hierarchy.

During the year ended June 30, 2017, the Museum retrospectively adopted the requirements in 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. 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 and Cash Equivalents

Cash and cash equivalents consist of checking, savings and time deposit accounts at banks.

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

Marketable Securities

Marketable securities consist of shares held in traditional institutional funds and are carried at estimated fair values using the net asset value per share of the investments, as a practical expedient, as reported by the investment manager. The Museum reviews and evaluates the net asset values reported by the investment manager and believes the amounts reported represent a reasonable estimate of fair value.

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, exhibits 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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the 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 November 28, 2018, 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.

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, 2018 and 2017, the allowance for uncollectible amounts was \$1,274 and \$3,725, respectively.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

4. Pledges Receivable

Pledges as of June 30, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Receivable in less than one year:		
Corporations	\$ 4,959	\$ 10,000
Foundations	75,000	150,000
Government	231,631	206,336
Individuals	-	249,539
	<u>311,590</u>	<u>615,875</u>
Less - allowance for uncollectible pledges	(3,557)	(15,809)
Net pledges receivable in less than one year	<u>\$ 308,033</u>	<u>\$ 600,066</u>
 Net pledges receivable, non-current portion:		
Interest in Charitable Remainder Trust	<u>\$ 190,900</u>	<u>\$ 190,900</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 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 remainder of the trust 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 2018 because it was not material.

At June 30, 2018, the Museum had conditional pledges of \$497,513 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, 2018 and 2017 was:

	<u>2018</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at beginning of year	\$ 6,492,823	\$ 5,218,460	\$ 4,230,282	\$ 15,941,565
Contributions	-	-	5,150	5,150
Investment return:				
Interest and dividends	317,644	459,810	-	777,454
Realized gains	634,199	918,040	-	1,552,239
Unrealized losses	(479,877)	(695,427)	-	(1,175,304)
Total investment return	471,966	682,423	-	1,154,389
Amounts appropriated for current operations per spending policy	(289,691)	(416,789)	-	(706,480)
Balance at end of year	<u>\$ 6,675,098</u>	<u>\$ 5,484,094</u>	<u>\$ 4,235,432</u>	<u>\$ 16,394,624</u>
	<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	724,306	1,043,580	-	1,767,886
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>

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 and Board designated funds that bear no donor restrictions. 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, 2018 and 2017, respectively, were:

	<u>2018</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted	\$ -	\$ 5,484,094	\$ 4,235,432	\$ 9,719,526
Quasi-Endowment Fund	2,192,881	-	-	2,192,881
Board Designated Fund	4,482,217	-	-	4,482,217
Total	<u>\$ 6,675,098</u>	<u>\$ 5,484,094</u>	<u>\$ 4,235,432</u>	<u>\$ 16,394,624</u>

	<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>

Endowment net assets were comprised of the following at June 30, 2018 and 2017:

	<u>2018</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Marketable securities	<u>\$ 6,675,098</u>	<u>\$ 5,484,094</u>	<u>\$ 4,235,432</u>	<u>\$ 16,394,624</u>

	<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>

THE CHILDREN'S MUSEUM

Notes to Financial Statements

5. Endowment (continued)

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, 2018 and 2017, the amounts drawn down from the endowment per the Museum’s spending policy were \$706,480 and \$720,298, respectively. Amounts appropriated for current operations include the spending policy net of investment management and custody fees.

6. Marketable Securities

Marketable securities at June 30, 2018 and 2017 consisted of the following:

	<u>2018</u>		<u>2017</u>	
	<u>Fair Value</u>	<u>Cost (Average)</u>	<u>Fair Value</u>	<u>Cost (Average)</u>
TIFF Multi-Asset Fund	\$ 16,330,956	\$ 16,716,408	\$ 15,816,610	\$ 15,026,814
TIFF Short-Term Fund	63,668	63,778	74,955	75,009
	<u>\$ 16,394,624</u>	<u>\$ 16,780,186</u>	<u>\$ 15,891,565</u>	<u>\$ 15,101,823</u>

THE CHILDREN'S MUSEUM

Notes to Financial Statements

6. Marketable Securities (continued)

The Multi-Asset Fund incurs annual management and other fees which were approximately 0.94% and 1.07% of the Fund's net asset value during the years ended June 30, 2018 and 2017, respectively. The Short-Term Fund incurs annual management and other fees which were approximately .24% and .20% of the Fund's net asset value during the years ended June 30, 2018 and 2017, respectively. In addition, the Multi-Asset Fund charges entry fees on purchases and exit fees on redemptions at the rate of .50% with the exception of drawdowns for the spending policy up to 6% of the fund value. The Short-Term Fund does not charge purchase or exit fees.

7. Property, Exhibits and Equipment

Property and equipment consisted of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Property and land	\$ 49,455,227	\$ 49,329,582
Equipment and furniture	2,385,259	2,444,758
Exhibits	10,608,067	12,685,707
Construction in process:		
Building additions and renovations	55,380	91,477
Exhibits	488,738	169,275
	<u>62,992,671</u>	<u>64,720,799</u>
Less - accumulated depreciation	(31,037,876)	(30,883,629)
	<u>\$ 31,954,795</u>	<u>\$ 33,837,170</u>

8. Other Assets

Other assets consisted of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Deferred leasing costs, net of accumulated amortization	\$ 212,270	\$ 226,657
Rent receivable	329,425	393,604
	<u>\$ 541,695</u>	<u>\$ 620,261</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>
2019	\$ 60,216
2020	56,763
2021	41,037
2022	34,137
2023	18,807
Thereafter	1,310

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 (the “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, 2018 and 2017, the sum of the interest on the bonds and the amortization of the bond issuance costs was \$400,530 and \$413,751, respectively, of which \$18,394 and \$19,436 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, 2018.

Due to a bank error, the scheduled payment due in April 2018 was not made until August 2018. The Museum did not incur any additional interest or penalties as a result of the delay in payment.

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>
2019 (Originally scheduled for April 2018)	\$ 750,000
2019	750,000
2020	500,000
2021	500,000
2022	500,000
2023	500,000
Thereafter	9,750,000

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>
2019	\$ 17,353
2020	16,312
2021	15,618
2022	14,924
2023	14,229
Thereafter	121,818

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 contracts was an asset of \$258,973 and a liability of \$94,347 at June 30, 2018 and 2017, 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

14. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Exhibits	\$ 1,023,592	\$ 908,267
Capital improvements	532,764	544,100
Other programs	746,508	1,029,841
Appropriation of endowment - spending policy and fees	5,484,094	5,218,460
	<u>\$ 7,786,958</u>	<u>\$ 7,700,668</u>

Net assets released from restrictions for the years ending June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Exhibits	\$ 228,489	\$ 206,579
Capital improvements	11,336	272,150
Other programs	726,121	825,801
Appropriation of endowment - spending policy and fees	416,789	424,720
	<u>\$ 1,382,735</u>	<u>\$ 1,729,250</u>

15. Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following named funds at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</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	577,311	572,161
de Gunzburg Fund	920,349	920,349
Other endowment funds	171,017	171,017
	<u>\$ 4,235,432</u>	<u>\$ 4,230,282</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 \$99,936 and \$89,297 for the years ended June 30, 2018 and 2017, respectively.

17. Advertising Costs

The Museum expenses the costs of advertising when the advertisement takes place. Advertising expenses for the years ended June 30, 2018 and 2017 were \$212,100 and \$141,979, 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>
2019	\$ 1,956,639
2020	1,875,802
2021	1,563,693
2022	1,422,334
2023	943,554
Thereafter	90,221

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 for each of the years ended June 30, 2018 and 2017.

Future minimum base lease payments are as follows:

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

THE CHILDREN'S MUSEUM

Notes to Financial Statements

20. Park Agreements

On March 15, 2018, the Museum entered into two agreements with the City of Boston (the "City") related to the construction and operation of a park designed for public use and dedicated to the memory of Martin Richard, (the "Park"). The City, in collaboration with the Martin W. Richard Charitable Foundation, Inc., (the "Foundation"), will establish a public park on land partially owned by the City and partially owned by the Museum. The Park will have an elevated portion that will be supported by a concrete garage built on the Museum's property, primarily for the benefit of the Museum. The Memorandum of Understanding and the Reciprocal Easement Agreement detail the obligations for the construction of the garage, and the rights, easements and obligations benefitting and burdening the Museum property and the City property in order to permit the construction, operation and use of the Park. The Park will be operated and maintained by the City and the Foundation. In the event that the City property ceases to be used for a public park, provisions are in place that ensure that the Museum's garage building is protected and can continue to operate independently of the City property, including access easements, in perpetuity.