

MINNESOTA CHILDREN'S MUSEUM
(A Non-Profit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2016 and 2015 (Unconsolidated)



INDEPENDENT AUDITOR'S REPORT

Board of Directors

MINNESOTA CHILDREN'S MUSEUM

We have audited the accompanying consolidated financial statements of Minnesota Children's Museum and its affiliate, which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities and changes in net assets, cash flows, and functional expenses for the year then ended, and the related notes to the consolidated financial statements. We have also audited the accompanying financial statements of Minnesota Children's Museum, which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the year 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 audit. We conducted our audit 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 2016 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Minnesota Children's Museum and its affiliate as of June 30, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the 2015 financial statements present fairly, in all material respects, the financial position of Minnesota Children's Museum as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The financial statements of Minnesota Children's Museum as of June 30, 2014, were audited by other auditors whose report dated October 9, 2014, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the financial statements from which it has been derived.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the 2016 consolidated financial statements as a whole. The accompanying consolidating statement of financial position as of June 30, 2016, and the consolidating statement of activities for the year ended June 30, 2016 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.



Mayer Hoffman McCann P.C.
Minneapolis, Minnesota
November 4, 2016

MINNESOTA CHILDREN'S MUSEUM

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u> <u>Unconsolidated</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,784,653	\$ 2,765,782
Grants and pledges receivable, net	799,674	228,970
Accounts receivable, net	125,145	93,150
Prepaid expenses	226,509	227,578
TOTAL CURRENT ASSETS	<u>2,935,981</u>	<u>3,315,480</u>
INVESTMENTS	4,409,618	4,782,754
LEVERAGED LOAN RECEIVABLE	6,827,800	-
LAND, BUILDING, EXHIBITS AND EQUIPMENT, NET	18,904,859	9,147,691
CASH RESTRICTED FOR CAPITAL CAMPAIGN	2,930,781	2,851,280
GRANTS AND PLEDGES RECEIVABLE, LONG-TERM	16,659,007	3,529,765
TOTAL ASSETS	<u>\$ 52,668,046</u>	<u>\$ 23,626,970</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 900,000	-
Accounts payable	104,466	309,846
Contractors payable	2,405,899	100,065
Accrued compensation	330,767	269,047
Deferred revenue	1,483,188	1,114,579
TOTAL CURRENT LIABILITIES	<u>5,224,320</u>	<u>1,793,537</u>
NEW MARKET TAX CREDIT LOANS	9,420,000	-
LONG TERM DEBT, NET OF CURRENT PORTION	2,150,000	-
TOTAL LIABILITIES	<u>16,794,320</u>	<u>1,793,537</u>
NET ASSETS		
Unrestricted:		
Undesignated	596,589	870,876
Board designated reserves	830,000	830,000
Total unrestricted net assets	<u>1,426,589</u>	<u>1,700,876</u>
Temporarily restricted net assets	30,205,815	15,891,235
Permanently restricted net assets	4,241,322	4,241,322
TOTAL NET ASSETS	<u>35,873,726</u>	<u>21,833,433</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 52,668,046</u>	<u>\$ 23,626,970</u>

See Notes to Consolidated Financial Statements

MINNESOTA CHILDREN'S MUSEUM

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Unrestricted Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT					
Revenue					
Museum admissions	\$ 1,189,679	\$ -	\$ -	\$ -	\$ 1,189,679
Memberships	1,108,760	-	-	-	1,108,760
Education & groups	106,889	-	-	-	106,889
Parties & events revenue	18,601	-	-	-	18,601
Exhibit rentals & sales	936,958	-	-	-	936,958
Endowment revenue	-	-	53,899	-	53,899
Net unrealized loss on endowment	-	-	(186,035)	-	(186,035)
Other revenue	<u>259,460</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>259,460</u>
Total Revenue	<u>3,620,347</u>	<u>-</u>	<u>(132,136)</u>	<u>-</u>	<u>3,488,211</u>
Support					
Grants and contributions	829,753	-	723,338	-	1,553,091
Government grants	-	-	1,010,000	-	1,010,000
Fundraising events	226,504	-	-	-	226,504
In-kind contributions	102,314	-	-	-	102,314
Capital campaign	970	-	15,099,679	-	15,100,649
Total Support	<u>1,159,541</u>	<u>-</u>	<u>16,833,017</u>	<u>-</u>	<u>17,992,558</u>
Net assets released from restriction	<u>2,386,301</u>	<u>-</u>	<u>(2,386,301)</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	<u>7,166,189</u>	<u>-</u>	<u>14,314,580</u>	<u>-</u>	<u>21,480,769</u>
EXPENSES					
Program	5,225,818	-	-	-	5,225,818
Administrative (management & general, marketing & promotion)	1,402,223	-	-	-	1,402,223
Fundraising	<u>812,435</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>812,435</u>
Total Expenses	<u>7,440,476</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,440,476</u>
TOTAL CHANGE IN NET ASSETS	(274,287)	-	14,314,580	-	14,040,293
Net Assets - Beginning of Year	<u>870,876</u>	<u>830,000</u>	<u>15,891,235</u>	<u>4,241,322</u>	<u>21,833,433</u>
NET ASSETS - END OF YEAR	<u>\$ 596,589</u>	<u>\$ 830,000</u>	<u>\$ 30,205,815</u>	<u>\$ 4,241,322</u>	<u>\$ 35,873,726</u>

See Notes to Consolidated Financial Statements

MINNESOTA CHILDREN'S MUSEUM

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Unrestricted Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT					
Revenue					
Museum admissions	\$ 1,273,664	\$ -	\$ -	\$ -	\$ 1,273,664
Memberships	1,271,365	-	-	-	1,271,365
Education & groups	223,757	-	-	-	223,757
Parties & events revenue	90,973	-	-	-	90,973
Exhibit rentals & sales	923,546	-	-	-	923,546
Endowment revenue	-	-	207,197	-	207,197
Net unrealized gain on endowment	-	-	(266,970)	-	(266,970)
Other revenue	330,080	-	-	-	330,080
Total Revenue	<u>4,113,385</u>	<u>-</u>	<u>(59,773)</u>	<u>-</u>	<u>4,053,612</u>
Support					
Grants and contributions	795,203	-	730,320	79,569	1,605,092
Government grants	-	-	395,000	-	395,000
Fundraising events	220,774	-	-	-	220,774
In-kind contributions	251,182	-	-	-	251,182
Capital campaign	-	-	5,930,107	-	5,930,107
Total Support	<u>1,267,159</u>	<u>-</u>	<u>7,055,427</u>	<u>79,569</u>	<u>8,402,155</u>
Net assets released from restriction	<u>2,261,620</u>	<u>-</u>	<u>(2,261,620)</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	<u>7,642,164</u>	<u>-</u>	<u>4,734,034</u>	<u>79,569</u>	<u>12,455,767</u>
EXPENSES					
Program	5,366,212	-	-	-	5,366,212
Administrative (management & general, marketing & promotion)	1,322,303	-	-	-	1,322,303
Fundraising	1,073,349	-	-	-	1,073,349
Total Expenses	<u>7,761,864</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,761,864</u>
TOTAL CHANGE IN NET ASSETS	(119,700)	-	4,734,034	79,569	4,693,903
Net Assets - Beginning of Year	<u>990,576</u>	<u>830,000</u>	<u>11,157,201</u>	<u>4,161,753</u>	<u>17,139,530</u>
NET ASSETS - END OF YEAR	<u>\$ 870,876</u>	<u>\$ 830,000</u>	<u>\$ 15,891,235</u>	<u>\$ 4,241,322</u>	<u>\$ 21,833,433</u>

See Notes to Consolidated Financial Statements

MINNESOTA CHILDREN'S MUSEUM

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2016 and 2015

	2016	2015 (Unconsolidated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 14,040,293	\$ 4,693,903
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	640,369	645,191
Unrealized and realized gains and reinvested income on investments	132,136	59,773
Contributions restricted for endowment	-	(79,569)
Contributions restricted for capital campaign	(15,100,649)	(5,930,107)
Capital campaign discount amortization and write-off of uncollectible pledges receivable	12,642	38,240
Changes in current assets and liabilities		
Accounts receivable	(31,995)	(58,976)
Grants and pledges receivable	(570,705)	577,771
Prepaid expenses	1,069	(68,374)
Payables and accrued expenses	2,162,174	75,074
Deferred revenue	368,609	105,467
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,653,943	58,393
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in short-term investment - investment draws	-	238,000
Endowment draws	241,000	242,000
Purchase of endowment investments	-	(79,569)
Gross proceeds from sale of CD's	-	200,000
Purchase of property, equipment and construction in progress	(10,397,537)	(2,091,287)
Net change in cash restricted for capital campaign	(79,501)	(2,493,187)
NET CASH USED BY INVESTING ACTIVITIES	(10,236,038)	(3,984,043)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of leveraged loans	(6,827,800)	-
Payments on line of credit	-	(300,000)
Proceeds from new market tax credit loans	9,420,000	
Proceeds from long-term debt	3,500,000	-
Payments of long-term debt	(450,000)	-
Collection of contributions restricted for endowment	-	79,569
Collection of contributions restricted for capital campaign	1,958,766	4,755,208
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	7,600,966	4,534,777
NET INCREASE (DECREASE)	(981,129)	609,127
CASH AND CASH EQUIVALENTS		
BEGINNING OF YEAR	2,765,782	2,156,655
END OF YEAR	\$ 1,784,653	\$ 2,765,782

See Notes to Consolidated Financial Statements

MINNESOTA CHILDREN'S MUSEUM

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2016
(With Summarized Totals For The Year Ended June 30, 2015)

	<u>Support Services</u>				<u>Total Support Services</u>	<u>Total 2016</u>	<u>(Unconsolidated)</u>
	<u>Total Programs</u>	<u>Management & General</u>	<u>Marketing & Promotion</u>	<u>Fund Raising</u>			<u>Total 2015</u>
Salaries and wages	\$ 3,156,317	\$ 665,403	\$ 158,199	\$ 466,735	\$ 1,290,337	\$ 4,446,654	\$ 4,239,831
Payroll taxes	247,547	78,330	12,486	35,768	126,584	374,131	339,301
Employee benefits	294,432	43,902	15,672	47,191	106,765	401,197	454,378
Total Personnel Expense	<u>3,698,296</u>	<u>787,635</u>	<u>186,357</u>	<u>549,694</u>	<u>1,523,686</u>	<u>5,221,982</u>	<u>5,033,510</u>
Accounting and finance services fees	-	29,500	-	-	29,500	29,500	114,477
Other professional fees & contracted services	575,072	51,961	25,417	87,009	164,387	739,459	1,742,406
Maintenance / equipment / rent	681,380	24,195	346	24,073	48,614	729,994	385,628
Information technology	119,462	24,498	6,485	15,550	46,533	165,995	178,332
Travel	32,362	1,334	483	792	2,609	34,971	34,416
Training / meetings	40,042	11,583	1,157	82,645	95,385	135,427	115,725
Supplies	171,125	4,658	188	2,168	7,014	178,139	220,268
Postage & shipping	63,865	2,432	591	7,075	10,098	73,963	75,128
Utilities	183,812	15,886	218	957	17,061	200,873	221,044
Printing, photography & graphics	69,722	360	10,163	14,272	24,795	94,517	230,074
Promotion & advertising	182,898	1,670	75,184	9,952	86,806	269,704	351,002
Insurance	5,303	48,903	-	-	48,903	54,206	46,502
Fees / permits / license	776,678	66,060	93	1,703	67,856	844,534	129,013
Exhibit rental / construction	477,238	-	-	-	-	477,238	102,613
Capital Project Construction	7,498,111	-	-	-	-	7,498,111	-
Other expenses	9,406	835	-	16,545	17,380	26,786	32,802
Total Expense before Depreciation & Capitalization	<u>14,584,772</u>	<u>1,071,510</u>	<u>306,682</u>	<u>812,435</u>	<u>2,190,627</u>	<u>16,775,399</u>	<u>9,012,940</u>
Capitalization of property and equipment	(9,975,292)	-	-	-	-	(9,975,292)	(1,896,267)
Depreciation	616,338	24,031	-	-	24,031	640,369	645,191
Total Expenses	<u>\$ 5,225,818</u>	<u>\$ 1,095,541</u>	<u>\$ 306,682</u>	<u>\$ 812,435</u>	<u>\$ 2,214,658</u>	<u>\$ 7,440,476</u>	<u>\$ 7,761,864</u>

See Notes to Consolidated Financial Statements

MINNESOTA CHILDREN'S MUSEUM

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2015
(With Summarized Totals For The Year Ended June 30, 2014)

	Support Services				Total Support Services	Total 2015 (Unconsolidated)	Total 2014 (Unconsolidated)
	Total Programs	Management & General	Marketing & Promotion	Fund Raising			
Salaries and wages	\$ 3,026,845	\$ 566,102	\$ 110,276	\$ 536,608	\$ 1,212,986	\$ 4,239,831	\$ 4,122,684
Payroll taxes	226,806	65,603	8,194	38,698	112,495	339,301	326,000
Employee benefits	345,314	31,766	10,894	66,404	109,064	454,378	437,166
Total Personnel Expense	3,598,965	663,471	129,364	641,710	1,434,545	5,033,510	4,885,850
Accounting and finance services fees	-	114,477	-	-	114,477	114,477	504,677
Other professional fees & contracted services	1,567,711	67,793	19,537	87,365	174,695	1,742,406	956,710
Maintenance / equipment / rent	334,071	23,566	302	27,689	51,557	385,628	375,244
Information technology	125,835	26,101	11,036	15,360	52,497	178,332	152,489
Travel	30,814	1,366	236	2,000	3,602	34,416	33,128
Training / meetings	40,941	10,453	1,210	63,121	74,784	115,725	138,401
Supplies	211,819	5,793	127	2,529	8,449	220,268	266,598
Postage & shipping	64,075	2,200	1,088	7,765	11,053	75,128	92,976
Utilities	202,624	17,387	162	871	18,420	221,044	232,856
Printing, photography & graphics	62,949	585	9,186	157,354	167,125	230,074	224,436
Promotion & advertising	210,911	659	88,718	50,714	140,091	351,002	356,185
Insurance	3,715	42,787	-	-	42,787	46,502	38,499
Fees / permits / license	67,293	57,615	21	4,084	61,720	129,013	110,383
Exhibit rental / construction	102,613	-	-	-	-	102,613	112,200
Other expenses	18,805	1,203	7	12,787	13,997	32,802	21,628
Contingency	-	-	-	-	-	-	(16,810)
Total Expenses before Depreciation & Capitalization	6,643,141	1,035,456	260,994	1,073,349	2,369,799	9,012,940	8,485,450
Capitalization of property & equipment	(1,896,267)	-	-	-	-	(1,896,267)	(953,514)
Depreciation	619,338	25,853	-	-	25,853	645,191	641,571
Total Expenses	\$ 5,366,212	\$ 1,061,309	\$ 260,994	\$ 1,073,349	\$ 2,395,652	\$ 7,761,864	\$ 8,173,507

See Notes to Consolidated Financial Statements

MINNESOTA CHILDREN'S MUSEUM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

Organizational purpose - Minnesota Children's Museum's mission is: "Sparking children's learning through play."

Minnesota Children's Museum (MCM) is a unique educational and cultural resource that represents the community's interest and investment in our children and their childhoods. MCM provides playful learning experiences and environments where children, families and school and community groups discover and explore their world through participatory, interdisciplinary exhibits and programs in the arts, sciences, and humanities. MCM fosters connections among children and families of all nations and cultures.

The MCM's programs are as follows:

Educational services – Develops and implements all museum program activity, from performances and holiday events to daily interpretive activity in the museum galleries to activities and programs for school and community groups. This program also implements grant-funded projects, often in conjunction with schools and other organizations.

Exhibit production – Designs, builds and maintains exhibits in museum galleries, incorporating educational content. Also implements grant-funded projects that include traveling exhibits and off-site installations.

Visitor services and volunteers – Manages admissions and group reservation functions, monitors safety, operations and overall quality of customer and interpretive services. Screens, trains, supervises and recognizes volunteers and interns in various museum departments.

Member services – Maintains MCM's family membership program, including ongoing member benefits and programs such as special events.

Other programs – Rentals of museum space by other organizations and individuals, birthday parties for MCM members and other children; overnight events for groups of children from the community.

In September 2015, MCM established MCM Holdings as a nonprofit corporation to hold and manage its existing facility in downtown St. Paul. This transaction was carried out to assist with the facilitation of a new market tax credit structure in conjunction with the expansion and complete renovation of the facility as more fully described in Note 9. The facility continues to be used for the exclusive use and benefit of MCM and MCM is the sole voting member of MCM Holdings. As such, MCM Holdings is consolidated into the financial statements of MCM.

MINNESOTA CHILDREN'S MUSEUM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Principles of consolidation - The financial statements as of and for the year ended June 30, 2016, include the accounts of Minnesota Children's Museum and MCM Holdings. The consolidated organizations are herein referred to as the Museum. All significant intercompany accounts and transactions have been eliminated.

Basis of Accounting – In accordance with accounting principles generally accepted in the United States of America, the Museum prepares its financial statements on the accrual basis of accounting. Consequently, revenue is recognized when earned and expense when an obligation is incurred.

Financial statement presentation - Net assets and revenues, gains and losses are classified based on donor imposed restrictions. Accordingly, net assets of the Museum and changes therein are classified and reported as follows:

Unrestricted – Resources over which the board of directors has discretionary control. Designated amounts represent those revenues which the board has set aside for a particular purpose.

Temporarily restricted – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Museum or passage of time.

Permanently restricted – Those resources subject to donor imposed restriction that they be maintained permanently by the Museum. The donors of these resources permit the Museum to use all or part of the income earned, including capital appreciation, or related investments for unrestricted or temporarily restricted purposes.

Cash and cash equivalents - The Museum considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash restricted for the Museum's capital campaign is reported in other assets and is not reported as part of cash and cash equivalents.

Accounts receivable - Accounts receivable are stated at unpaid balances, less any allowance for doubtful accounts. Management provides for probable uncollectible amounts through a provision for bad debt expense based on its assessment of the current status of individual accounts, third-party contracts, and other circumstances, which may affect the ability of clients to meet their obligations. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and credit to accounts receivable. Management considers all receivables to be fully collectible at year-end and accordingly, an allowance for doubtful accounts has not been recorded.

MINNESOTA CHILDREN'S MUSEUM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Grants and pledges receivable - Grants and pledges that are expected to be collected within one year are recorded at their net realizable value. Grants and pledges that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. The discounts on those amounts are computed using an imputed interest rate applicable to the year in which the pledge is expected to be received. Amortization of the discount is included in contribution revenue. Grants and pledges receivable in more than one year are discounted at rates ranging from 1.2% to 2%. Conditional pledges are not included as support until such time as the conditions are substantially met.

An allowance for uncollectible grants and pledges receivable is provided based upon management's judgment, including factors such as prior collection history, type of contribution, and nature of fundraising activity. There was an allowance for uncollectible grants and pledges as of June 30, 2016 and 2015 (unconsolidated) of \$14,668 and \$16,119, respectively.

Investments - Investments are reported at fair value. Fair value is 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. See note 14 for discussion of fair value measurements.

Purchases and sales of investments are reflected on a trade-date basis. Realized gains or losses on sales of investments are based on the cost of specifically identified investments. Changes in unrealized gains and losses are included in the change in net assets in the accompanying statement of activities. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend dates.

Investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Land, building, exhibits and equipment - The Museum capitalizes land, buildings, exhibits and equipment when the cost per item is in excess of \$1,000. Donated fixed assets are capitalized at their fair market value or appraised value. Costs of current repairs and minor replacements are charged to expense as incurred. The Museum provides for depreciation of building, exhibits, furniture and equipment on a straight-line basis over the estimated useful lives of the assets as follows:

Land lease	40 Years
Building and improvements	40 Years
Furniture and equipment	3 - 5 Years
Exhibits	3 - 10 Years

Memberships - Membership dues collected are recognized as revenue ratably over the period to which the dues relate. Dues collected in advance are recorded as deferred memberships until they are earned.

MINNESOTA CHILDREN'S MUSEUM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Exhibit rental revenue - The Museum rents out exhibits to other institutions. Rental revenue is recognized evenly over the period of the rental agreement. Deferred revenue results from prepayments received for exhibits.

Contributions - Contributions, unconditional promises to give (pledges receivable), and other assets are recognized at fair values and are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor.

All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When these restrictions expire, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

It is the Museum's policy to imply a time restriction on gifts of long-lived assets (or gifts of cash or other assets restricted for acquisition of long-lived assets) such that the gifts are reported as restricted support, with the related restrictions expiring over the useful lives of the donated assets. The Museum records restrictions based on donor intent. Capital campaign contributions and pledges are recognized as unrestricted when the purpose restriction has been met, subject to the policy of implying a time restriction on gifts restricted for long-lived assets.

Estimates - Management uses estimates and assumptions in preparing financial statements in conformity with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Functional allocation of expenses - The costs of providing various programs and services have been summarized on a functional basis. Salaries and related expenses are allocated based on job descriptions and the best estimates of management. Expenses, other than salaries and related costs, which are not directly identifiable by program or support service, are allocated using the best estimates of management.

Advertising costs - Advertising costs are expensed as incurred. Advertising costs for the years ended June 30, 2016 and 2015 (unconsolidated) were \$269,704 and \$351,002, respectively.

Long-lived assets - Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. Management does not believe impairment indicators are present at June 30, 2016 and 2015 (unconsolidated).

MINNESOTA CHILDREN'S MUSEUM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Fair value measurements - The Museum measures fair value using a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The objective of a fair value measurement is to determine 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 (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The Museum may use valuation techniques consistent with the market, income and cost approaches to measure fair value.

Financial assets and liabilities recorded on the statements of financial position are categorized based on the inputs to the valuation techniques as follows:

- Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.
- Level 2 – Financial assets and liabilities are valued using inputs that are quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data. Level 2 includes private collateralized mortgage obligations, municipal bonds, and corporate debt securities.
- Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset. Level 3 includes private equity, venture capital, hedge funds and real estate.

MINNESOTA CHILDREN'S MUSEUM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Tax exempt status – MCM and MCM Holdings are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Minnesota Statute. They have been classified as organizations that are not private foundations under the Internal Revenue Code. Therefore, contributions qualify as a charitable tax deduction by the contributor.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, MCM and MCM Holdings may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of MCM and MCM Holdings and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for the years ended June 30, 2016 and 2015 (unconsolidated).

Subsequent events - In preparing these financial statements, the Museum has evaluated events and transactions for potential recognition or disclosure through November 4, 2016, the date the financial statements were available to be issued.

(2) Concentration of credit risk

The Museum maintains its cash and cash reserves at several financial institutions. At times, the amounts on deposit may exceed the federally insured limits. The pledges and grants receivable, which are unsecured, are due from local governments, corporations, foundations and individuals located in the Twin Cities metropolitan area.

Approximately 88% of the pledges and grants receivable balance is comprised of pledges from three foundations, corporate or government sources at June 30, 2016. Approximately 46% of the pledges and grants receivable balance is comprised of pledges from three foundations, corporate or government sources at June 30, 2015 (unconsolidated).

Approximately 80% of the support and revenue balance is comprised of a contribution from one government source for the year ended June 30, 2016. Approximately 13% of the support and revenue balance is comprised of a contribution from one foundation for the year ended June 30, 2015 (unconsolidated).

MINNESOTA CHILDREN'S MUSEUM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(3) Investments

Investment holdings are comprised of the following as of June 30:

	<u>2016</u>	<u>2015</u> <u>(Unconsolidated)</u>
Cash and cash equivalents	\$ 21,680	\$ 38,385
Fixed income	1,439,644	1,483,756
Equities - mutual funds	1,939,113	2,147,442
Complementary strategies	605,715	616,365
Real assets	403,466	496,806
	<u>\$ 4,409,618</u>	<u>\$ 4,782,754</u>

Investment income was as follows for the years ended June 30:

	<u>2016</u>	<u>2015</u> <u>(Unconsolidated)</u>
Interest and dividends	\$ 95,213	\$ 103,522
Realized gains (losses)	(103,580)	142,971
Unrealized gains (losses)	(82,455)	(266,970)
Investment expenses	(41,314)	(39,296)
Endowment fund investment income	<u>\$ (132,136)</u>	<u>\$ (59,773)</u>

(4) Grants and pledges receivable

The grants and pledges receivable consist of the following as of June 30:

	<u>2016</u>	<u>2015</u> <u>(Unconsolidated)</u>
Programs	\$ 37,908	\$ 62,500
General operating	811,766	216,471
Capital campaign	16,695,822	3,568,030
	<u>\$ 17,545,496</u>	<u>\$ 3,847,001</u>
Amount due in:		
Less than one year	\$ 15,676,246	\$ 1,729,639
One to five years	1,869,250	2,117,362
Subtotal	17,545,496	3,847,001
Less: allowance for uncollectible pledges	(14,668)	(16,119)
Subtotal	17,530,828	3,830,882
Less: discount on long-term pledges	(72,147)	(72,147)
Total net of allowance and discount	<u>\$ 17,458,681</u>	<u>\$ 3,758,735</u>

MINNESOTA CHILDREN'S MUSEUM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) Grants and pledges receivable (continued)

Capital campaign pledges and grants are restricted for a building expansion project. Included in long-term grants and pledges receivable as of June 30, 2016 and 2015 (unconsolidated) are capital campaign grants and pledges receivable totaling \$14,876,572 and \$1,500,669 that are expected to be received in less than one year.

(5) Land, building, exhibits and equipment

The Museum has the following assets as of June 30:

	2016	2015 (Unconsolidated)
Land	\$ 1,600,000	\$ 1,600,000
Building and improvements	8,903,904	8,903,903
Furniture and fixtures	1,435,353	1,398,156
Exhibits	7,852,661	7,467,614
Construction in progress	13,238,250	3,262,958
	33,030,168	22,632,631
Less: accumulated depreciation	(14,125,309)	(13,484,940)
Land, building and equipment - net	\$ 18,904,859	\$ 9,147,691

In September 1995, the Museum opened its facility in downtown St. Paul. A portion of the construction financing was provided through public financing requiring that title to the property transfer to the City of St. Paul. The City of St. Paul and the Museum entered into a long-term lease agreement for the property to operate a children's museum. The lease was for 30 years beginning in December 1994 with the option to renew for five periods of 10 years each. Rent was \$100 per year plus minor additional amounts for insurance, assessments and fees. The value assigned to the building was the construction costs of the facility. The portion of the lease attributed to the land had a fair market value of \$1,600,000 and was recorded as a contribution. The use of the land was being amortized over 40 years.

During the year ended June 30, 2016, the Museum commenced construction on the expansion and complete renovation of its facility in downtown St. Paul. A portion of the construction financing for the project is being provided through public financing. In December 2015, in connection with the construction and related public financing, the Museum entered into an amended and restated lease agreement with the City of St. Paul. The new lease agreement terminates the existing lease with MCM and establishes a new lease with MCM Holdings. The initial lease term is for 20 years from the completion date of the capital improvement project with options for two successive renewal terms, the first shall be for 20 years after the initial term and the second shall be the balance of the period through December 15, 2074. No rental payments are required, but the agreement is a "Net" lease and all costs and expenses attributed to the property are the responsibility of MCM Holdings. The lease contains various terms and conditions as defined in the agreement including continued operation of the facility as a museum. The additional value that will be assigned to the building and improvements will be the total construction costs of the expansion and renovation. The value assigned to the land is unchanged from the original lease agreement and is continuing to be amortized over the original 40 year period.

MINNESOTA CHILDREN'S MUSEUM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(5) Land, building, exhibits and equipment (continued)

Depreciation expense, which includes the amortization of the land lease, was \$640,369 and \$645,191 for the years ended June 30, 2016 and 2015 (unconsolidated), respectively.

Interest capitalized was \$71,814 and \$0 for the years ended June 30, 2016 and 2015, respectively.

(6) Line of credit

MCM has an unsecured line of credit agreement with a bank which provides working capital financing up to \$600,000. Borrowings bear interest at 3.1% plus the one-month LIBOR rate, which was 0.465% at June 30, 2016. The line of credit was renewed March 1, 2016 and expires March 1, 2017. The borrowings on the line of credit as of June 30, 2016 and 2015 (unconsolidated) were \$0.

(7) Operating leases

MCM leases space in Rochester, Minnesota. This lease was set to expire in February 2015, but was extended two years at a rate of \$12.00 per square foot. Annual rent at this rate is \$93,000.

During the fiscal year ended June 30, 2016, MCM began to lease 4,400 square feet of retail space in the Mall of America. The lease was set to expire in January 2017, but has been extended until April 2017. Annual rent is \$54,000. In addition, MCM pays a percentage of gross sales as additional rent.

MCM also leases office equipment under operating leases.

Future payments required as of June 30, are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2017	\$ 116,500
2018	28,200
2019	4,700
Total minimum lease payments	<u>\$ 149,400</u>

Rent expense was \$201,064 and \$110,559 for the years ended June 30, 2016 and 2015 (unconsolidated), respectively.

(8) Deferred revenue

Deferred revenue consists of the following as of June 30:

	<u>2016</u>	<u>2015</u> <u>(Unconsolidated)</u>
Membership dues	\$ 651,874	\$ 492,077
Deferred exhibit income	696,271	503,954
Other deferred income	135,043	118,548
Total	<u>\$ 1,483,188</u>	<u>\$ 1,114,579</u>

MINNESOTA CHILDREN'S MUSEUM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(9) New market tax credit loans and leveraged loan receivable

During 2016, MCM, through its MCM Holdings affiliate, embarked on a series of transactions to effectuate a new market tax credit structure to assist with construction costs for the expansion and complete renovation of its downtown St. Paul facility. Under a transaction of this kind, the long-term benefits allow for larger net proceeds than would otherwise be available under classic financing thereby producing a public benefit greater than would otherwise be achieved. MCM loaned funds (leveraged loan) in concert with the capital contribution of an investor into a new entity set up for this purpose. The entity then invests in Community Development Enterprises (“CDEs”) who loan the funds net of transaction costs to MCM Holdings for use with the renovation project. Thus the effect of MCM’s leveraged loan of \$6,827,800 is to effectively avail itself to approximately \$8,900,000 in funds net of fees and transaction costs. The following sets forth more detailed information on this transaction.

In conjunction with the leveraged loan, CNMC Sub-CDE 95, LLC (CNMC) and BH New Markets Sub-CDE V, LLC (BH) collectively known as the CDEs each made new market tax credit enhanced mortgage loans (the NMTC Loans) to MCM Holdings to finance the project.

The CDEs received allocations of new market tax credits (NMTC) pursuant to Section 45D of the Internal Revenue Code in order to assist eligible businesses in making investments in certain low-income communities. The availability of NMTC allowed Chase NMTC MCM Investment Fund LLC (Chase NMTC) to invest \$3,112,200 in MCM Holdings Investment Fund (the “Investment Fund”). In addition, MCM made a leveraged loan of \$6,827,800 from the proceeds of the BMO Harris Bank bridge loan and MCM equity. The Investment Fund used the combined amount to make equity contributions of \$8,000,000 to BH and \$1,500,000 to CNMC. The CDEs, in turn, used the contributions to make the NMTC Loans to MCM Holdings. The NMTC Loans are secured by mortgages on the property of MCM Holdings, assignment of leases and rents, and a guarantee by MCM. MCM Holdings must also comply with various loan covenants.

The NMTC Loans mature on December 1, 2045 and principal is payable in quarterly installments commencing March 1, 2023. Interest is payable quarterly, commencing March 1, 2016 at the following interest rates:

	Principal Amounts	Interest Rate
BH	\$ 7,920,000	1.27691%
CNMC	1,500,000	1.27691%
Total new market tax credit loans	\$ 9,420,000	

MINNESOTA CHILDREN'S MUSEUM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(9) New market tax credit loans and leveraged loan receivable (continued)

Simultaneously with the new market tax credit transaction, MCM Holdings entered into a Sublease agreement with MCM pursuant to which MCM will lease the Project for a period of 16 years from the lease commencement date. The lease commencement date is scheduled for April 1, 2017 requiring quarterly rental payments to MCM Holdings at an initial annual rate of \$155,100 increasing to an annual rate of \$568,800 throughout the lease term. MCM has an option to renew for an additional 16 year period at a then determined fair market value lease rate. Rental payments will be used by MCM Holdings to pay the interest and principal payments on the NMTC loans.

MCM expects, in turn, to receive quarterly interest on the Leveraged Loan at an annual interest rate of 1%. The Leveraged Loan matures on December 31, 2045 and principal is payable in monthly installments commencing March 10, 2023. Amounts received from the Investment Fund as payment on the Leveraged Loan will be used by MCM to pay rent payments on the lease to MCM Holdings and, in turn, MCM Holdings will use the rent payments to pay the interest payments on the NMTC Loans.

On December 11, 2022, Chase Community Equity, LLC (100% owner of Chase NMTC) has a right and option, but not an obligation, for a period of 90 days, to require MCM to purchase all of Chase Community Equity, LLC's interest in the Investment Fund for a put exercise price of \$1,000. If the put is not exercised, then MCM has the right to purchase Chase Community Equity, LLC's interest in the Investment Fund at an amount equal to the fair market value of Chase Community Equity, LLC's interest in the Investment Fund.

(10) Long-term debt

Note payable to BMO Harris Bank with annual interest at an adjusted LIBOR rate plus 2.75% (3.22% at June 30, 2016). Principal and interest is payable quarterly based on a set principal payment schedule. The note matures in March 2020. MCM is required to deposit all capital campaign funds received by it in a Capital Campaign Account maintained with BMO Harris Bank to be used as collateral on the note. The funds cannot be withdrawn except for the purpose of making payment on the note. Additionally the note is secured by the assets of MCM excluding its rights to sublease the property of MCM Holdings. MCM must also comply with various loan covenants.

Less current maturities

Total long-term debt

	June 30,	
	2016	2015
	(Unconsolidated)	
	\$ 3,050,000	\$ -
	(900,000)	-
	\$ 2,150,000	\$ -

MINNESOTA CHILDREN'S MUSEUM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(10) Long-term debt (continued)

Aggregate maturities expected under the agreement are as follows:

Years Ending June 30,

2017		\$	900,000
2018			800,000
2019			600,000
2020			750,000
			750,000
		\$	3,050,000

(11) Net assets

Unrestricted – board designated - The board of directors have designated by board action, the following designations of unrestricted net assets as of June 30:

	2016	2015 (Unconsolidated)
Fixed asset replacement	\$ 532,500	\$ 532,500
Cash operating reserve	297,500	297,500
Total	\$ 830,000	\$ 830,000

Temporarily restricted - Net assets temporarily restricted consist of the following as of June 30:

	2016	2015 (Unconsolidated)
Capital campaign renovation construction in progress	\$ 13,238,250	\$ 3,262,958
Land, building and equipment	4,654,377	5,015,106
Endowment investment earnings	168,296	541,432
Capital campaign	11,327,520	6,491,304
Future programs	817,372	580,435
Total	\$ 30,205,815	\$ 15,891,235

Permanently restricted - Permanently restricted net assets consist of donor gifts, the income of which can be used for the Museum's general operating activities.

MINNESOTA CHILDREN'S MUSEUM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(12) Net assets released from restrictions

Net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors during the years ended June 30, 2016 and 2015 (unconsolidated) are as follows:

	2016	2015 (Unconsolidated)
Purpose restrictions:		
Expiration of long lived asset gifts	\$ 360,729	\$ 429,966
Program	984,317	850,210
Subtotal program restrictions released	1,345,046	1,280,176
Endowment draw	241,000	242,000
Time restrictions	512,084	347,580
Capital restrictions	288,171	391,864
Total restrictions released	\$ 2,386,301	\$ 2,261,620

(13) Endowments

The Museum's endowment consists of funds established for general operating purposes. Its endowment includes donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law - The Board of Directors of the Museum has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as permanently restricted net assets the original value of the gifts to the permanent endowment and the value of subsequent gifts to the permanent endowment.

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.

MINNESOTA CHILDREN'S MUSEUM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(13) Endowments (continued)

Endowment net asset composition by type and changes in endowment net assets for the years ended June 30 is as follows:

	<u>Unrestricted Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2015 (unconsolidated)	\$ -	\$ 541,432	\$ 4,241,322	\$ 4,782,754
Investment Return:				
Interest and dividend income	-	95,213	-	95,213
Realized losses	-	(103,580)	-	(103,580)
Unrealized losses	-	(82,455)	-	(82,455)
Investment expenses	-	(41,314)	-	(41,314)
Total investment return	<u>-</u>	<u>(132,136)</u>	<u>-</u>	<u>(132,136)</u>
New Contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Spending rate draw	<u>-</u>	<u>(241,000)</u>	<u>-</u>	<u>(241,000)</u>
Endowment net assets, June 30, 2016	<u>\$ -</u>	<u>\$ 168,296</u>	<u>\$ 4,241,322</u>	<u>\$ 4,409,618</u>
	<u>Unrestricted Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2014 (unconsolidated)	\$ -	\$ 843,204	\$ 4,161,753	\$ 5,004,957
Investment Return:				
Interest and dividend income	-	103,523	-	103,523
Realized gains	-	142,971	-	142,971
Unrealized losses	-	(266,970)	-	(266,970)
Investment expenses	-	(39,296)	-	(39,296)
Total investment return	<u>-</u>	<u>(59,772)</u>	<u>-</u>	<u>(59,772)</u>
New Contributions	<u>-</u>	<u>-</u>	<u>79,569</u>	<u>79,569</u>
Spending rate draw	<u>-</u>	<u>(242,000)</u>	<u>-</u>	<u>(242,000)</u>
Endowment net assets, June 30, 2015 (unconsolidated)	<u>\$ -</u>	<u>\$ 541,432</u>	<u>\$ 4,241,322</u>	<u>\$ 4,782,754</u>

Investment objectives and strategies - The Museum has adopted an investment policy to provide guidelines for investing endowment assets. Under this policy, the primary investment objective is achieving real growth in invested capital consistent with preservation of capital, maintenance of liquidity, and obtaining the best total return while minimizing market and investment risk. As of June 30, 2016 these assets are invested in an endowment fund at Wells Fargo and are allocated to five major asset classes including cash and cash equivalents, fixed income securities, mutual funds, complementary strategies and real assets.

Spending policy - The Museum has a policy of appropriating for distribution each year approximately 3.0% to 5.0% of its endowment fund's 12 quarter trailing average fair value.

MINNESOTA CHILDREN'S MUSEUM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(14) Fair value measurements

Assets measured at fair value on a recurring basis as of June 30, 2016 and 2015 (unconsolidated) are:

	2016			
	Level 1	Level 2	Level 3	Total
Fixed income	\$ 1,439,644	\$ -	\$ -	\$ 1,439,644
Equities - mutual funds	1,939,113	-	-	1,939,113
Complementary strategies	605,715	-	-	605,715
Real assets	403,466	-	-	403,466
Total Investments	\$ 4,387,938	\$ -	\$ -	\$ 4,387,938

	2015 (Unconsolidated)			
	Level 1	Level 2	Level 3	Total
Fixed income	\$ 1,483,756	\$ -	\$ -	\$ 1,483,756
Equities - mutual funds	2,147,442	-	-	2,147,442
Complementary strategies	616,365	-	-	616,365
Real assets	496,806	-	-	496,806
Total Investments	\$ 4,744,369	\$ -	\$ -	\$ 4,744,369

Following is a description of the valuation methodologies used for assets measured at fair value. All assets have been valued using a market approach. There have been no changes in the methodologies used as of June 30, 2016 and 2015 (unconsolidated).

Mutual funds and exchange-trade funds: Valued at the net asset value (NAV) of shares held by the Museum at year end.

The preceding methods described may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, although the Museum believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(15) In-kind contributions

The Museum records in-kind contributions at fair market value at date of donation. In-kind contributions expended or capitalized were \$387,314 and \$251,182 for the years ended June 30, 2016 and 2015 (unconsolidated), respectively.

During 2012, the Museum received a one-time in-kind gift of \$250,000 of which all was to be used in future years. The remaining balance as of June 30, 2016 is \$144,405, and is recorded in temporarily restricted net assets for the capital campaign.

During 2016, the Museum received a one-time in-kind gift of \$280,000 in the form of office space at the Ecolab building to be used for Museum administration employees during the renovation project.

MINNESOTA CHILDREN'S MUSEUM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(16) Leased store revenue

The Museum leased space to an Organization which was paying a royalty based on revenues. The term of the original agreement was from March 1, 2006 to April 1, 2012. During 2013, the term of the lease was extended to March 2015. This lease was not renewed due to the upcoming renovation and the space was vacated in August 2015. To mitigate losses caused by the construction, no royalty was collected after March 2015. Royalty revenue was \$0 and \$35,566 for the years ended June 30, 2016 and 2015 (unconsolidated), respectively, and is included in other revenue in the statement of activities.

(17) Retirement plan

MCM established a defined contribution retirement plan effective January 1, 2001 under Section 403(b) of the Internal Revenue Code. The plan covers all employees who meet eligibility requirements and elect to participate in the plan. The Museum will match 100% of the employee's contributions up to a maximum of 3% of the employee's compensation. The retirement plan expense was \$87,360 and \$80,399 for the years ended June 30, 2016 and 2015 (unconsolidated), respectively.

(18) Commitments and contingencies

The Museum has entered into various rental agreements for exhibits. As of June 30, 2016, the total commitment owed under these rental agreements was \$118,251.

Additionally, the Museum has commitments with construction contractors and consulting companies for services to be conducted related to the building expansion. The future commitment of these agreements is approximately \$11,800,000.

The current fiscal year ending June 30, 2017, is the second year of the Museum's new three-year strategic plan titled "Expanding the Power of Play". In these three years, the main museum in St. Paul will be expanded and completely renovated; the Rochester museum will transition to a larger, permanent home; and the Museum's voice in championing the Power of Play will become more visible.

The Pop-Up museum at the Mall of America opened in the fall of 2015. The Museum expects this space to expand awareness of our programs and to compliment admissions revenue during the main museum's renovations. The main museum's much anticipated capital expansion started in December 2015, and the Museum's consolidated budget will grow to more than \$21 million in fiscal year 2017.

(19) Related party transactions

Pledge commitments commonly span multiple years. Total contributions received from board members for the years ended June 30, 2016 and 2015 (unconsolidated) was \$113,092 and \$115,042, respectively. Total outstanding receivables from board members included in pledges receivable as of June 30, 2016 and 2015 (unconsolidated) was \$52,921 and \$64,866, respectively.

During the year ended June 30, 2015 (unconsolidated), the spouse of the Museum's President provided consulting services to the Museum's insurance broker through a consulting firm. Payment to the Museum's insurance broker for these services totaled approximately \$23,000.

MINNESOTA CHILDREN'S MUSEUM

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2016

	Minnesota Children's Museum	MCM Holdings	Eliminations	Total
<u>ASSETS</u>				
CURRENT ASSETS				
Cash and cash equivalents	\$ 1,784,653	\$ -	\$ -	\$ 1,784,653
Grants and pledges receivable, net	799,674	-	-	799,674
Accounts receivable, net	125,145	-	-	125,145
Prepaid expenses	226,509	-	-	226,509
TOTAL CURRENT ASSETS	2,935,981	-	-	2,935,981
INVESTMENTS	4,409,618	-	-	4,409,618
LEVERAGED LOAN RECEIVABLE	6,827,800	-	-	6,827,800
LAND, BUILDING, EXHIBITS AND EQUIPMENT, NET	954,410	17,950,449	-	18,904,859
CASH RESTRICTED FOR CAPITAL CAMPAIGN	1,676,552	1,254,229	-	2,930,781
GRANTS AND PLEDGES RECEIVABLE, LONG-TERM	16,659,007	-	-	16,659,007
DUE FROM RELATED PARTY	-	21,819,975	(21,819,975)	-
TOTAL ASSETS	\$ 33,463,368	\$ 41,024,653	\$ (21,819,975)	\$ 52,668,046
<u>LIABILITIES AND NET ASSETS</u>				
CURRENT LIABILITIES				
Current portion of long term debt	\$ 900,000	\$ -	\$ -	\$ 900,000
Accounts payable	104,466	-	-	104,466
Contractors payable	83,170	2,322,729	-	2,405,899
Accrued compensation	330,767	-	-	330,767
Deferred revenue	1,483,188	-	-	1,483,188
TOTAL CURRENT LIABILITIES	2,901,591	2,322,729	-	5,224,320
DUE TO RELATED PARTY	21,819,975	-	(21,819,975)	-
NEW MARKET TAX CREDIT LOANS	-	9,420,000	-	9,420,000
LONG TERM DEBT, NET OF CURRENT PORTION	2,150,000	-	-	2,150,000
TOTAL LIABILITIES	26,871,566	11,742,729	(21,819,975)	16,794,320
NET ASSETS				
Unrestricted:				
Undesignated	178,626	417,963	-	596,589
Board designated reserves	830,000	-	-	830,000
Total unrestricted net assets	1,008,626	417,963	-	1,426,589
Total temporarily restricted net assets	1,341,854	28,863,961	-	30,205,815
Permanently restricted net assets	4,241,322	-	-	4,241,322
TOTAL NET ASSETS	6,591,802	29,281,924	-	35,873,726
TOTAL LIABILITIES AND NET ASSETS	\$ 33,463,368	\$ 41,024,653	\$ (21,819,975)	\$ 52,668,046

MINNESOTA CHILDREN'S MUSEUM

CONSOLIDATING STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

	<u>Minnesota Children's Museum</u>	<u>MCM Holdings</u>	<u>Eliminations</u>	<u>Total</u>
REVENUE AND SUPPORT				
Revenue				
Museum admissions	\$ 1,189,679	\$ -	\$ -	\$ 1,189,679
Memberships	1,108,760	-	-	1,108,760
Education & groups	106,889	-	-	106,889
Parties & events revenue	18,601	-	-	18,601
Exhibit rentals & sales	936,958	-	-	936,958
Endowment revenue	53,899	-	-	53,899
Net unrealized loss on endowment	(186,035)	-	-	(186,035)
Other revenue	255,505	3,955	-	259,460
Total Revenue	<u>3,484,256</u>	<u>3,955</u>	<u>-</u>	<u>3,488,211</u>
Support				
Grants and contributions	1,553,091	-	-	1,553,091
Government grants	1,010,000	-	-	1,010,000
Fundraising events	226,504	-	-	226,504
In-kind contributions	102,314	-	-	102,314
Capital campaign	15,100,649	-	-	15,100,649
Total Support	<u>17,992,558</u>	<u>-</u>	<u>-</u>	<u>17,992,558</u>
Total Revenue and Support	<u>21,476,814</u>	<u>3,955</u>	<u>-</u>	<u>21,480,769</u>
EXPENSES				
Program	5,225,818	-	-	5,225,818
Administrative (management & general, marketing & promotion)	1,402,223	-	-	1,402,223
Fundraising	742,183	70,252	-	812,435
Total Expenses	<u>7,370,224</u>	<u>70,252</u>	<u>-</u>	<u>7,440,476</u>
TOTAL CHANGE IN NET ASSETS	14,106,590	(66,297)	-	14,040,293
Net Assets - Beginning of Year	21,833,433	-	-	21,833,433
Transfer of Net Assets	<u>(29,348,221)</u>	<u>29,348,221</u>	<u>-</u>	<u>-</u>
NET ASSETS - END OF YEAR	<u>\$ 6,591,802</u>	<u>\$ 29,281,924</u>	<u>\$ -</u>	<u>\$ 35,873,726</u>