

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

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2017 and 2016



1000 Campbell Mithun Tower, 222 S. Ninth St. ■ Minneapolis, MN 55402
Main: 612.339.7811 ■ Fax: 612.339.9845 ■ www.mhmcpa.com

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 statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 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, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the 2017 consolidated financial statements as a whole. The accompanying consolidating statement of financial position as of June 30, 2017 and the consolidating statement of activities for the year ended June 30, 2017 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.

A handwritten signature in cursive script that reads "Mayer Hoffman McCann P.C.".

Minneapolis, Minnesota
November 1, 2017

MINNESOTA CHILDREN'S MUSEUM

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	2017	2016
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,419,405	\$ 1,784,653
Grants and pledges receivable, net	459,981	799,674
Accounts receivable, net	191,950	125,145
Prepaid expenses	219,716	226,509
TOTAL CURRENT ASSETS	3,291,052	2,935,981
INVESTMENTS	4,615,829	4,409,618
LEVERAGED LOAN RECEIVABLE	6,827,800	6,827,800
LAND, BUILDING, EXHIBITS AND EQUIPMENT, NET	32,180,701	18,904,859
CASH RESTRICTED FOR CAPITAL CAMPAIGN AND LOAN RESERVES	592,391	2,930,781
GRANTS AND PLEDGES RECEIVABLE, LONG-TERM	5,275,070	16,659,007
TOTAL ASSETS	\$ 52,782,843	\$ 52,668,046
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 800,000	\$ 900,000
Accounts payable	1,549,975	104,466
Contractors payable	2,202,100	2,405,899
Accrued compensation	537,695	330,767
Deferred revenue	1,946,767	1,483,188
TOTAL CURRENT LIABILITIES	7,036,537	5,224,320
NEW MARKET TAX CREDIT LOANS	9,420,000	9,420,000
LONG TERM DEBT, NET OF CURRENT PORTION	1,350,000	2,150,000
TOTAL LIABILITIES	17,806,537	16,794,320
NET ASSETS		
Unrestricted:		
Undesignated	11,588	596,589
Board designated reserves	531,000	830,000
Total unrestricted net assets	542,588	1,426,589
Temporarily restricted net assets	30,192,396	30,205,815
Permanently restricted net assets	4,241,322	4,241,322
TOTAL NET ASSETS	34,976,306	35,873,726
TOTAL LIABILITIES AND NET ASSETS	\$ 52,782,843	\$ 52,668,046

See Notes to Consolidated Financial Statements

MINNESOTA CHILDREN'S MUSEUM

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Unrestricted Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT					
Revenue					
Museum admissions	\$ 720,335	\$ -	\$ -	\$ -	\$ 720,335
Memberships	957,254	-	-	-	957,254
Education & groups	57,297	-	-	-	57,297
Parties & events revenue	12,273	-	-	-	12,273
Exhibit rentals & sales	955,560	-	-	-	955,560
Endowment revenue	-	-	78,793	-	78,793
Net unrealized gain on endowment	-	-	318,411	-	318,411
Other revenue	212,359	-	-	-	212,359
Total Revenue	<u>2,915,078</u>	<u>-</u>	<u>397,204</u>	<u>-</u>	<u>3,312,282</u>
Support					
Grants and contributions	882,601	-	742,496	-	1,625,097
Government grants	-	-	475,300	-	475,300
Fundraising events	314,240	-	-	-	314,240
In-kind contributions	112,104	-	-	-	112,104
Capital campaign	5,762	-	532,068	-	537,830
Total Support	<u>1,314,707</u>	<u>-</u>	<u>1,749,864</u>	<u>-</u>	<u>3,064,571</u>
Net assets released from restriction	<u>2,160,487</u>	<u>-</u>	<u>(2,160,487)</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	<u>6,390,272</u>	<u>-</u>	<u>(13,419)</u>	<u>-</u>	<u>6,376,853</u>
EXPENSES					
Program	5,057,421	-	-	-	5,057,421
Administrative (management & general, marketing & promotion)	1,455,472	-	-	-	1,455,472
Fundraising	761,380	-	-	-	761,380
Total Expenses	<u>7,274,273</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,274,273</u>
TOTAL CHANGE IN NET ASSETS	(884,001)	-	(13,419)	-	(897,420)
Board designated reserve transfer	299,000	(299,000)	-	-	-
Net assets - beginning 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>
NET ASSETS - END OF YEAR	<u>\$ 11,588</u>	<u>\$ 531,000</u>	<u>\$ 30,192,396</u>	<u>\$ 4,241,322</u>	<u>\$ 34,976,306</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	259,460	-	-	-	259,460
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	812,435	-	-	-	812,435
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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (897,420)	\$ 14,040,293
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	536,668	640,369
Unrealized and realized gains and reinvested income on investments	(397,204)	132,136
Donated building construction	(451,578)	-
Contributions restricted for capital campaign	(537,830)	(15,100,649)
Capital campaign discount amortization and write-off of uncollectible pledges receivable	(40,360)	12,642
Changes in operating assets and liabilities		
Accounts receivable	(66,805)	(31,995)
Grants and pledges receivable	354,336	(570,705)
Prepaid expenses	6,793	1,069
Payables and accrued expenses	1,448,638	2,162,174
Deferred revenue	463,579	368,609
NET CASH PROVIDED BY OPERATING ACTIVITIES	418,817	1,653,943
CASH FLOWS FROM INVESTING ACTIVITIES		
Endowment draws	190,994	241,000
Purchase of property, equipment and construction in progress	(13,360,933)	(10,397,537)
Net change in cash restricted for capital campaign	2,338,390	(79,501)
NET CASH USED BY INVESTING ACTIVITIES	(10,831,549)	(10,236,038)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of leveraged loans	-	(6,827,800)
Proceeds from new market tax credit loans	-	9,420,000
Proceeds from long-term debt	-	3,500,000
Payments of long-term debt	(900,000)	(450,000)
Collection of contributions restricted for capital campaign	11,947,484	1,958,766
NET CASH PROVIDED BY FINANCING ACTIVITIES	11,047,484	7,600,966
NET INCREASE (DECREASE)	634,752	(981,129)
CASH AND CASH EQUIVALENTS		
BEGINNING OF YEAR	1,784,653	2,765,782
END OF YEAR	\$ 2,419,405	\$ 1,784,653
SUPPLEMENTAL DISCLOSURES		
Interest paid	\$ 125,134	\$ 73,521
NON-CASH INVESTING AND FINANCING ACTIVITIES INFORMATION		
Donated building construction	\$ 451,578	\$ -

See Notes to Consolidated Financial Statements

MINNESOTA CHILDREN'S MUSEUM

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2017

	Total Programs	Support Services			Total Support Services	Total 2017
		Management & General	Marketing & Promotion	Fund Raising		
Salaries and wages	\$ 3,022,597	\$ 743,571	\$ 151,564	\$ 411,099	\$ 1,306,234	\$ 4,328,831
Payroll taxes	238,063	62,819	11,657	30,374	104,850	342,913
Employee benefits	284,817	41,278	14,059	45,912	101,249	386,066
Total Personnel Expense	<u>3,545,477</u>	<u>847,668</u>	<u>177,280</u>	<u>487,385</u>	<u>1,512,333</u>	<u>5,057,810</u>
Accounting and finance services fees	2,000	29,330	-	-	29,330	31,330
Other professional fees & contracted services	557,582	89,227	18,680	94,070	201,977	759,559
Maintenance / equipment / rent	455,436	26,490	-	16,878	43,368	498,804
Information technology	123,036	14,443	4,386	11,497	30,326	153,362
Travel	40,672	1,443	84	660	2,187	42,859
Training / meetings	34,239	7,655	2,138	90,929	100,722	134,961
Supplies	376,149	4,287	162	5,880	10,329	386,478
Postage & shipping	60,832	2,243	626	8,941	11,810	72,642
Utilities	188,900	16,168	544	933	17,645	206,545
Printing, photography & graphics	87,974	771	8,966	14,511	24,248	112,222
Promotion & advertising	188,471	2,667	91,063	27,440	121,170	309,641
Insurance	12,635	55,249	-	-	55,249	67,884
Fees / permits / license	317,783	48,333	11	2,053	50,397	368,180
Exhibit rental / construction	231,263	-	-	-	-	231,263
Capital Project Construction	12,096,548	-	-	-	-	12,096,548
Other expenses	9,638	536	-	203	739	10,377
Total Expense before Depreciation & Capitalization	<u>18,328,635</u>	<u>1,146,510</u>	<u>303,940</u>	<u>761,380</u>	<u>2,211,830</u>	<u>20,540,465</u>
Capitalization of property and equipment	(13,802,860)	-	-	-	-	(13,802,860)
Depreciation	<u>531,646</u>	<u>5,022</u>	<u>-</u>	<u>-</u>	<u>5,022</u>	<u>536,668</u>
Total Expenses	<u>\$ 5,057,421</u>	<u>\$ 1,151,532</u>	<u>\$ 303,940</u>	<u>\$ 761,380</u>	<u>\$ 2,216,852</u>	<u>\$ 7,274,273</u>

See Notes to Consolidated Financial Statements

MINNESOTA CHILDREN'S MUSEUM

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2016

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

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, 2017 and 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.

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 2.4%. 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, 2017 and 2016 of \$17,000 and \$15,000, 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

Museum admissions – The Museum recognizes museum admissions as revenue at the time services are provided.

MINNESOTA CHILDREN'S MUSEUM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

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.

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.

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

All donor-restricted grants and 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.

Government grants - Government grant funds are considered temporarily restricted grants and are recorded when notification is received.

Expenditures under government grants are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the Museum will record such disallowance at the time the determination is made.

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, 2017 and 2016 were \$309,600 and \$269,700, respectively.

MINNESOTA CHILDREN'S MUSEUM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

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, 2017 and 2016.

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, 2017 and 2016.

New accounting pronouncements - In November 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The new standard requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Organizations will also be required to reconcile such total to amounts on the statement of financial position and disclose the nature of the restrictions. As a result, organizations will no longer present transfers between cash and cash equivalents and restricted cash and cash equivalents in the statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017 and will be applied retroactively. Early adoption is permitted. The Museum is assessing the impact this standard will have on its financial statements.

In August 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The guidance improves not-for-profit entity (NFP) financial statements to provide more useful information to financial statement users and make reporting less complex for not-for-profit entities. The new guidance will reduce net asset classes from three classes of net assets to two, requires a presentation of expenses by their natural and functional classification and investment returns net of external and direct internal investment expenses. NFP's will also be required to provide more information about their available resources and liquidity. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017 and is to be applied retroactively, but NFP's will have the option to omit certain information for comparative periods presented in the year of adoption. Early application is permitted. The Museum is assessing the impact this standard will have on its financial statements.

Subsequent events - In preparing these financial statements, the Museum has evaluated events and transactions for potential recognition or disclosure through November 1, 2017, the date the financial statements were available to be issued.

MINNESOTA CHILDREN'S MUSEUM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 77% of the pledges and grants receivable balance is comprised of pledges from two foundations, corporate or government sources at June 30, 2017. Approximately 88% of the pledges and grants receivable balance is comprised of pledges from three foundations, corporate or government sources at June 30, 2016.

For the year ended June 30, 2016 approximately 80% of the support and revenue balance was comprised of a contribution from one government source.

(3) Investments

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

	<u>2017</u>	<u>2016</u>
Fixed income	\$ 1,493,881	\$ 1,439,644
Equities - mutual funds	2,160,657	1,939,113
Complementary strategies	468,120	605,715
Real assets	461,170	403,466
Total Securities	<u>4,583,828</u>	<u>4,387,938</u>
Cash and cash equivalents	<u>32,001</u>	<u>21,680</u>
Total Investments	<u>\$ 4,615,829</u>	<u>\$ 4,409,618</u>

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

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 89,301	\$ 95,213
Realized gains (losses)	30,960	(103,580)
Unrealized gains (losses)	318,411	(82,455)
Investment expenses	<u>(41,468)</u>	<u>(41,314)</u>
Endowment fund investment income	<u>\$ 397,204</u>	<u>\$ (132,136)</u>

MINNESOTA CHILDREN'S MUSEUM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) Grants and pledges receivable

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

	<u>2017</u>	<u>2016</u>
Programs	\$ 91,279	\$ 37,908
General operating	403,702	811,766
Capital campaign	5,282,022	16,695,822
	<u>\$ 5,777,003</u>	<u>\$ 17,545,496</u>
Amount due in:		
Less than one year	\$ 4,294,703	\$ 15,676,246
One to five years	1,482,300	1,869,250
Subtotal	5,777,003	17,545,496
Less: allowance for uncollectible pledges	(16,729)	(14,668)
Subtotal	5,760,274	17,530,828
Less: discount on long-term pledges	(25,223)	(72,147)
Total net of allowance and discount	<u>\$ 5,735,051</u>	<u>\$ 17,458,681</u>

Capital campaign pledges and grants are restricted for a building expansion project. Included in long-term grants and pledges receivable as of June 30, 2017 and 2016 are capital campaign grants and pledges receivable totaling \$3,834,722 and \$14,876,572 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:

	<u>2017</u>	<u>2016</u>
Land	\$ 1,600,000	\$ 1,600,000
Building and improvements	28,941,718	8,965,897
Furniture and fixtures	487,275	1,435,353
Exhibits	11,962,355	7,790,668
Construction in progress	-	13,238,250
	42,991,348	33,030,168
Less: accumulated depreciation	(10,810,647)	(14,125,309)
Land, building and equipment - net	<u>\$ 32,180,701</u>	<u>\$ 18,904,859</u>

MINNESOTA CHILDREN'S MUSEUM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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, 2017, the Museum substantially completed construction on the expansion and complete renovation of its facility in downtown St. Paul. A portion of the construction financing for the project was 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 terminated the existing lease with MCM and established 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 was assigned to the building and improvements was 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.

Depreciation expense, which includes the amortization of the land lease, was \$537,000 and \$640,000 for the years ended June 30, 2017 and 2016, respectively.

Interest capitalized was \$93,000 and \$72,000 for the years ended June 30, 2017 and 2016, respectively.

MINNESOTA CHILDREN'S MUSEUM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 1.162% at June 30, 2017. The line of credit was renewed March 1, 2017 and expires March 1, 2018. The borrowings on the line of credit as of June 30, 2017 and 2016 were \$0.

(7) Operating leases

MCM leases space in Rochester, Minnesota. This lease was renewed effective March 2017, for three years at a rate of \$12.00 per square foot. MCM has an option to terminate the lease after one year. Annual rent at this rate is \$65,000.

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 expired April 2017. Annual rent was \$54,000. In addition, MCM paid a percentage of gross sales as additional rent.

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

<u>Years Ending June 30,</u>	<u>Amount</u>
2018	\$ 65,000
2019	65,000
2020	43,000
Total minimum lease payments	<u>\$ 173,000</u>

Rent expense was \$161,000 for both the years ended June 30, 2017 and 2016.

(8) Deferred revenue

Deferred revenue consists of the following as of June 30:

	<u>2017</u>	<u>2016</u>
Membership dues	\$ 753,095	\$ 651,874
Deferred exhibit income	994,337	696,271
Other deferred income	199,335	135,043
Total	<u>\$ 1,946,767</u>	<u>\$ 1,483,188</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 invested in Community Development Enterprises (“CDEs”) who loaned 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 and commenced 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 commenced on April 1, 2017 and requires 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. Total rental income and expense of \$39,000 was recorded by MCM Holdings and MCM, respectively for the year ended June 30, 2017 and is eliminated in the consolidated financial statements.

MCM expects, in turn, to receive quarterly interest on the leveraged loan receivable at an annual interest rate of 1%. The leveraged loan receivable 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 receivable will be used by MCM to fund rental payments on the lease with MCM Holdings.

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.

MINNESOTA CHILDREN'S MUSEUM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(10) Long-term debt

	June 30,	
	2017	2016
<p>Note payable to BMO Harris Bank with annual interest at an adjusted LIBOR rate plus 2.75% (3.83% at June 30, 2017). 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.</p>	\$ 2,150,000	\$ 3,050,000
Less current maturities	(800,000)	(900,000)
Total long-term debt	\$ 1,350,000	\$ 2,150,000

Aggregate maturities expected under the agreement are as follows:

Years Ending June 30,

2018	\$ 800,000
2019	600,000
2020	750,000
	\$ 2,150,000

(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:

	2017	2016
Fixed asset replacement	\$ 531,000	\$ 532,500
Cash operating reserve	-	297,500
Total	\$ 531,000	\$ 830,000

MINNESOTA CHILDREN'S MUSEUM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(11) Net assets (continued)

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

	2017	2016
Capital campaign renovation construction in progress	\$ -	\$ 13,238,250
Land, building and equipment	29,175,736	4,654,377
Endowment investment earnings	374,507	168,296
Capital campaign	-	11,327,520
Future programs	642,153	817,372
Total	\$ 30,192,396	\$ 30,205,815

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

(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, 2017 and 2016 are as follows:

	2017	2016
Purpose restrictions:		
Expiration of long lived asset gifts	\$ 398,785	\$ 360,729
Program	945,514	984,317
Subtotal program restrictions released	1,344,299	1,345,046
Endowment draw	190,993	241,000
Time restrictions	447,509	512,084
Capital restrictions	177,686	288,171
Total restrictions released	\$ 2,160,487	\$ 2,386,301

MINNESOTA CHILDREN'S MUSEUM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(13) Endowments

The Museum's endowment consists of funds established for general operating purposes. Its endowment includes donor-restricted endowment funds. As required by generally accepted accounting principles (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 Museum 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 Museum
- (7) The investment policies of the Museum.

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, 2016	\$ -	\$ 168,296	\$ 4,241,322	\$ 4,409,618
Investment Return:				
Interest and dividend income	-	89,301	-	89,301
Realized gains	-	30,960	-	30,960
Unrealized gains	-	318,411	-	318,411
Investment expenses	-	(41,468)	-	(41,468)
Total investment return	-	397,204	-	397,204
New Contributions	-	-	-	-
Spending rate draw	-	(190,993)	-	(190,993)
Endowment net assets, June 30, 2017	<u>\$ -</u>	<u>\$ 374,507</u>	<u>\$ 4,241,322</u>	<u>\$ 4,615,829</u>

MINNESOTA CHILDREN'S MUSEUM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(13) Endowments (continued)

	<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>

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, 2017 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, 2017 and 2016 are:

	2017			
	Level 1	Level 2	Level 3	Total
Fixed income	\$ 1,493,881	\$ -	\$ -	\$ 1,493,881
Equities - mutual funds	2,160,657	-	-	2,160,657
Complementary strategies	468,120	-	-	468,120
Real assets	461,170	-	-	461,170
Total Investments	\$ 4,583,828	\$ -	\$ -	\$ 4,583,828

	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

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, 2017 and 2016.

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 \$564,000 and \$387,000 for the years ended June 30, 2017 and 2016, respectively.

During 2017 and 2016, the Museum received an in-kind gift of \$45,000 and \$280,000, respectively 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 and food court revenue

The Museum leased space to an Organization that is paying a royalty ranging from 10%-20% based on gross revenues generated from gift store sales, foodservice, vending and catering operated by the tenant. The term of the agreement is from June 2017 to June 2027 with options for two additional 5 year terms. Either party may terminate the lease agreement upon 90 days written notice. Royalty revenue was \$18,000 and \$0 for the years ended June 30, 2017 and 2016, respectively, and is included in other revenue in the statement of activities.

(17) Retirement plan

MCM established a defined contribution retirement plan 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 \$82,000 and \$87,000 for the years ended June 30, 2017 and 2016, respectively.

(18) Commitments and contingencies

The Museum has entered into various rental agreements for exhibits. As of June 30, 2017 and 2016, the total commitment owed under these rental agreements was \$129,000 and \$118,000, respectively.

The current fiscal year ending June 30, 2017, is the third 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 was expanded and completely renovated. The Museum is looking to transition the Rochester museum to a larger, permanent home; and the Museum's voice in championing the Power of Play will become more visible.

(19) Interest

Interest for the years ended June 30, 2017 and 2016, consists of the following components:

	<u>2017</u>	<u>2016</u>
Interest capitalized	\$ 92,525	\$ 71,814
Interest expense	32,609	1,707
Total interest incurred	<u>\$ 125,134</u>	<u>\$ 73,521</u>

MINNESOTA CHILDREN'S MUSEUM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(20) **Related party transactions**

Pledge commitments commonly span multiple years. Total contributions received from board members for the years ended June 30, 2017 and 2016 was \$71,000 and \$113,000, respectively. Total outstanding receivables from board members included in pledges receivable as of June 30, 2017 and 2016 was \$39,000 and \$53,000, respectively.

MINNESOTA CHILDREN'S MUSEUM

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2017

	<u>Minnesota Children's Museum</u>	<u>MCM Holdings</u>	<u>Eliminations</u>	<u>Total</u>
	<u>ASSETS</u>			
CURRENT ASSETS				
Cash and cash equivalents	\$ 2,419,405	\$ -	\$ -	\$ 2,419,405
Grants and pledges receivable, net	459,981	-	-	459,981
Accounts receivable, net	191,950	-	-	191,950
Prepaid expenses	219,716	-	-	219,716
TOTAL CURRENT ASSETS	<u>3,291,052</u>	<u>-</u>	<u>-</u>	<u>3,291,052</u>
INVESTMENTS	4,615,829	-	-	4,615,829
LEVERAGED LOAN RECEIVABLE	6,827,800	-	-	6,827,800
LAND, BUILDING, EXHIBITS AND EQUIPMENT, NET	8,052,553	24,128,148	-	32,180,701
CASH RESTRICTED FOR LOAN RESERVES	592,391	-	-	592,391
GRANTS AND PLEDGES RECEIVABLE, LONG-TERM	5,275,070	-	-	5,275,070
DUE FROM RELATED PARTY	-	10,761,397	(10,761,397)	-
TOTAL ASSETS	<u>\$ 28,654,695</u>	<u>\$ 34,889,545</u>	<u>\$ (10,761,397)</u>	<u>\$ 52,782,843</u>
	<u>LIABILITIES AND NET ASSETS</u>			
CURRENT LIABILITIES				
Current portion of long term debt	\$ 800,000	\$ -	\$ -	\$ 800,000
Accounts payable	185,689	1,364,286	-	1,549,975
Contractors payable	143,593	2,058,507	-	2,202,100
Accrued compensation	537,695	-	-	537,695
Deferred revenue	1,946,767	-	-	1,946,767
TOTAL CURRENT LIABILITIES	<u>3,613,744</u>	<u>3,422,793</u>	<u>-</u>	<u>7,036,537</u>
DUE TO RELATED PARTY	10,761,397	-	(10,761,397)	-
NEW MARKET TAX CREDIT LOANS	-	9,420,000	-	9,420,000
LONG TERM DEBT, NET OF CURRENT PORTION	1,350,000	-	-	1,350,000
TOTAL LIABILITIES	<u>15,725,141</u>	<u>12,842,793</u>	<u>(10,761,397)</u>	<u>17,806,537</u>
NET ASSETS				
Unrestricted:				
Undesignated	1,728	9,860	-	11,588
Board designated reserves	121,000	410,000	-	531,000
Total unrestricted net assets	<u>122,728</u>	<u>419,860</u>	<u>-</u>	<u>542,588</u>
Total temporarily restricted net assets	8,565,504	21,626,892	-	30,192,396
Permanently restricted net assets	4,241,322	-	-	4,241,322
TOTAL NET ASSETS	<u>12,929,554</u>	<u>22,046,752</u>	<u>-</u>	<u>34,976,306</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 28,654,695</u>	<u>\$ 34,889,545</u>	<u>\$ (10,761,397)</u>	<u>\$ 52,782,843</u>

MINNESOTA CHILDREN'S MUSEUM

CONSOLIDATING STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

	<u>Minnesota Children's Museum</u>	<u>MCM Holdings</u>	<u>Eliminations</u>	<u>Total</u>
REVENUE AND SUPPORT				
Revenue				
Museum admissions	\$ 720,335	\$ -	\$ -	\$ 720,335
Memberships	957,254	-	-	957,254
Education & groups	57,297	-	-	57,297
Parties & events revenue	12,273	-	-	12,273
Exhibit rentals & sales	955,560	-	-	955,560
Endowment revenue	78,793	-	-	78,793
Net unrealized gain on endowment	318,411	-	-	318,411
Other revenue	194,528	56,606	(38,775)	212,359
Total Revenue	<u>3,294,451</u>	<u>56,606</u>	<u>(38,775)</u>	<u>3,312,282</u>
Support				
Grants and contributions	1,582,109	42,988	-	1,625,097
Government grants	475,300	-	-	475,300
Fundraising events	314,240	-	-	314,240
In-kind contributions	112,104	-	-	112,104
Capital campaign	537,830	-	-	537,830
Total Support	<u>3,021,583</u>	<u>42,988</u>	<u>-</u>	<u>3,064,571</u>
Total Revenue and Support	<u>6,316,034</u>	<u>99,594</u>	<u>(38,775)</u>	<u>6,376,853</u>
EXPENSES				
Program	4,440,125	656,071	(38,775)	5,057,421
Administrative (management & general, marketing & promotion)	1,455,472	-	-	1,455,472
Fundraising	761,380	-	-	761,380
Total Expenses	<u>6,656,977</u>	<u>656,071</u>	<u>(38,775)</u>	<u>7,274,273</u>
TOTAL CHANGE IN NET ASSETS	(340,943)	(556,477)	-	(897,420)
Net Assets - Beginning of Year	6,591,802	29,281,924	-	35,873,726
Transfer of Net Assets	<u>6,678,695</u>	<u>(6,678,695)</u>	<u>-</u>	<u>-</u>
NET ASSETS - END OF YEAR	<u>\$ 12,929,554</u>	<u>\$ 22,046,752</u>	<u>\$ -</u>	<u>\$ 34,976,306</u>