

# **The Creative Discovery Museum**

## ***Report on Financial Statements***

***For the years ended December 31, 2016 and 2015***

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# The Creative Discovery Museum

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## **Independent Auditor's Report**

Board of Trustees  
The Creative Discovery Museum  
Chattanooga, Tennessee

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The Creative Discovery Museum, which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Creative Discovery Museum as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Elliott Davis Decosimo, LLC*

Chattanooga, Tennessee  
August 8, 2017

# The Creative Discovery Museum

## Statements of Financial Position

As of December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 277,426	\$ 268,448
Unconditional promises to give, net	99,021	86,597
Grants receivable	261,491	164,689
Inventories	45,822	47,283
Other current assets	133,977	100,791
Total current assets	<u>817,737</u>	<u>667,808</u>
<b>Property and equipment</b>		
Land	117,436	117,436
Buildings	12,784,138	12,771,909
Furniture, fixtures and equipment	4,603,870	4,572,114
Construction in progress	33,736	-
	<u>17,539,180</u>	<u>17,461,459</u>
Less accumulated depreciation	11,148,825	10,732,176
Property and equipment, net	<u>6,390,355</u>	<u>6,729,283</u>
<b>Other assets</b>		
Investments, at fair value	859,218	839,509
Total assets	<u>\$ 8,067,310</u>	<u>\$ 8,236,600</u>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Current portion of long-term debt	\$ 50,958	\$ 49,519
Accounts payable	105,604	16,976
Accrued expenses	112,908	140,536
Deferred revenue	211,107	209,059
Total current liabilities	<u>480,577</u>	<u>416,090</u>
<b>Long-term debt</b>	70,846	121,633
Total liabilities	<u>551,423</u>	<u>537,723</u>
<b>Net assets</b>		
Unrestricted:		
Undesignated	6,331,151	6,557,664
Board designated for endowment	340,455	331,273
Total unrestricted	<u>6,671,606</u>	<u>6,888,937</u>
Temporarily restricted	341,274	309,433
Permanently restricted	503,007	500,507
Total net assets	<u>7,515,887</u>	<u>7,698,877</u>
Total liabilities and net assets	<u>\$ 8,067,310</u>	<u>\$ 8,236,600</u>

See Notes to Financial Statements

# The Creative Discovery Museum

## Statements of Activities and Changes in Net Assets

For the years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Change in unrestricted net assets</b>		
Revenues, gains and support:		
Admissions	\$ 1,311,375	\$ 1,253,153
Ancillary sales	578,654	561,009
Membership dues	356,071	355,711
Contributions and grants	702,428	575,792
Fundraising events	127,570	145,703
Net investment income (loss)	9,182	(2,645)
State funding	143,166	144,190
Other income	241,386	229,496
Net assets released from restrictions	147,887	87,683
Total revenues, gains and support	<u>3,617,719</u>	<u>3,350,092</u>
Expenses:		
Program services	1,997,537	1,828,317
Guest services	366,878	341,615
Management and general	467,973	517,895
Marketing	72,600	59,869
Fundraising	305,638	274,341
Cost of ancillary sales	196,618	191,497
Interest	4,832	6,626
Write-off of uncollectible promises to give	6,340	-
Depreciation	416,634	465,790
Total expenses	<u>3,835,050</u>	<u>3,685,950</u>
Change in unrestricted net assets	<u>(217,331)</u>	<u>(335,858)</u>
<b>Change in temporarily restricted net assets</b>		
Net investment income (loss)	22,448	(5,472)
Contributions	157,280	211,072
Net assets released from restrictions	(147,887)	(87,683)
Change in temporarily restricted net assets	<u>31,841</u>	<u>117,917</u>
<b>Change in permanently restricted net assets</b>		
Contributions	2,500	1,075
Change in net assets	<u>(182,990)</u>	<u>(216,866)</u>
<b>Net assets, beginning of year</b>	<u>7,698,877</u>	<u>7,915,743</u>
<b>Net assets, end of year</b>	<u>\$ 7,515,887</u>	<u>\$ 7,698,877</u>

See Notes to Financial Statements

## The Creative Discovery Museum

### Statement of Functional Expenses

For the year ended December 31, 2016

	<u>Program services</u>	<u>Guest services</u>	<u>Management and general</u>	<u>Marketing</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and benefits	\$ 1,301,326	\$ 283,782	\$ 180,693	\$ 58	\$ 201,656	\$ 1,967,515
Fundraising events	-	-	-	-	66,531	66,531
Consulting	-	-	102,000	-	-	102,000
Professional and other contract services	2,706	55,608	44,511	1,030	-	103,855
Utilities and telephone	88,694	-	16,299	-	-	104,993
Lease and rental	221	-	41,409	-	-	41,630
Printing and promotions	14,169	-	-	62,663	5,500	82,332
Supplies	250,478	21,778	28,847	26	23	301,152
Travel and education	54,109	1,898	24,171	2,688	16,766	99,632
Exhibit and maintenance	175,032	1,180	11,448	-	15,005	202,665
Other	110,802	2,632	18,595	6,135	157	138,321
	<u>\$ 1,997,537</u>	<u>\$ 366,878</u>	<u>\$ 467,973</u>	<u>\$ 72,600</u>	<u>\$ 305,638</u>	<u>3,210,626</u>
Cost of ancillary sales						196,618
Interest						4,832
Write-off of uncollectible promises to give						6,340
Depreciation						416,634
Total expenses						<u>\$ 3,835,050</u>

See Notes to Financial Statements

## The Creative Discovery Museum

### Statement of Functional Expenses

For the year ended December 31, 2015

	<u>Program services</u>	<u>Guest services</u>	<u>Management and general</u>	<u>Marketing</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and benefits	\$ 1,243,609	\$ 269,581	\$ 234,946	\$ 1,007	\$ 195,870	\$ 1,945,013
Fundraising events	-	-	-	-	57,317	57,317
Consulting	-	-	102,000	-	-	102,000
Professional and other contract services	1,318	45,726	50,527	480	3,767	101,818
Utilities and telephone	98,077	-	13,932	-	-	112,009
Lease and rental	11,205	-	18,203	-	-	29,408
Printing and promotions	8,450	-	-	50,777	-	59,227
Supplies	186,572	19,548	24,276	-	65	230,461
Travel and education	46,324	2,962	17,290	95	2,751	69,422
Exhibit and maintenance	181,590	1,318	13,666	-	13,380	209,954
Other	51,172	2,480	43,055	7,510	1,191	105,408
	<u>\$ 1,828,317</u>	<u>\$ 341,615</u>	<u>\$ 517,895</u>	<u>\$ 59,869</u>	<u>\$ 274,341</u>	<u>3,022,037</u>
Cost of ancillary sales						191,497
Interest						6,626
Depreciation						465,790
Total expenses						<u>\$ 3,685,950</u>

See Notes to Financial Statements



# The Creative Discovery Museum

## Statements of Cash Flows

For the years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Operating activities</b>		
Change in net assets	\$ (182,990)	\$ (216,866)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	416,634	465,790
Write-off of uncollectible promises to give	6,340	-
Net realized and unrealized losses (gains)	(2,928)	48,961
Proceeds from sale of donated investments	5,061	4,698
Changes in operating assets and liabilities:		
Unconditional promises to give	(18,764)	(25,270)
Grants receivable	(96,802)	(10,240)
Inventories	1,461	3,368
Other current assets	(33,186)	26,875
Accounts payable	88,628	(93,264)
Accrued expenses	(27,628)	60,714
Deferred revenue	2,048	31,520
Net cash flows from operating activities	<u>157,874</u>	<u>296,286</u>
<b>Investing activities</b>		
Purchase of investments	(370,955)	(358,645)
Proceeds from sale of investments	349,113	351,105
Purchase of property and equipment	(77,706)	(43,382)
Net cash flows from investing activities	<u>(99,548)</u>	<u>(50,922)</u>
<b>Financing activities</b>		
Repayment of long-term debt	(49,348)	(47,815)
Net change in cash and cash equivalents	8,978	197,549
<b>Cash and cash equivalents, beginning of year</b>	268,448	70,899
<b>Cash and cash equivalents, end of year</b>	<u>\$ 277,426</u>	<u>\$ 268,448</u>
<b>Cash paid for:</b>		
Interest	<u>\$ 4,832</u>	<u>\$ 6,626</u>

See Notes to Financial Statements

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## The Creative Discovery Museum

### *Notes to Financial Statements*

*December 31, 2016 and 2015*

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#### **Note 1. Summary of Significant Accounting Policies**

The significant accounting policies and practices followed by The Creative Discovery Museum are as follows:

##### *Nature of activities and organization:*

The Creative Discovery Museum (the "Museum") was incorporated on July 10, 1992, as a nonprofit organization in the State of Tennessee. The Museum operates a children's museum, which serves as a charitable, scientific, literary and educational center for the general public. The Museum is supported primarily by contributions, admissions, ancillary sales and membership dues.

##### *Basis of accounting:*

The financial statements of the Museum have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

##### *Financial statement presentation:*

The Museum is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets: Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Temporarily restricted net assets: Net assets subject to donor-imposed restrictions on their use that may be met by either actions of the Museum or the passage of time.

Permanently restricted net assets: Net assets subject to donor-imposed stipulation that they must be maintained permanently by the Museum.

##### *Revenue recognition:*

Contributions, grants and state funding received are recognized as unrestricted support unless explicit donor or grantor stipulations specify how the donated assets must be used, in which case the funds are recognized as restricted support. Donor or grantor-restricted support whose restrictions are met in the same reporting period are recognized as unrestricted support. All other donor or grantor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

Revenue is recognized on admission tickets at the time the tickets are sold. Proceeds from the sale of annual memberships are recognized ratably over the period for which the membership is valid. Deferred revenue represents the unearned portion of the annual memberships as of December 31, 2016 and 2015. Revenue from ancillary sales is recognized at the point of sale. Ancillary sales include revenue from the Museum's store and café.

# The Creative Discovery Museum

## Notes to Financial Statements

December 31, 2016 and 2015

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### Note 1. Summary of Significant Accounting Policies, Continued

#### Net assets released from restrictions:

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

#### Cash and cash equivalents:

The Museum considers all highly liquid investments in interest-bearing accounts, securities and other instruments with original maturities of three months or less when purchased to be cash and cash equivalents. The Museum maintains cash accounts, which may exceed federally insured amounts and which at times may exceed statement of financial position amounts due to outstanding checks.

#### Unconditional promises to give:

Unconditional promises to give are recognized as support in the period the promise is received. Unconditional promises to give that are expected to be collected in less than one year are reported at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are reported at the present value of expected cash flows at the date of the promise. Amortization of the resulting discount is recognized as additional contribution revenue. As of December 31, 2016 and 2015, all unconditional promises to give were due within one year. An allowance for uncollectible promises to give is maintained at a level adequate to absorb probable losses and is provided based on management's judgment, including such factors as prior collection history, type of contribution and nature of fundraising activity. When management specifically identifies an unconditional promise to give to be uncollectible, the balance is removed from the receivables balance and is charged to the allowance for uncollectible promises to give. The allowance for uncollectible promises to give was \$6,340 and \$0 as of December 31, 2016 and 2015, respectively.

#### Inventories:

Inventories consist of museum store items available for sale and are stated at the lower of cost or market utilizing the first-in, first-out method.

#### Investments:

Investments in marketable securities with readily determinable fair values, shares in mutual funds and all investments in debt securities are reported at fair value in the statements of financial position. Donated investments are recorded at fair value at the date of donation. Realized and unrealized gains and losses are included in net investment income (loss) in the statements of activities and changes in net assets. Interest income is recognized as earned and dividends are recognized on the ex-dividend date.

# The Creative Discovery Museum

## Notes to Financial Statements

December 31, 2016 and 2015

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### Note 1. Summary of Significant Accounting Policies, Continued

#### Fair value measurements:

Fair value is defined as 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. Generally accepted accounting principles set out a fair value hierarchy. The three levels of the fair value hierarchy are described below:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.
- Level 3: Unobservable inputs which reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs of the model.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

#### Exhibits:

The costs of long-lived exhibits are capitalized and depreciated using the straight-line method over their estimated useful lives. These capitalized costs include the costs of designing, fabricating and installing the exhibits and are included in furniture, fixtures and equipment in the statements of financial position.

#### Property and equipment:

Property and equipment are stated at cost or at the estimated fair value at the date of gift, if donated, less accumulated depreciation. Significant additions and improvements that have estimated useful lives in excess of one year are capitalized. Other expenditures for repairs and maintenance are expensed in the year incurred. Upon the sale or other retirement of depreciable property, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in operations. Depreciation is computed using the straight-line method over the estimated useful lives of the respective classes of assets.

#### Functional allocation of expenses:

The costs of providing various programs and other activities for the Museum have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

# The Creative Discovery Museum

## Notes to Financial Statements

December 31, 2016 and 2015

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### Note 1. Summary of Significant Accounting Policies, Continued

#### Income tax status:

The Museum qualifies as a tax-exempt organization under Internal Revenue Code Section 501(c)(3) and, accordingly, is exempt from federal and state income taxes. The Museum's federal exempt income tax returns are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

#### Recently issued accounting pronouncements:

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. This guidance also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The guidance will be effective for the Museum for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 31, 2019. The Museum is currently evaluating the effect of the adoption of this accounting pronouncement on its financial statements.

In August 2016, the FASB issued guidance to make targeted improvements to the not-for-profit financial reporting model, including changes in how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. The amendments will be effective for the Museum for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted. The Museum is currently evaluating the effect that implementation of the new standard will have on its financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Museum's financial position, changes in net assets or cash flows.

#### Advertising:

The Museum expenses advertising costs as they are incurred. Advertising expense for the years ended December 31, 2016 and 2015, totaled \$42,426 and \$35,122, respectively.

#### Estimates and uncertainties:

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

# The Creative Discovery Museum

## Notes to Financial Statements

December 31, 2016 and 2015

### Note 1. Summary of Significant Accounting Policies, Continued

#### Subsequent events:

The Museum has evaluated subsequent events for potential recognition and disclosure through August 8, 2017, the date the financial statements were available to be issued.

### Note 2. Investments

The following tables summarize the cost and fair value of investments as of December 31, 2016 and 2015.

	2016		
	Cost	Fair value	Unrealized gain (loss)
Certificates of deposit	\$ 44,930	\$ 33,011	\$ (11,919)
Federal agency bonds	34,884	34,858	(26)
Federal treasury bonds	66,154	65,510	(644)
Corporate bonds	137,077	134,244	(2,833)
Mutual funds	557,970	569,205	11,235
Mortgage backed securities	22,620	22,390	(230)
	<u>\$ 863,635</u>	<u>\$ 859,218</u>	<u>\$ (4,417)</u>

  

	2015		
	Cost	Fair value	Unrealized gain (loss)
Certificates of deposit	\$ 44,930	\$ 38,775	\$ (6,155)
Federal agency bonds	51,916	50,709	(1,207)
Federal treasury bonds	85,746	85,582	(164)
Corporate bonds	128,240	122,536	(5,704)
Mutual funds	537,264	526,186	(11,078)
Mortgage backed securities	15,701	15,721	20
	<u>\$ 863,797</u>	<u>\$ 839,509</u>	<u>\$ (24,288)</u>

## The Creative Discovery Museum

### Notes to Financial Statements

December 31, 2016 and 2015

#### Note 2. Investments, Continued

The following table presents the Museum's fair value hierarchy for those investments measured at fair value as of December 31, 2016:

	Fair value measurements using			Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Certificates of deposit	\$ 33,011	\$ -	\$ -	\$ 33,011
Federal agency bonds	-	34,858	-	34,858
Federal treasury bonds	-	65,510	-	65,510
Corporate bonds	-	134,244	-	134,244
Mutual funds	569,205	-	-	569,205
Mortgage backed securities	-	22,390	-	22,390
	<u>\$ 602,216</u>	<u>\$ 257,002</u>	<u>\$ -</u>	<u>\$ 859,218</u>

The following table presents the Museum's fair value hierarchy for those investments measured at fair value as of December 31, 2015:

	Fair value measurements using			Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Certificates of deposit	\$ 38,775	\$ -	\$ -	\$ 38,775
Federal agency bonds	-	50,709	-	50,709
Federal treasury bonds	-	85,582	-	85,582
Corporate bonds	-	122,536	-	122,536
Mutual funds	526,186	-	-	526,186
Mortgage backed securities	-	15,721	-	15,721
	<u>\$ 564,961</u>	<u>\$ 274,548</u>	<u>\$ -</u>	<u>\$ 839,509</u>

## The Creative Discovery Museum

### Notes to Financial Statements

December 31, 2016 and 2015

#### Note 2. Investments, Continued

Net investment income (loss) for the years ended December 31, 2016 and 2015, consists of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividend income, net of brokerage fees	\$ 28,702	\$ 40,844
Realized gains (losses)	(16,943)	19,856
Unrealized gains (losses)	<u>19,871</u>	<u>(68,817)</u>
	<u>\$ 31,630</u>	<u>\$ (8,117)</u>

Interest and dividend income is presented net of brokerage fees totaling \$8,220 and \$8,640 for the years ended December 31, 2016 and 2015, respectively.

Net investment income (loss) is classified on the statements of activities and changes in net assets as follows:

	<u>2016</u>	<u>2015</u>
Change in unrestricted net assets	\$ 9,182	\$ (2,645)
Change in temporarily restricted net assets	<u>22,448</u>	<u>(5,472)</u>
	<u>\$ 31,630</u>	<u>\$ (8,117)</u>

#### Note 3. Lines of Credit and Long-Term Debt

The Museum has an unsecured \$350,000 line of credit agreement with First Tennessee Bank, maturing on September 30, 2017. The credit facility bears interest at a rate of prime plus 0.5% with a floor of 3.25%. The rate was 3.75% as of December 31, 2016. The balance on the line as of December 31, 2016 and 2015, was \$0.

In April 2013, First Tennessee Bank extended an additional line of credit to the Museum in the amount of \$250,000. The purpose of the additional line of credit is to fund repairs to the Museum building. Payments were interest only through May 1, 2014, with interest payable monthly at 3.15%. Beginning May 1, 2014, sixty monthly payments of principal and interest in the amount of \$4,514 are due until the loan matures on April 1, 2019. The loan is secured by an interest in the Museum's inventory, chattel paper, accounts, equipment and general intangibles. The balance of the loan as of December 31, 2016 and 2015, was \$121,804 and \$171,152, respectively.

Aggregate maturities of long-term debt for the years subsequent to December 31, 2016, are as follows:

<i>Year ending</i>	
December 31, 2017	\$ 50,958
December 31, 2018	52,735
December 31, 2019	<u>18,111</u>
	<u>\$ 121,804</u>



# The Creative Discovery Museum

## Notes to Financial Statements

December 31, 2016 and 2015

### Note 4. Restricted Net Assets

Restricted net assets for the years ended December 31, 2016 and 2015, consist of the following:

	<u>2016</u>	<u>2015</u>
<b>Temporarily restricted</b>		
Donor restricted investment income	\$ 91,988	\$ 72,040
Outreach programs	2,212	10,067
Make It Space exhibit	140,294	183,229
Chestnut Street plaza renovation	42,500	7,500
Other exhibits	55,000	-
Time restrictions	9,280	36,597
	<u>\$ 341,274</u>	<u>\$ 309,433</u>
<b>Permanently restricted</b>		
Restricted for endowment	<u>\$ 503,007</u>	<u>\$ 500,507</u>

### Note 5. Net Assets Released from Restrictions

Net assets released from restrictions consist of:

	<u>2016</u>	<u>2015</u>
Temporarily restricted net assets released from purpose restrictions	\$ 111,290	\$ 38,178
Temporarily restricted net assets released from time restrictions	36,597	49,505
	<u>\$ 147,887</u>	<u>\$ 87,683</u>

### Note 6. Endowment

The Museum's endowment consists of one individual fund established to provide long-term financial support to the Museum for its exhibitory and educational programs and to maintain an overall level of financial asset adequacy. The endowment includes both donor restricted endowment funds and funds designated by the Board of Trustees to function as an endowment. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as an endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Museum has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") 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 the following as permanently restricted net assets:

- a) the original value of gifts donated to the permanent endowment,
- b) the original value of subsequent gifts to the permanent endowment, and
- c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

# The Creative Discovery Museum

## Notes to Financial Statements

December 31, 2016 and 2015

### Note 6. Endowment, Continued

The remaining portion of the donor restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Museum considers the following factors in making the determination to appropriate or accumulate donor restricted endowment funds:

- a) the duration and preservation of the fund,
- b) the purposes of the Museum and the donor restricted endowment fund,
- c) general economic conditions,
- d) the possible effect of inflation and deflation,
- e) the expected total return from income and appreciation of investments,
- f) other resources of the Museum, and
- g) the investment policies of the Museum.

Endowment net assets by type of fund consist of the following as of December 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor restricted fund	\$ -	\$ 91,988	\$ 503,007	\$ 594,995
Board designated funds	<u>340,455</u>	<u>-</u>	<u>-</u>	<u>340,455</u>
	<u>\$ 340,455</u>	<u>\$ 91,988</u>	<u>\$ 503,007</u>	<u>\$ 935,450</u>

Changes in endowment net assets for the year ended December 31, 2016, are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Beginning of year	\$ 331,273	\$ 72,040	\$ 500,507	\$ 903,820
Interest and dividend income (see Note 2)	8,332	20,370	-	28,702
Net realized and unrealized losses	850	2,078	-	2,928
Contributions	-	-	2,500	2,500
Other transfers out	-	(2,500)	-	(2,500)
End of year	<u>\$ 340,455</u>	<u>\$ 91,988</u>	<u>\$ 503,007</u>	<u>\$ 935,450</u>

Endowment net assets by type of fund consist of the following as of December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor restricted fund	\$ -	\$ 72,040	\$ 500,507	\$ 572,547
Board designated funds	<u>331,273</u>	<u>-</u>	<u>-</u>	<u>331,273</u>
	<u>\$ 331,273</u>	<u>\$ 72,040</u>	<u>\$ 500,507</u>	<u>\$ 903,820</u>

## The Creative Discovery Museum

### Notes to Financial Statements

December 31, 2016 and 2015

#### Note 6. Endowment, Continued

Changes in endowment net assets for the year ended December 31, 2015, are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Beginning of year	\$ 333,918	\$ 83,868	\$ 499,432	\$ 917,218
Interest and dividend income (see Note 2)	21,306	44,088	-	65,394
Net realized and unrealized losses	(23,951)	(49,560)	-	(73,511)
Contributions	-	-	1,075	1,075
Other transfers out	-	(6,356)	-	(6,356)
End of year	<u>\$ 331,273</u>	<u>\$ 72,040</u>	<u>\$ 500,507</u>	<u>\$ 903,820</u>

From time to time the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires to be retained as a fund of perpetual duration. There were no such deficiencies as of December 31, 2016 or 2015.

#### Return objectives and risk parameters:

To satisfy its long-term rate of return objectives, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Museum targets a diversified asset allocation of twenty-five to forty percent equity mutual funds, forty-five to sixty-five percent fixed income, and zero to fifteen percent cash to achieve its long-term return objectives within prudent risk constraints.

#### Spending policy and how the investment objectives relate to spending policy:

The Museum's Board of Trustees has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that the Museum must hold in perpetuity, as well as Board designated funds. Under the Museum's investment policy, the endowment assets are invested in a manner that is intended to preserve capital, provide sufficient liquidity and maximize yield. The Museum expects its endowment funds to produce a rate of return that is 3.5 percentage points greater than the Consumer Price Index over a rolling three-year period. Actual returns may vary from this amount.

The Museum has a policy of appropriating for distribution 5% (but no greater than 7%) of the average annual total market value of the endowment funds over a trailing three-year period ending December 31. In the event the average annualized total return for the trailing three-year period fails to equal or exceed 5%, the endowment fund shall instead distribute net income until such time as the trailing three-year return again equals or exceeds 5%. In establishing this policy, the Museum considered the expected long-term return on its endowment. Accordingly, the Museum expects the current spending policy to allow its endowment value to grow over the long term. This is consistent with its objectives to maintain the purchasing power of the endowment assets as well as to provide real growth through appreciation.

## The Creative Discovery Museum

### Notes to Financial Statements

December 31, 2016 and 2015

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#### Note 7. Concentrations

As of December 31, 2016, there was one pledge totaling \$50,000 and three grants totaling \$261,491 representing 85% of unconditional promises to give and grants receivable. As of December 31, 2015, there was one pledge totaling \$50,000 and three grants totaling \$164,689 representing 85% unconditional promises to give and grants receivable.

#### Note 8. Related Party Transactions

A Board member of the Museum is an executive for the company that provides the Museum's employee healthcare insurance. Premiums paid were \$143,030 and \$112,100 for the years ended December 31, 2016 and 2015, respectively.

#### Note 9. Operating Lease Commitments

The Museum leases equipment and office space pursuant to noncancelable operating lease agreements that expire through 2018. Future minimum rental payments under the lease agreements as of December 31, 2016, are as follows:

<i>Year ending</i>	
December 31, 2017	\$ 11,319
December 31, 2018	<u>800</u>
	<u>\$ 12,119</u>

The Museum's total rent expense for the years ended December 31, 2016 and 2015, was \$41,630 and \$29,408, respectively.