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# Kohl Children's Museum of Greater Chicago, Inc.

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**Financial Report**  
**June 30, 2018**

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## Independent Auditor's Report

To the Board of Trustees  
Kohl Children's Museum of Greater Chicago, Inc.

We have audited the accompanying financial statements of Kohl Children's Museum of Greater Chicago, Inc. (the "Museum"), which comprise the statement of financial position as of June 30, 2018 and 2017 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 audits 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 opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kohl Children's Museum of Greater Chicago, Inc. as of June 30, 2018 and 2017 and the changes in its net assets and its cash flows and functional expenses for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Plante & Moran, PLLC*

September 25, 2018

## Kohl Children's Museum of Greater Chicago, Inc.

### Statement of Financial Position

June 30, 2018 and 2017

	2018	2017
<b>Assets</b>		
Cash and cash equivalents - Unrestricted	\$ 2,671,739	\$ 1,432,144
Certificates of deposit	785,602	1,156,284
Investments	439,962	355,197
Receivables:		
Contributions receivable - Net	2,890,356	1,106,372
Government grants receivable	3,240	9,100
Other receivables	1,389	9,591
Total receivables	2,894,985	1,125,063
Prepaid expenses	200,189	153,585
Property and equipment - Net	10,078,825	10,554,087
Total assets	<u>\$ 17,071,302</u>	<u>\$ 14,776,360</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expense	\$ 393,701	\$ 357,354
Deferred membership revenue	448,087	464,194
Deferred rent	166,749	164,521
Deferred revenue - Other	170,067	206,708
Conditional gift	100,000	100,000
Bonds payable	-	1,475,000
Total liabilities	1,278,604	2,767,777
<b>Net Assets</b>		
Unrestricted	10,601,839	10,040,482
Temporarily restricted	4,874,307	1,703,823
Permanently restricted	316,552	264,278
Total net assets	15,792,698	12,008,583
Total liabilities and net assets	<u>\$ 17,071,302</u>	<u>\$ 14,776,360</u>

Statement of Activities and Changes in Net Assets

Years Ended  
(with comparative totals for 2017)

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue, Gains, and Other Support</b>								
Contributions, gifts, and other support	\$ 346,050	\$ 973,214	\$ -	\$ 1,319,264	\$ 356,213	\$ 742,492	\$ -	\$ 1,098,705
Government grants	14,600	3,240	-	17,840	9,100	3,155	-	12,255
Special events - Net of expenses of \$248,108 and \$250,142 in 2018 and 2017, respectively	595,141	-	-	595,141	453,573	-	-	453,573
Admissions	818,239	-	-	818,239	858,691	-	-	858,691
Membership income	885,639	-	-	885,639	940,861	-	-	940,861
Field trips and education programs	239,013	-	-	239,013	167,220	-	-	167,220
Facility rental income	217,583	-	-	217,583	229,437	-	-	229,437
Exhibit rental income	20,450	-	-	20,450	68,925	-	-	68,925
Other	38,325	-	-	38,325	34,917	-	-	34,917
Net assets released from restrictions	826,474	(826,474)	-	-	1,559,229	(1,559,229)	-	-
Total revenue, gains, and other support	4,001,514	149,980	-	4,151,494	4,678,166	(813,582)	-	3,864,584
<b>Expenses</b>								
Program services - Education and exhibits	3,458,032	-	-	3,458,032	3,845,261	-	-	3,845,261
Support services:								
Management and general	628,453	-	-	628,453	357,239	-	-	357,239
Fundraising	358,385	-	-	358,385	371,385	-	-	371,385
Total expenses	4,444,870	-	-	4,444,870	4,573,885	-	-	4,573,885
<b>Increase (Decrease) in Net Assets - Before other items</b>	(443,356)	149,980	-	(293,376)	104,281	(813,582)	-	(709,301)
<b>Other Changes in Net Assets</b>								
Play it forward campaign contributions and other revenue	-	4,012,528	52,274	4,064,802	-	550,000	23,835	573,835
Play it forward campaign expenses	(25,119)	-	-	(25,119)	(228,820)	-	-	(228,820)
Interest income	4,713	9,505	-	14,218	158	4,837	-	4,995
Net realized and unrealized gains (losses) on investments	-	23,590	-	23,590	(22)	38,750	-	38,728
Net assets released from capital restrictions	1,025,119	(1,025,119)	-	-	250,000	(250,000)	-	-
Total other changes in net assets	1,004,713	3,020,504	52,274	4,077,491	21,316	343,587	23,835	388,738
<b>Increase (Decrease) in Net Assets</b>	561,357	3,170,484	52,274	3,784,115	125,597	(469,995)	23,835	(320,563)
<b>Net Assets (Deficit) - Beginning of year</b>	10,040,482	1,703,823	264,278	12,008,583	9,914,885	2,173,818	240,443	12,329,146
<b>Net Assets (Deficit) - End of year</b>	\$ 10,601,839	\$ 4,874,307	\$ 316,552	\$ 15,792,698	\$ 10,040,482	\$ 1,703,823	\$ 264,278	\$ 12,008,583

## Kohl Children's Museum of Greater Chicago, Inc.

### Statement of Functional Expenses

Year Ended June 30, 2018

	Program Services		Support Services		
	Education and Exhibits	Management and General	Fundraising	Total	Total
Compensation	\$ 2,012,438	\$ 559,377	\$ 323,243	\$ 882,620	\$ 2,895,058
Supplies and equipment	123,802	3,953	3,078	7,031	130,833
Travel and meetings	67,294	13,462	11,967	25,429	92,723
Advertising, printing, and publications	64,827	8,837	2,587	11,424	76,251
Repair, maintenance, and construction	145,535	974	3,295	4,269	149,804
Rent and occupancy	148,986	2,193	-	2,193	151,179
Utilities	118,686	1,165	678	1,843	120,529
Bank/Credit card fees and interest	94,763	1,046	252	1,298	96,061
Depreciation and amortization	547,196	11,168	-	11,168	558,364
Consulting and professional fees	122,876	27,600	12,311	39,911	162,787
Other administrative	11,629	(1,322)	974	(348)	11,281
Total expense before special event and Play it Forward Campaign expenses	3,458,032	628,453	358,385	986,838	4,444,870
Special events	-	-	248,108	248,108	248,108
Play it Forward Campaign	-	119	25,000	25,119	25,119
Total functional expenses	<b>\$ 3,458,032</b>	<b>\$ 628,572</b>	<b>\$ 631,493</b>	<b>\$ 1,260,065</b>	<b>\$ 4,718,097</b>

## Kohl Children's Museum of Greater Chicago, Inc.

### Statement of Functional Expenses

Year Ended June 30, 2017

	Program Services		Support Services		
	Education and Exhibits	Management and General	Fundraising	Total	Total
Compensation	\$ 2,225,102	\$ 302,820	\$ 354,039	\$ 656,859	\$ 2,881,961
Supplies and equipment	117,867	463	2,013	2,476	120,343
Travel and meetings	83,905	4,791	6,190	10,981	94,886
Advertising, printing, and publications	85,022	4,431	1,897	6,328	91,350
Repair, maintenance, and construction	155,422	1,253	2,895	4,148	159,570
Rent and occupancy	175,323	2,059	-	2,059	177,382
Utilities	121,977	186	716	902	122,879
Bank/Credit card fees and interest	86,370	1,778	2,177	3,955	90,325
Depreciation and amortization	588,925	5,260	-	5,260	594,185
Consulting and professional fees	189,382	33,250	-	33,250	222,632
Other administrative	15,966	948	1,458	2,406	18,372
Total expense before special event and Play it Forward Campaign expenses	3,845,261	357,239	371,385	728,624	4,573,885
Special events	-	-	250,142	250,142	250,142
Play it Forward Campaign	-	-	228,820	228,820	228,820
Total functional expenses	<b>\$ 3,845,261</b>	<b>\$ 357,239</b>	<b>\$ 850,347</b>	<b>\$ 1,207,586</b>	<b>\$ 5,052,847</b>

## Kohl Children's Museum of Greater Chicago, Inc.

### Statement of Cash Flows

Years Ended June 30, 2018 and 2017

	2018	2017
<b>Cash Flows from Operating Activities</b>		
Increase (decrease) in net assets	\$ 3,784,115	\$ (320,563)
Adjustments to reconcile increase (decrease) in net assets to net cash and cash equivalents from operating activities:		
Depreciation	558,364	579,706
Amortization and write-off of bond costs	-	14,480
Amortization of discount on pledges	24,928	(761)
Change in provision for and write-off of uncollectible pledges	(4,495)	(9,084)
Net realized and unrealized investment gain	(23,590)	(39,206)
Contributions restricted for long-term assets	(4,012,528)	(550,000)
Changes in operating assets and liabilities which provided (used) cash and cash equivalents:		
Contributions and other receivables	1,093,681	42,855
Prepaid expenses and deposits	(46,604)	432,852
Accounts payable and accrued expenses	36,347	110,153
Deferred revenue	(52,748)	23,207
Deferred rent	2,228	2,228
Net cash provided by operating activities	1,359,698	285,867
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(83,102)	(277,424)
Purchases of investments	(61,175)	(28,216)
Redemption (purchase) of certificates of deposit	370,682	(1,156,284)
Net cash provided by (used in) investing activities	226,405	(1,461,924)
<b>Cash Flows from Financing Activities</b>		
Principal payments of long-term debt	(1,475,000)	(110,000)
Collection of contributions restricted for acquisition of long-term assets	1,128,492	300,000
Net cash (used in) provided by financing activities	(346,508)	190,000
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	1,239,595	(986,057)
<b>Cash and Cash Equivalents - Beginning of year</b>	1,432,144	2,418,201
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 2,671,739</b>	<b>\$ 1,432,144</b>
<b>Supplemental Cash Flow Information - Cash paid for interest</b>	\$ 14,998	\$ 10,909



**June 30, 2018 and 2017**

**Note 1 - Nature of Activities and Significant Accounting Policies**

Kohl Children's Museum of Greater Chicago, Inc. (the "Museum") was incorporated as a not-for-profit organization in May 1990 under the laws of the State of Illinois. The Museum is supported primarily by admissions, memberships, special events, and publicly provided contributions, gifts, and grants obtained through operation of its museum facilities in Glenview, Illinois. The Museum is a leader in demonstrating the role of interactive play in learning, creating exemplary, developmentally appropriate, and hands-on education experiences for young children in a fun, intimate environment. In addition, children learn best through play, and that interactive play between children and caring adults fosters learning and relationship development. In achieving this mission, the Museum strives to engage a multicultural and economically diverse audience to interact in the learning process, serve as a catalyst for constructive new forms of participatory learning for schools and families, implement innovative programs at the Museum and in the community, and impact schools through ongoing, innovative programs.

**Note 2 - Significant Accounting Policies**

***Basis of Accounting***

The accompanying financial statements have been prepared using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America. This method records revenue and related assets when earned and records expenses and related liabilities when the obligations are incurred. These financial statements report amounts separately by class of net assets.

***Classification of Net Assets***

Net assets of the Museum are classified as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting the Museum's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity.

Accounting principles generally accepted in the United States of America address the net asset classification of donor-restricted endowment funds for organizations subject to an enacted version of the 2006 Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA was enacted in Illinois effective June 30, 2009. A key component of UPMIFA is a requirement to classify the portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure.

***Cash and Cash Equivalents***

Cash and cash equivalents consist of cash on hand and all highly liquid investments purchased with an original maturity of three months or less. Throughout the year, the Museum may have amounts on deposit with a financial institution in excess of those insured by the FDIC. Management does not believe this presents a significant risk to the Museum.

***Certifications of Deposit in Other Financial Institutions***

Certificates of deposit consist of interest-bearing bank certificates of deposit with original maturity dates greater than three months. The certificates are carried at fair value.

**June 30, 2018 and 2017**

**Note 2 - Significant Accounting Policies (Continued)**

***Contributions Receivable***

Contributions are recognized as revenue when the donor's commitment is received. Contributions expected to be received over more than one year are initially recorded at fair value by the Museum as contributions receivable. They are subsequently valued at the present value of future cash flows. The valuation of contributions receivable is based upon management's estimate of the collectibility of such receivables. Management records a general reserve equal to the three-year rolling average of historical write-offs. Management monitors the collection of these receivables on a monthly basis. Receivables are deemed delinquent if not collected from the donor in the period they are expected to be received. Delinquent receivables are monitored and amounts are written off when deemed uncollectible.

Discount rates ranged from 0.12 percent to 2.77 percent and 0.12 percent to 1.93 percent in 2018 and 2017, respectively.

***Property and Equipment***

Property and equipment are recorded at cost and depreciated over their estimated useful lives using the straight-line method. Costs of repairs and maintenance are charged to expense as incurred.

***Deferred Revenue***

Deferred membership revenue consists of income from membership dues, which is deferred and recognized over the periods to which the dues relate. Deferred revenue - other consists of funds received in advance for future special events and exhibits.

***Deferred Rent***

The Museum's ground lease includes escalated rent payments through March 2044. Accounting principles generally accepted in the United States of America require that rent expense be recognized ratably over the lease term. The cumulative amount by which rent expense recognized exceeds rent paid is included as deferred rent in the statement of financial position.

***Contributions***

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor-stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Gifts, investment income, and government grants that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction. Unconditional gifts expected to be collected within one year are reported at the contribution amount. Unconditional gifts expected to be collected in future years are reported at estimated fair value, net of allowances. Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

***Admissions and Special Events Revenue***

Income collected for daily admissions and special events is recognized when earned.

***Membership Revenue***

Membership dues are recorded as deferred revenue and are recognized ratably over the membership period. Memberships are valid one year from the date of purchase.

**June 30, 2018 and 2017**

**Note 2 - Significant Accounting Policies (Continued)**

***Donated Services and Assets***

The Museum receives a substantial amount of donated services from unpaid volunteers who have made significant contributions of their time to help execute the Museum's programs. There were no donated services reflected in the financial statements for the years ended June 30, 2018 and 2017.

***Income Taxes***

The Museum is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and a similar provision of state law. However, the Museum is subject to federal income tax on any unrelated business taxable income. The Museum is not considered to be a private foundation.

***Use of Estimates***

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

***Functional Allocation of Expenses***

Costs of providing the program and support services have been reported on a functional basis in the statement of activities and changes in net assets. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. For the year ended June 30, 2018, management modified its allocation methodology in anticipation for the enhanced guidance included in Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* to include indirect program expenses as management and general expenses. No such modification was made for the year ended June 30, 2017. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

***Subsequent Events***

The financial statements and related disclosures include evaluation of events up through and including September 25, 2018, which is the date the financial statements were issued.

***Upcoming Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Museum's year ending June 30, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Museum has not yet determined which application method it will use. Management has begun analyzing revenue streams that will be impacted and believes that the pattern of revenue recognition will not change significantly upon adoption of the pronouncement. Management is currently analyzing the disclosures that will be required with this pronouncement.

**Note 2 - Significant Accounting Policies (Continued)**

The Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Museum's year ending June 30, 2021 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on the Museum's financial statements as a result of the Museum's operating leases, as disclosed in Note 8, that will be reported on the statement of financial position at adoption. Upon adoption, the Museum will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the results of operations are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Organization, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Museum's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. The Museum has determined that the standard will have an impact on the financial statements by changing the reporting of net asset classes and updates to various footnote disclosures. The Museum is currently gathering the appropriate information to implement these disclosure changes in a timely manner.

**Note 3 - Contributions Receivable**

Contributions receivable are expected to be collected during the following periods:

	2018	2017
Due within one year	\$ 1,151,008	\$ 674,008
Due in one to five years	1,773,917	446,500
Total contributions receivable	2,924,925	1,120,508
Less allowance for uncollectible contributions	(8,418)	(12,913)
Less allowance for net present value discount	(26,151)	(1,223)
Net contributions receivable	<u>\$ 2,890,356</u>	<u>\$ 1,106,372</u>

**Note 4 - Fair Value Measurements**

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Museum's assets measured at fair value on a recurring basis at June 30, 2018 and 2017 and the valuation techniques used by the Museum to determine those fair values.

**Note 4 - Fair Value Measurements (Continued)**

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Museum has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Museum's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Level 1 investments consist of money market funds, common stock funds, government bond funds, fixed-income exchange-traded funds, real estate funds, commodity-linked funds, and commodity exchange-traded funds. Estimated fair values for the Museum's Level 1 investments were based on quoted market prices.

Level 2 investments consist of negotiable certificate of deposits. Estimated fair values of the Museum's Level 2 investments were based on quoted prices for similar assets in active markets.

The Museum currently uses no Level 3 inputs.

The following tables present information about the Museum's assets measured at fair value on recurring basis at June 30, 2018 and 2017 and the valuation techniques used by the Museum to determine those fair values:

	Assets Measured at Fair Value on a Recurring Basis at June 30, 2018		
	Quoted Prices in		Balance at June 30, 2018
	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	
Investments:			
Money market funds	\$ 7,128	\$ -	\$ 7,128
Certificates of deposit	-	785,602	785,602
Corporate bond funds	55,994	-	55,994
Real estate funds	15,441	-	15,441
Government agencies	24,326	-	24,326
Fixed-income traded funds	17,336	-	17,336
Common stock funds:			
MFB Northern FDS Emerging Markets Equity Fund	46,869	-	46,869
Equity funds	25,883	-	25,883
International region	49,298	-	49,298
U.S. small-cap funds	12,712	-	12,712
U.S. mid-cap funds	18,072	-	18,072
U.S. large-cap funds	58,611	-	58,611
MFB Northern FDS Stock Index Fund	53,033	-	53,033
MFB Northern International Equity Index Fund	55,259	-	55,259
Total investments	\$ 439,962	\$ 785,602	\$ 1,225,564

Notes to Financial Statements

June 30, 2018 and 2017

Note 4 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at June 30, 2017		
	Quoted Prices in		Balance at June 30, 2017
	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	
Investments:			
Money market funds	\$ 5,287	\$ -	\$ 5,287
Certificates of deposit	-	1,156,284	1,156,284
Corporate bond funds	47,399	-	47,399
Real estate funds	12,220	-	12,220
Government agencies	14,234	-	14,234
Fixed-income traded fund	15,578	-	15,578
Common stock funds:			
MFB Northern FDS Multi-Manager Emerging Markets Equity Fund	35,746	-	35,746
Equity funds	19,056	-	19,056
International region	41,197	-	41,197
U.S. small-cap funds	12,622	-	12,622
U.S. mid-cap funds	15,958	-	15,958
U.S. large-cap funds	52,804	-	52,804
MFB Northern FDS Stock Index Fund	38,297	-	38,297
MFB Northern International Equity Index Fund	44,799	-	44,799
Total investments	<u>\$ 355,197</u>	<u>\$ 1,156,284</u>	<u>\$ 1,511,481</u>

The Museum's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the actual date of the event of change in circumstances that caused the transfer. There were no significant transfers between levels of the fair value hierarchy during 2018 and 2017.

Note 5 - Property and Equipment

The cost of property and equipment is summarized as follows:

	2018	2017	Depreciable Life - Years
Buildings and improvements	\$ 13,951,701	\$ 13,951,701	40
Exhibits	5,398,189	5,315,087	10
Vehicles	19,621	19,621	3-5
Office equipment	898,729	898,730	3-10
Total cost	20,268,240	20,185,139	
Less accumulated depreciation	10,189,415	9,631,052	
Net property and equipment	<u>\$ 10,078,825</u>	<u>\$ 10,554,087</u>	

Depreciation expense was \$558,364 and \$579,706 for 2018 and for 2017, respectively.

Note 6 - Line of Credit

As of June 30, 2018 and 2017, the Museum has a \$500,000 line of credit available with Northern Trust that bears interest at the prime rate and is secured by the assets of the Museum. There were no borrowings outstanding on this line of credit as of June 30, 2018 and 2017. Repayment of any borrowings under the line of credit is due upon demand from the bank.

**Note 7 - Bonds Payable**

In July 2004, the Museum received financing for the construction of the museum building from the Illinois Finance Authority through the issuance of Series 2004, Adjustable Rate Demand Revenue Bonds (the "Bonds") in the original amount of \$13,395,000. The Bonds required interest payments on a monthly basis with the entirety of the principal amount coming due at maturity on July 1, 2034.

The Bonds were subject to a remarketing agreement and were secured through an irrevocable, transferable direct-pay letter of credit expiring on August 11, 2019. In the event that the Bonds could not be remarketed, the letter of credit would be drawn on to redeem all or a portion of the outstanding obligations from the bond holders.

Interest on the Bonds is payable monthly and accrues weekly based on an adjustable national index of tax-exempt variable-rate bonds. The weekly rates for 2018 and 2017 averaged 0.74 percent and 0.11 percent, respectively.

While principal payments were not required under the bond agreement until maturity, the Museum has historically made annual principal payments on the Bonds and, in May 2018, paid down the entirety of the outstanding bond balance of \$1,475,000.

**Note 8 - Operating Leases**

The Museum has a ground lease agreement with the Village of Glenview, Illinois. The term of the lease is 39 years, expiring in March 2044, with an option for an additional 40 years. The Museum recognizes rent expense on a straight-line basis over the life of the lease. The deferred rent and unamortized lease incentives are included in deferred rent liability on the statement of financial position. Rent expense for each of the years ended June 30, 2018 and 2017 was \$27,173.

The following is a schedule of future minimum rental payments required under the ground lease that have initial or remaining noncancelable lease terms in excess of one year as June 30, 2018:

Years Ending June 30	Amount
2019	\$ 24,799
2020	24,360
2021	24,360
2022	24,360
2023	24,360
Thereafter	744,220
Total	<u>\$ 866,459</u>

The Museum also leases certain equipment with monthly rent of \$54. The lease term expires in April 2020. Rent expense for the years ended June 30, 2018 and 2017 was \$645.

**Note 9 - Retirement Plan**

The Museum offers a 401(k) plan covering all eligible employees. The Museum makes employer contributions amounting to 100 percent of the employee contribution, not exceeding 3 percent of compensation, plus 50 percent of contributions in excess of 3 percent, but not greater than 5 percent of compensation. During the years ended June 30, 2018 and 2017, the Museum contributed \$59,591 and \$58,279, respectively, to the plan.



Notes to Financial Statements

June 30, 2018 and 2017

**Note 10 - Net Assets**

Temporarily restricted net assets as of June 30 are available for the following purposes or periods:

	2018	2017
Play it Forward Campaign*	\$ 3,287,409	\$ 300,000
Annual fund and other programs	129,496	229,183
Early childhood and other programs	1,333,387	1,083,721
Endowment earnings restricted for capital improvements	124,015	90,919
Total temporarily restricted net assets	<u>\$ 4,874,307</u>	<u>\$ 1,703,823</u>

\*The Play it Forward Campaign is a planned \$15 million campaign that will allow for the Museum to expand its facilities, exhibits and outreach programs and further support the mission of the Museum.

**Note 11 - Net Assets Released from Restrictions**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2018	2017
Play it Forward	\$ 1,025,119	\$ 250,000
Early childhood and other programs	826,474	1,559,229
Total	<u>\$ 1,851,593</u>	<u>\$ 1,809,229</u>

**Note 12 - Donor-restricted and Board-designated Endowments**

The Museum's endowment consists of one donor-restricted fund established for the support of the Museum's capital improvements. As required by GAAP, net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. As of June 30, 2018 and 2017, there are no board-designated endowment funds.

**Interpretation of Relevant Law**

The board of trustees of the Museum has interpreted the 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 funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in 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 UPMIFA. In accordance with UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Museum and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation



Notes to Financial Statements

June 30, 2018 and 2017

**Note 12 - Donor-restricted and Board-designated Endowments (Continued)**

- The expected total return from income and the appreciation of investments
- Other resources of the Museum
- The investment policies of the Museum

Endowment Net Asset Composition by Type of Fund as of June 30, 2018				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 123,410	\$ 316,552	\$ 439,962
Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2018				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	\$ -	\$ 90,919	\$ 264,278	\$ 355,197
Investment return:				
Interest income	-	8,764	-	8,764
Net realized and unrealized gains on investments	-	23,727	-	23,727
Total investment return	-	32,491	-	32,491
Contributions	-	-	52,274	52,274
Endowment net assets - End of year	\$ -	\$ 123,410	\$ 316,552	\$ 439,962
Endowment Net Asset Composition by Type of Fund as of June 30, 2017				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 90,919	\$ 264,278	\$ 355,197
Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2017				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	\$ -	\$ 47,332	\$ 240,443	\$ 287,775
Investment return:				
Interest income	-	4,381	-	4,381
Net realized and unrealized losses on investments	-	39,206	-	39,206
Total investment return	-	43,587	-	43,587
Contributions	-	-	23,835	23,835
Endowment net assets - End of year	\$ -	\$ 90,919	\$ 264,278	\$ 355,197

**June 30, 2018 and 2017**

**Note 12 - Donor-restricted and Board-designated Endowments (Continued)**

***Return Objectives and Risk Parameters***

The Museum has adopted investment and spending policies for endowment assets that attempt to preserve, protect, and grow the assets, as well as maintain sufficient liquid reserves to meet obligations arising from planned activities. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity.

***Strategies Employed for Achieving Objectives***

The endowment will achieve a long-term rate of return on investments that ensures the growth of the assets will be sufficient to offset or exceed inflation, required spending, investment management fees, expenses, and taxes over a full market cycle. The portfolio will also be diversified among various asset classes with the goal of reducing volatility of return and, among various issues of securities, to reduce nonsystematic, single-issuer, principal risk. The endowment will maintain liquidity in the portfolio sufficient to meet the obligations as they arise over time. Administrative, investment, and management expenses will also be controlled.

***Spending Policy and How the Investment Objectives Relate to Spending Policy***

The endowment will spend an amount each year determined annually by the finance committee after considering all factors enumerated in Section 4 of the Illinois Uniform Prudent Management of Institutional Funds Act. There was no spending in 2018 or 2017.