

CHILDREN'S MUSEUM OF RICHMOND

FINANCIAL STATEMENTS

June 30, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Children's Museum of Richmond
Richmond, Virginia

We have audited the accompanying financial statements of Children's Museum of Richmond which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, 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 opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's Museum of Richmond as of June 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, reading "Wells Coleman". The signature is written in a cursive, flowing style.

February 22, 2018

CHILDREN'S MUSEUM OF RICHMOND
STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and cash equivalents	\$ 407,258	\$ 505,470
Accounts receivable	3,428	4,570
Museum shop merchandise	90,303	82,680
Pledges receivable - temporarily restricted	159,684	179,478
Prepaid expenses and other current assets	<u>87,394</u>	<u>43,755</u>
Total current assets	<u>748,067</u>	<u>815,953</u>
Property and Equipment		
Exhibits	3,331,079	3,481,724
Computers and electronics	42,515	15,165
Furniture and fixtures	266,339	526,709
Buildings and improvements	<u>8,881,382</u>	<u>8,740,628</u>
	12,521,315	12,764,226
Accumulated depreciation	<u>(7,574,241)</u>	<u>(7,409,142)</u>
Net property and equipment	<u>4,947,074</u>	<u>5,355,084</u>
Other Assets		
Long-term investments	1,315,019	1,218,138
Long-term pledges receivable - temporarily restricted	179,500	292,275
Legendary Santa	<u>150,000</u>	<u>150,000</u>
Total other assets	<u>1,644,519</u>	<u>1,660,413</u>
Total Assets	<u>\$ 7,339,660</u>	<u>\$ 7,831,450</u>

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS

	<u>2017</u>	<u>2016</u>
Current Liabilities		
Lines of credit payable	\$ 442,355	\$ 566,370
Current portion - capital lease obligation	25,891	3,882
Accounts payable	187,133	256,891
Accrued expenses	53,945	60,098
Deferred revenue	<u>363,047</u>	<u>388,945</u>
Total current liabilities	1,072,371	1,276,186
Long-Term Liabilities		
Capital lease payable	<u>102,742</u>	<u>-</u>
Total liabilities	<u>1,175,113</u>	<u>1,276,186</u>
Net Assets		
Unrestricted	4,694,339	5,008,370
Temporarily restricted	411,557	488,243
Permanently restricted	<u>1,058,651</u>	<u>1,058,651</u>
Total net assets	<u>6,164,547</u>	<u>6,555,264</u>
 Total Liabilities and Net Assets	 <u>\$ 7,339,660</u>	 <u>\$ 7,831,450</u>

CHILDREN'S MUSEUM OF RICHMOND

STATEMENT OF ACTIVITIES

For the year ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue				
Contributions and grants				
Public support	\$ 459,302	\$ 120,761	\$ -	\$ 580,063
Foundations	77,224	105,930	-	183,154
Corporations and special events	286,120	65,389	-	351,509
Other	46,600	-	-	46,600
Net assets released from restrictions	<u>368,766</u>	<u>(368,766)</u>	<u>-</u>	<u>-</u>
Total contributions and grants	1,238,012	(76,686)	-	1,161,326
Admission charges	980,938	-	-	980,938
Membership dues	713,885	-	-	713,885
Museum shop sales	243,807	-	-	243,807
Program activities charges	110,730	-	-	110,730
Special events charges	<u>516,309</u>	<u>-</u>	<u>-</u>	<u>516,309</u>
Total support and revenue	<u>3,803,681</u>	<u>(76,686)</u>	<u>-</u>	<u>3,726,995</u>
Expenses				
Education services	<u>3,568,589</u>	<u>-</u>	<u>-</u>	<u>3,568,589</u>
Supporting services				
Management and general	229,086	-	-	229,086
Development	292,801	-	-	292,801
Museum shop	<u>168,510</u>	<u>-</u>	<u>-</u>	<u>168,510</u>
Total supporting services	<u>690,397</u>	<u>-</u>	<u>-</u>	<u>690,397</u>
Total expenses	<u>4,258,986</u>	<u>-</u>	<u>-</u>	<u>4,258,986</u>
Income (loss) from operations	(455,305)	(76,686)	-	(531,991)
Interest and dividend income	23,113	-	-	23,113
Realized/unrealized gain on investments, net	118,870	-	-	118,870
Loss on sale of asset	<u>(709)</u>	<u>-</u>	<u>-</u>	<u>(709)</u>
Change in net assets	(314,031)	(76,686)	-	(390,717)
Net Assets, beginning	<u>5,008,370</u>	<u>488,243</u>	<u>1,058,651</u>	<u>6,555,264</u>
Net Assets, ending	<u>\$ 4,694,339</u>	<u>\$ 411,557</u>	<u>\$ 1,058,651</u>	<u>\$ 6,164,547</u>

See accompanying notes to financial statements.

CHILDREN'S MUSEUM OF RICHMOND

STATEMENT OF ACTIVITIES

For the year ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue				
Contributions and grants				
Public support	\$ 432,560	\$ -	\$ -	\$ 432,560
Foundations	114,768	30,000	-	144,768
Corporations and special events	413,758	340,000	-	753,758
Other	46,600	-	-	46,600
Net assets released from restrictions	<u>452,024</u>	<u>(452,024)</u>	<u>-</u>	<u>-</u>
Total contributions and grants	1,459,710	(82,024)	-	1,377,686
Admission charges	1,016,570	-	-	1,016,570
Membership dues	769,634	-	-	769,634
Museum shop sales	200,873	-	-	200,873
Program activities charges	112,270	-	-	112,270
Special events charges	<u>525,790</u>	<u>-</u>	<u>-</u>	<u>525,790</u>
Total support and revenue	<u>4,084,847</u>	<u>(82,024)</u>	<u>-</u>	<u>4,002,823</u>
Expenses				
Education services	<u>3,661,389</u>	<u>-</u>	<u>-</u>	<u>3,661,389</u>
Supporting services				
Management and general	376,617	-	-	376,617
Development	357,798	-	-	357,798
Museum shop	<u>119,256</u>	<u>-</u>	<u>-</u>	<u>119,256</u>
Total supporting services	<u>853,671</u>	<u>-</u>	<u>-</u>	<u>853,671</u>
Total expenses	4,515,060	-	-	4,515,060
Income (loss) from operations	(430,213)	(82,024)	-	(512,237)
Interest and dividend income	23,473	-	-	23,473
Realized/unrealized loss on investments, net	(15,670)	-	-	(15,670)
Gain on sale of asset	<u>17,339</u>	<u>-</u>	<u>-</u>	<u>17,339</u>
Change in net assets	(405,071)	(82,024)	-	(487,095)
Net Assets, beginning	<u>5,413,441</u>	<u>570,267</u>	<u>1,058,651</u>	<u>7,042,359</u>
Net Assets, ending	<u>\$ 5,008,370</u>	<u>\$ 488,243</u>	<u>\$ 1,058,651</u>	<u>\$ 6,555,264</u>

See accompanying notes to financial statements.

CHILDREN'S MUSEUM OF RICHMOND
STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2017

	Education <u>Services</u>	Management and General	Supporting Services			Total <u>Expenses</u>
			<u>Development</u>	<u>Museum Shop</u>	<u>Total</u>	
Operating Activity						
Salaries and related expenses	\$ 1,413,838	\$ 170,342	\$ 85,171	\$ 34,068	\$ 289,581	\$ 1,703,419
Occupancy	711,531	22,469	7,490	7,490	37,449	748,980
Repairs and maintenance	67,013	2,116	705	705	3,526	70,540
Insurance	37,104	1,172	391	391	1,954	39,057
Professional fees	105,195	3,322	1,107	1,107	5,536	110,732
Supplies	147,503	4,658	1,553	1,553	7,764	155,266
Exhibits	4,425	-	-	-	-	4,425
Activities/special events	110,466	-	196,384	-	196,384	306,850
Promotion and advertising	323,068	-	-	-	-	323,068
Museum shop - cost of sales	-	-	-	123,196	123,196	123,196
Total operating activity before depreciation and interest	2,920,143	204,079	292,801	168,510	665,390	3,585,533
Depreciation	648,446	-	-	-	-	648,446
Interest	-	21,007	-	-	21,007	21,007
Bad debt expense	-	4,000	-	-	4,000	4,000
Total functional expenses	\$ 3,568,589	\$ 229,086	\$ 292,801	\$ 168,510	\$ 690,397	\$ 4,258,986

See accompanying notes to financial statements.

CHILDREN'S MUSEUM OF RICHMOND
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2016

	Education <u>Services</u>	Management and General	Supporting Services			Total <u>Expenses</u>
			<u>Development</u>	<u>Museum Shop</u>	<u>Total</u>	
Operating Activity						
Salaries and related expenses	\$ 1,209,275	\$ 318,230	\$ 63,646	\$ -	\$ 381,876	\$ 1,591,151
Occupancy	727,427	30,954	7,739	7,738	46,431	773,858
Repairs and maintenance	98,692	2,056	1,028	1,028	4,112	102,804
Insurance	40,133	1,267	422	422	2,111	42,244
Professional fees	108,604	2,239	1,120	-	3,359	111,963
Supplies	153,463	1,615	1,615	4,846	8,076	161,539
Exhibits	4,611	-	-	-	-	4,611
Activities/special events	158,754	-	282,228	-	282,228	440,982
Promotion and advertising	321,968	-	-	-	-	321,968
Museum shop - cost of sales	-	-	-	105,222	105,222	105,222
Total operating activity before depreciation and interest	2,822,927	356,361	357,798	119,256	833,415	3,656,342
Depreciation	838,462	-	-	-	-	838,462
Interest	-	20,256	-	-	20,256	20,256
Total functional expenses	<u>\$ 3,661,389</u>	<u>\$ 376,617</u>	<u>\$ 357,798</u>	<u>\$ 119,256</u>	<u>\$ 853,671</u>	<u>\$ 4,515,060</u>

See accompanying notes to financial statements.

CHILDREN'S MUSEUM OF RICHMOND

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (390,717)	\$ (487,095)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities		
Depreciation	648,446	838,462
Realized gain on investments	(47,207)	(9,810)
Unrealized (gain) loss on investments	(71,663)	25,480
(Gain) loss on disposal of equipment	709	(17,339)
Dividends and interest reinvested	(23,113)	(23,473)
Bad debts	4,000	-
 Increase (decrease) in operating assets		
Accounts receivable	1,142	(4,570)
Pledges receivable	128,569	26,181
Museum shop merchandise	(7,623)	(29,463)
Prepaid expenses and other current assets	(43,639)	39,486
 Increase (decrease) in operating liabilities		
Accounts payable	(69,758)	(242,069)
Accrued salaries and vacation	(6,153)	25,327
Deferred revenue	(25,898)	(5,064)
 Net cash and cash equivalents provided by operating activities	<u>97,095</u>	<u>136,053</u>
 Cash Flows from Investing Activities		
Proceeds from sale of property and equipment	-	21,400
Purchase of property and equipment	(102,320)	(149,701)
Proceeds from sale of investments	371,980	293,342
Purchase of investments	(326,878)	(311,156)
 Net cash and cash equivalents used by investing activities	<u>(57,218)</u>	<u>(146,115)</u>
 Cash Flows from Financing Activities		
Payments on capital lease obligation	(14,074)	(1,575)
Payments on lines of credit	(124,015)	(140,701)
 Net cash and cash equivalents used by financing activities	<u>(138,089)</u>	<u>(142,276)</u>

- Continued -

See accompanying notes to financial statements.

CHILDREN'S MUSEUM OF RICHMOND
STATEMENTS OF CASH FLOWS - CONTINUED

For the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Decrease in cash and cash equivalents	(98,212)	(152,338)
Cash and Cash Equivalents, beginning of year	<u>505,470</u>	<u>657,808</u>
Cash and Cash Equivalents, end of year	<u>\$ 407,258</u>	<u>\$ 505,470</u>
Cash paid for interest	\$ 21,007	\$ 20,256

Supplemental Disclosures of Noncash Investing and Financing Activities

During the year ended June 30, 2017, the Museum financed equipment by obtaining a capital lease for \$138,825.

See accompanying notes to financial statements.

CHILDREN'S MUSEUM OF RICHMOND

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

1. Nature of Organization

The Children's Museum of Richmond (the "Museum") is dedicated to providing educational experiences for children in the central Virginia area through interactive exhibits and special program activities. The Museum's principal sources of revenue are contributed support from individuals, foundations, and corporations, and charges for admission, memberships, and program activities.

2. Summary of Significant Accounting Policies

Basis of Accounting: The financial statements of the Museum have been prepared on the accrual basis of accounting. Under this accounting method, income is recorded as earned and expenses are recorded as incurred.

Financial Statement Presentation: The Museum adheres to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-210, "*Presentation of Financial Statements*". Accordingly, the Museum is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The applicable net assets classes are summarized as follows:

- Unrestricted net assets are net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets are net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Museum and/or the passage of time. When 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. When restrictions are met in the same period the contribution is received, the contribution is recorded as unrestricted for financial statement purposes.
- Permanently restricted net assets are net assets subject to donor-imposed stipulations that they be maintained permanently by the Museum to use all or part of the income earned from any related investments for general or specific purposes.

Cash and Cash Equivalents: For the purpose of the statements of cash flows, the Museum considers all highly liquid investments available for current use with an initial maturity at purchase of three months or less to be cash equivalents.

Investments: Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Property and Equipment: Acquisitions of property and equipment in excess of \$1,000 are capitalized. Purchases are stated at cost and donations at fair market value at the date of the donation. Property and equipment are depreciated over estimated useful lives of five to forty years using the straight-line method. Depreciation of property capitalized under capital leases is included in depreciation expense and accumulated depreciation.

CHILDREN'S MUSEUM OF RICHMOND
NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

2. Summary of Significant Accounting Policies - Continued

Promises to Give: Contributions are recognized when the donor makes a promise to give to the Museum that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Advertising: The Museum expenses advertising costs as they are incurred.

Contributions: The Museum adheres to FASB ASC 958-605, "Revenue Recognition," whereby contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net assets classes.

Contributions of donated non-cash assets are recorded at their fair market values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Contributed Services: The Museum generally pays for services requiring specific expertise. However, a number of unpaid volunteers have made contributions of their time to develop and maintain the Museum's programs. The value of this time is not reflected in these financial statements since it does not meet the recognition criteria as defined by FASB ASC 958-605, "Revenue Recognition."

Membership Dues: Dues income is recognized ratably over the membership year. Deferred revenue represents member dues billed or received, but not yet recognized as dues income. Dues are not refundable.

Income Taxes: The Museum is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Museum's federal tax returns from 2013 forward are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassification: Certain items from the prior year have been reclassified to conform to current-year presentation.

Evaluation of Subsequent Events: Management has evaluated subsequent events through February 22, 2018, which is the date the financial statements were available to be issued.

CHILDREN'S MUSEUM OF RICHMOND
NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

3. Concentration of Credit Risk

Financial instruments that potentially subject Children's Museum of Richmond to a concentration of credit risk consist principally of cash (from time to time, in excess of FDIC insurance limits).

4. Investments

FASB ASC 820-10, "*Fair Value Measurements and Disclosures*", defines fair value, establishes a framework for measuring fair value, and expands disclosures regarding fair value measurements. The standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair market value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have priority; Level 2 inputs consist of observable inputs other than quoted prices for identical assets; and Level 3 inputs have the lowest priority. Children's Museum of Richmond uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, Children's Museum of Richmond measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are used only when Level 1 or Level 2 inputs are not available.

Level 1 Inputs: Level 1 inputs are based on quoted prices in active markets for identical assets that Children's Museum of Richmond has the ability to access at year-end. All common stocks and fixed and mixed income securities have observable Level 1 pricing inputs.

Level 2 Inputs: Level 2 inputs are based on prices other than quoted prices within Level 1, such as prices for similar assets that are observable at year-end.

Level 3 Inputs: Level 3 inputs are determined using unobservable inputs provided by a third party.

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	<u>Fair Value</u>			
<u>June 30, 2017</u>				
Common stocks	\$ 974,173	\$ 974,173	\$ -	\$ -
Corporate obligations	254,379	254,379	-	-
Money market funds	<u>86,467</u>	<u>86,467</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,315,019</u>	<u>\$ 1,315,019</u>	<u>\$ -</u>	<u>\$ -</u>

CHILDREN'S MUSEUM OF RICHMOND
NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

4. Investments - Continued

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	<u>Fair Value</u>			
<u>June 30, 2016</u>				
Common stocks	\$ 904,017	\$ 904,017	\$ -	\$ -
Corporate obligations	284,385	284,385	-	-
Money market funds	<u>29,736</u>	<u>29,736</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,218,138</u>	<u>\$ 1,218,138</u>	<u>\$ -</u>	<u>\$ -</u>

Fair values and unrealized gains and losses for the years ended June 30, 2017 and 2016 are summarized as follows:

<u>June 30, 2017</u>	<u>Cost</u>	<u>Market</u>	<u>Unrealized Gain (Loss)</u>
Common stocks	\$ 656,867	\$ 974,173	\$ 317,306
Corporate obligations	251,346	254,379	3,033
Money market funds	<u>86,467</u>	<u>86,467</u>	<u>-</u>
	<u>\$ 994,680</u>	<u>\$ 1,315,019</u>	<u>\$ 320,339</u>
<u>June 30, 2016</u>	<u>Cost</u>	<u>Market</u>	<u>Unrealized Gain (Loss)</u>
Common stocks	\$ 688,581	\$ 904,017	\$ 215,436
Corporate obligations	277,504	284,385	6,881
Money market funds	<u>29,736</u>	<u>29,736</u>	<u>-</u>
	<u>\$ 995,821</u>	<u>\$ 1,218,138</u>	<u>\$ 222,317</u>

CHILDREN'S MUSEUM OF RICHMOND
NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

4. Investments - Continued

The following schedule summarizes the 2017 and 2016 investment returns, which are included in unrestricted revenue:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 23,113	\$ 23,473
Net realized and unrealized gains (losses)	<u>118,870</u>	<u>(15,670)</u>
Total investment return	<u>\$ 141,983</u>	<u>\$ 7,803</u>

5. Leases

The Museum is party to operating leases for its satellite locations in Henrico County, Virginia, Chesterfield County, Virginia, and Fredericksburg, Virginia. These operating leases expire in various calendar years beginning in 2019 and ending in 2020. Rent expense under all operating leases was \$546,519 and \$515,936 for the years ended June 30, 2017 and 2016, respectively.

The future minimum lease payments are as follows:

<u>For the years ending June 30</u>	
2018	\$ 506,923
2019	510,947
2020	306,404
2021	243,959
2022	<u>251,278</u>
Total	<u>\$1,819,511</u>

The Museum entered into a capital lease agreement for equipment in February 2017. The lease calls for monthly payments of \$2,645. This lease expires February 2022, at which time the equipment is expected to be purchased for \$1. Future minimum lease payments for the years ending June 30 are as follows:

<u>For the years ending June 30</u>	
2018	\$ 31,752
2019	31,752
2020	31,752
2021	31,752
2022	<u>18,522</u>
Total	<u>145,530</u>
Less: imputed interest	<u>(16,897)</u>
Capital lease payable	<u>\$ 128,633</u>

CHILDREN'S MUSEUM OF RICHMOND
NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

6. Line of Credit

The Museum has a line of credit with an asset management company that is secured by assets held in endowment. Interest on outstanding balances at June 30, 2017 was 3.625%. At June 30, 2017 and 2016, the Museum had an outstanding balance on this line of credit of \$403,547 and \$430,725, respectively.

The Museum maintains a line of credit with a financial institution with a limit of \$300,000. This line of credit is secured by pledges receivable, bears interest at 3.74%, and matures in May 2019. At June 30, 2017 and 2016, the Museum had an outstanding balance on this line of credit of \$38,808 and \$135,645, respectively.

7. Pledges Receivable

The future expected cash flows from the unrestricted pledges receivable have been discounted using a rate of 2.68%. At June 30, 2017 and 2016, the net present value of pledges receivable was as follows:

	<u>2017</u>	<u>2016</u>
Less than one year	\$ 159,684	\$ 179,478
One to five years	<u>198,115</u>	<u>313,614</u>
Gross pledges receivable	357,799	493,092
Discount to reduce receivables to present value	<u>(18,615)</u>	<u>(21,339)</u>
Total pledges receivable	<u>\$ 339,184</u>	<u>\$ 471,753</u>

Management estimates that \$4,000 of pledges receivable at June 30, 2017 are not collectible.

8. Temporarily Restricted Net Assets

The Museum maintains various temporarily restricted funds as designated by donor stipulations. The activity in these funds during the year ended June 30, 2017, is as follows:

	Balance <u>6/30/2016</u>	<u>Receipts</u>	<u>Disbursements</u>	Balance <u>6/30/2017</u>
Temporarily Restricted				
Educational programming	\$ 16,490	\$ 167,280	\$ 115,399	\$ 68,371
Time restricted for capital projects	171,717	-	124,289	47,428
Time restricted for museum programs	<u>300,036</u>	<u>124,800</u>	<u>129,078</u>	<u>295,758</u>
	<u>\$ 488,243</u>	<u>\$ 292,080</u>	<u>\$ 368,766</u>	<u>\$ 411,557</u>

CHILDREN'S MUSEUM OF RICHMOND
NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

9. Retirement Plan

The Museum sponsors an employee salary-deferral retirement plan under Section 403(b) of the Internal Revenue Code, which covers all eligible employees. The Museum does not contribute to the Plan.

10. Endowment Fund

The Museum's assets include approximately 20 individual donor-restricted funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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 the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until 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: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investment, (6) other resources of the Museum, and (7) the Museum's investment policies.

Investment Return Objectives, Risk Parameters and Strategies.

On June 20, 2017, the investment policy was revised and enacted with board approval. For Endowment assets, the Museum has adopted investment and spending policies, approved by the Board of Trustees, that attempt to provide a regular source of income to meet the financial needs of programs supported by its endowment funds. To that end, the Museum has established the following objectives: (1) To maintain an endowment spending policy that protects the real value of the endowment principal, i.e. that preserves the value of the principal adjusted for inflation, (2) to maintain a proper balance between the preservation of capital and the growth of the purchasing power of endowment principal, and (3) to provide a total return over the long-term, which is equal to or greater than 60% of S&P 500 and 40% of Bloomberg Barclays USAAgg blended benchmark.

Endowment assets are invested in a well-diversified asset mix. Current asset allocation ranges for investment through the Investment Manager are set at the following targets, which are reviewed at least on a quarterly basis:

<u>Investment</u>	<u>Range</u>
Equities	50-75%
Fixed Income	25-50%

CHILDREN'S MUSEUM OF RICHMOND
NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

10. Endowment Fund - Continued

Rebalancing is periodically needed to bring the investment composition in line with specific targets.

Spending Policy.

Funds from the Endowment may be withdrawn annually to help supplement the Museum's operating revenue based on a spending rate. Thus, it is an additional source of operating revenue. In addition, the CEO can borrow up to 1% from the Endowment to support operating cash needs under the condition it is repaid within 180 days. Any amount greater than 1% or any amount that cannot be repaid within 180 days or less requires finance committee approval. In any case, the total amount borrowed cannot exceed 50% of the total Endowment balance. The spending rate for the Endowment is currently set at 5% of the rolling three-year average of the fiscal year-end market value of the endowment fund. The spending rate should be used within 60 days of the beginning of the fiscal year.

There was no change in permanently restricted endowment funds during the year ended June 30, 2017.

11. Subsequent Event

The Museum established a 401(k) Plan effective August 15, 2017. Employees meeting eligibility requirements will be allowed participation in the Plan. The Museum will match up to 50% of the first 2% of compensation deferred by participants.