

Museum of Science and Industry

Financial Statements

As of and for the Years Ended December 31,
2015 and 2014, and Independent Auditor's Report

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Independent Auditor's Report

Board of Trustees
Museum of Science and Industry

Report on the Financial Statements

We have audited the accompanying financial statements of the Museum of Science and Industry (the Museum), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and changes in net assets 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 Museum of Science and Industry as of December 31, 2015 and 2014, 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.

RSM US LLP

Chicago, Illinois
May 18, 2016

Museum of Science and Industry

**Statements of Financial Position
December 31, 2015 and 2014**

	2015	2014
Assets		
Current assets:		
Cash	\$ 2,373,287	\$ 4,943,946
Short-term investments	6,249,317	3,155,375
Accounts and interest receivable, net	1,210,464	1,660,458
Pledges receivable, net	12,740,821	4,946,363
Inventories and prepaid expenses	1,456,251	1,050,063
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Total current assets	24,030,140	15,756,205
Other assets, net	1,572,721	1,683,156
Long-term pledges receivable, net	22,102,631	11,204,450
Long-term investments	84,673,912	82,276,065
Museum properties, net	145,936,171	151,934,466
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Total assets	\$ 278,315,575	\$ 262,854,342

See notes to financial statements.

Museum of Science and Industry

Statements of Financial Position (Continued)
December 31, 2015 and 2014

	2015	2014
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 3,000,605	\$ 2,620,021
Accrued liabilities	2,501,685	3,443,404
Current portion of notes payable	2,595,000	3,155,000
Other liabilities and deferred revenue	990,579	647,243
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Total current liabilities	9,087,869	9,865,668
Deferred revenue, less current portion	737,069	969,828
Pension liability	496,043	781,926
Other liabilities, less current portion	1,361,138	-
Interest rate swap	1,059,375	1,107,366
Long-term notes payable, less current portion	59,600,000	61,120,000
Asset retirement obligation, less current portion	1,019,209	991,128
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Total liabilities	73,360,703	74,835,916
Net assets:		
Unrestricted	148,906,756	158,876,068
Temporarily restricted	35,035,224	23,602,358
Permanently restricted	21,012,892	5,540,000
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Total net assets	204,954,872	188,018,426
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Total liabilities and net assets	\$ 278,315,575	\$ 262,854,342

See notes to financial statements.

Museum of Science and Industry

**Statement of Activities and Changes in Net Assets
Year Ended December 31, 2015**

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating income:				
Revenue and support:				
Admissions	\$ 14,053,843	\$ -	\$ -	\$ 14,053,843
Special exhibit	2,061,133	-	-	2,061,133
Ancillary services	7,843,111	-	-	7,843,111
Membership	4,444,761	-	-	4,444,761
Government support	5,717,121	945,861	-	6,662,982
Private support	7,010,381	21,906,834	15,472,892	44,390,107
Investment return designated for operations (Note 3)	4,027,953	-	-	4,027,953
Other income	877,052	10,000	-	887,052
Net assets released from restrictions	11,749,286	(11,749,286)	-	-
Total revenue and support	57,784,641	11,113,409	15,472,892	84,370,942
Expenses:				
Programs:				
Exhibits and public programs	13,959,281	-	-	13,959,281
Education programs	10,496,984	-	-	10,496,984
Guest services	2,598,293	-	-	2,598,293
Retail and supporting services	3,037,041	-	-	3,037,041
Total programs expenses	30,091,599	-	-	30,091,599
General and administrative:				
Management and general	5,934,136	-	-	5,934,136
Marketing and public awareness	5,830,849	-	-	5,830,849
Development	4,983,093	-	-	4,983,093
Membership	1,272,175	-	-	1,272,175
Total general and administrative expenses	18,020,253	-	-	18,020,253
Depreciation	14,119,601	-	-	14,119,601
Total expenses	62,231,453	-	-	62,231,453
Operating (loss) income	(4,446,812)	11,113,409	15,472,892	22,139,489
Non-operating (loss) income:				
Proceeds from sales of collections	-	391,700	-	391,700
Change in value of life insurance policy	20,987	-	-	20,987
(Loss) on long-term investments, net, after investment return designated for operations (Note 3)	(5,574,970)	(100,993)	-	(5,675,963)
Change in value of interest rate swap	47,991	-	-	47,991
(Loss) on film consortium investment	(81,854)	-	-	(81,854)
Recovery of bad debt	-	28,750	-	28,750
Change in value of the asset retirement obligation	(53,225)	-	-	(53,225)
Total non-operating income (loss)	(5,641,071)	319,457	-	(5,321,614)
Change in net assets before pension-related changes other than net periodic pension cost	(10,087,883)	11,432,866	15,472,892	16,817,875
Pension-related changes other than net periodic pension cost	118,571	-	-	118,571
Change in net assets	(9,969,312)	11,432,866	15,472,892	16,936,446
Net assets, beginning of year	158,876,068	23,602,358	5,540,000	188,018,426
Net assets, end of year	\$ 148,906,756	\$ 35,035,224	\$ 21,012,892	\$ 204,954,872

See notes to financial statements.

Museum of Science and Industry

**Statement of Activities and Changes in Net Assets
Year Ended December 31, 2014**

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating income:				
Revenue and support:				
Admissions	\$ 13,569,226	\$ -	\$ -	\$ 13,569,226
Special exhibit	2,260,255	-	-	2,260,255
Ancillary services	7,344,852	-	-	7,344,852
Membership	4,261,650	-	-	4,261,650
Government support	5,690,148	1,516,384	-	7,206,532
Private support	6,173,218	10,671,683	5,000	16,849,901
Investment return designated for operations (Note 3)	3,787,087	-	-	3,787,087
Other income	1,069,173	81,424	-	1,150,597
Net assets released from restrictions	13,319,872	(13,319,872)	-	-
Total revenue and support	57,475,481	(1,050,381)	5,000	56,430,100
Expenses:				
Programs:				
Exhibits and public programs	12,780,560	-	-	12,780,560
Education programs	5,791,513	-	-	5,791,513
Guest services	4,293,786	-	-	4,293,786
Retail and supporting services	3,249,991	-	-	3,249,991
Total programs expenses	26,115,850	-	-	26,115,850
General and administrative:				
Management and general	9,247,368	-	-	9,247,368
Marketing and public awareness	4,758,053	-	-	4,758,053
Development	3,576,143	-	-	3,576,143
Membership	1,324,842	-	-	1,324,842
Total general and administrative expenses	18,906,406	-	-	18,906,406
Depreciation	15,148,498	-	-	15,148,498
Total expenses	60,170,754	-	-	60,170,754
Operating (loss) income	(2,695,273)	(1,050,381)	5,000	(3,740,654)
Non-operating (loss) income:				
Proceeds from sales of collections	-	118,350	-	118,350
Change in value of life insurance policy	19,807	-	-	19,807
(Loss) on long-term investments, net, after investment return designated for operations (Note 3)	(2,151,015)	107,782	-	(2,043,233)
Change in value of interest rate swap	(277,767)	-	-	(277,767)
(Loss) on film consortium investment	(4,118)	-	-	(4,118)
(Loss) on disposal of fixed assets	(2,319)	-	-	(2,319)
Recovery of bad debt	-	175,646	-	175,646
Change in value of the asset retirement obligation	(422,360)	-	-	(422,360)
Total non-operating income	(2,837,772)	401,778	-	(2,435,994)
Change in net assets before pension-related changes other than net periodic pension cost	(5,533,045)	(648,603)	5,000	(6,176,648)
Pension-related changes other than net periodic pension cost	(376,262)	-	-	(376,262)
Change in net assets	(5,909,307)	(648,603)	5,000	(6,552,910)
Net assets, beginning of year	164,785,375	24,250,961	5,535,000	194,571,336
Net assets, end of year	\$ 158,876,068	\$ 23,602,358	\$ 5,540,000	\$ 188,018,426

See notes to financial statements.

Museum of Science and Industry

Statements of Cash Flows

Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ 16,936,446	\$ (6,552,910)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	14,119,601	15,148,498
Change in value of interest rate swap	(47,991)	277,767
Loss on disposal of fixed assets	-	2,319
Proceeds from sale of collections	(391,700)	(118,350)
Net loss on investments	3,718,148	177,905
Gifts restricted for acquisition of fixed assets	(1,546,430)	(1,736,818)
Gifts restricted for permanent endowment	(4,995,679)	(5,000)
Changes in operating assets and liabilities:		
Accounts and interest receivable, net	449,994	(543,229)
Pledges receivable, net	(18,667,158)	(4,501,811)
Inventories and prepaid expenses	(406,188)	84,949
Other assets	110,435	222,950
Accounts payable and accrued liabilities	(847,019)	2,199,209
Other liabilities and deferred revenue	(215,074)	201,527
Net cash provided by operating activities	8,217,385	4,857,007
Cash flows from investing activities:		
Proceeds from sale of collections	391,700	118,350
Purchases of investments	(164,449,663)	(2,095,991)
Sales of investments	155,239,726	5,699,819
Purchases of Museum properties	(6,406,436)	(8,711,424)
Net cash used in investing activities	(15,224,673)	(4,989,246)
Cash flows from financing activities:		
Principal payments on capital lease obligations	-	(233,724)
Proceeds from notes payable	-	1,350,000
Payment on notes payable	(2,080,000)	(2,425,000)
Gifts restricted for permanent endowment	4,995,679	5,000
Gifts restricted for acquisition of fixed assets	1,520,950	3,434,099
Net cash provided by financing activities	4,436,629	2,130,375
Net change in cash	(2,570,659)	1,998,136
Cash, beginning of year	4,943,946	2,945,809
Cash, end of year	\$ 2,373,287	\$ 4,943,946
Supplemental disclosure of cash flow information:		
Interest paid, net of amounts capitalized	\$ 36,321	\$ 63,181
Acquisition of museum properties through purchase agreement	\$ 1,714,870	\$ -

See notes to financial statements.

Museum of Science and Industry

Notes to Financial Statements

Note 1. Description of Organization

The Museum of Science and Industry (the Museum), a 501(c)(3) corporation, is the largest science museum in the Western Hemisphere and home to thousands of exhibits and artifacts. For more than 80 years, the Museum has been a premier destination in Chicago, Illinois. The Museum's mission is to inspire the inventive genius in everyone and its vision is to inspire and motivate children to achieve their full potential in science, technology, medicine and engineering. Approximately 340,000 students are among the nearly 1,400,000 guests that visit each year. Through its Center for the Advancement of Science Education (CASE), the Museum reaches thousands of students and teachers through special programs, learning labs, and educator workshops.

World-class permanent exhibitions include *Science Storms*, a 26,000-square-foot exhibit that reveals the extraordinary science behind some of nature's most powerful and compelling phenomena; *Numbers in Nature*, an exhibit that exposes and explains hidden patterns in the natural world and features a 1,800-square-foot mirror maze; and *You! The Experience*, a 15,000-square-foot exhibit that explores the human mind, body and spirit. Other favorite experiences include the *U-505 Submarine*, the only German U-boat captured during World War II, surrounded by more than 30,000 square feet of artifacts and interactive activities; the *Coal Mine*, a reproduction of an Illinois coal mine that takes guests down fifty feet in a real hoist to the bottom of a mineshaft; *Future Energy Chicago*, a multi-player visual simulation where teams of guests work together to develop a greener city; *The Great Train Story*, a dynamic model train display that illustrates modern rail operation; and the Omnimax Theater, which features educational films, rich in content and presented on Chicago's only five-story, domed wrap-around movie screen.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting: The financial statements have been prepared using the accrual basis of accounting. The Museum classifies its net assets, revenue, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Museum are reported as follows:

Unrestricted: Net assets that are not subject to donor-imposed restrictions.

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

Permanently restricted: Net assets subject to donor-imposed restrictions that are required to be maintained permanently (i.e., in perpetuity) by the Museum. Generally, the donors of these assets permit the Museum to use all or part of the income earned on related investments for specific purposes.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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 may differ from those estimates.

Collections: The Museum's permanent collections, which were acquired since the Museum's inception through purchases and contributions from benefactors, are not recognized as assets on the statements of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or as decreases in temporarily restricted net assets if the assets used to purchase the items were restricted by donors.

The Museum's collections are made up of artifacts of historical significance, scientific specimens and art objects that are held for educational, research, scientific and curatorial purposes. Each of the items is cataloged, preserved and cared for, and activities verifying the items' existence and assessing their condition are performed continuously. The collections are subject to the Museum's policy that requires proceeds from their sales to be used to acquire other items for collections.

Museum of Science and Industry

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Cash: The Museum had deposits in excess of federally insured limits at December 31, 2015 and 2014. However, the Museum had not experienced any losses in these accounts and believes that it is not exposed to any significant credit risk.

Investments: Investments are presented in the financial statements at fair value in accordance with U.S. GAAP. Investment income, realized gains (losses), and changes in unrealized gains (losses) are reflected in the statements of activities. Investments received as contributions are recorded at fair value at the date of receipt. Investments are classified as either short-term or long-term, based on intended use. Included in the Museum's short-term investments are cash, stocks and money market accounts that are designated as available for sale or liquidation within one year. Investments that are maintained for the long-term use of the Museum are classified as long-term.

The Museum's investment portfolio is subject to various risks, such as interest rate, credit and overall market volatility. Because of these risks, it is possible that changes in the fair value of investments may occur and that such changes could materially affect the Museum's financial statements.

Accounts, Interest and Pledges Receivable: Accounts receivable are stated at amounts due from customers, the Chicago Park District (the Park District) and other miscellaneous activities. Pledges receivable are recorded in the period during which the pledge is received. Pledges to be collected after one year are discounted using an annual rate commensurate with the risk involved. Amortization of the discount is recorded as additional private support.

Receivables are recorded net of an allowance for uncollectible amounts. The Museum determines its allowance for uncollectible amounts by considering a number of factors, including the length of time accounts receivable are past due, previous collection history, the customer's current ability to pay its obligation to the Museum, and the condition of the general economy and industry as a whole. The Museum writes off accounts receivable that have become uncollectible, and any payments subsequently received on such receivables are credited to the allowance for uncollectible amounts.

Inventories: Inventories are carried at average cost, which approximates the lower of cost or market, and primarily consist of items held for resale. Inventories were \$447,700 and \$398,219 at December 31, 2015 and 2014, respectively.

Asset Retirement Obligations: U.S. GAAP requires the current recognition of a liability when a legal obligation exists relative to an asset retirement in which the timing or method of settlement are conditional and/or based on a future event that may or may not be under the control of the entity. The Illinois Commercial and Public Building Asbestos Abatement Act requires the controlled removal or encapsulation of asbestos by a licensed contractor in commercial and public buildings, including renovation and partial or complete demolition activities.

An asset retirement obligation (ARO) liability was recognized at its net present value, with recognition of a related long-lived asset in a corresponding amount. The ARO liability is accreted through periodic charges to accretion expense. The initially capitalized ARO long-lived asset is depreciated over a period ending at the estimated remediation date. The Museum has estimated its asbestos removal cost to be \$1,069,209 and \$1,064,496 at December 31, 2015 and 2014, respectively. The Museum's estimate represents the present value of anticipated costs of asbestos abatement utilizing a discount rate of 5% and the projected year of removal based on the Museum's capital plan or an estimated future date. The short-term portion of the ARO liability consists of estimated removal costs that are expected to take place within one year.

Museum of Science and Industry

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Revenue and Support: Revenue and support are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Contributions are recognized in the period received. The Museum recognizes donors' unconditional promises to give cash and other assets as revenue in the period the promises are made. Conditional pledges are not recognized as revenue until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at estimated fair value.

The Museum receives income from ticket sales, events and group admission in advance of earning this revenue. The advance payments are accounted for as deferred revenue in the accompanying statements of financial position. Revenue is recognized as it is earned, which is the date upon which the event occurs or the date for which general admission is purchased. Revenue from various ancillary services, including commissions for food sales, retail store purchases, special events and membership are also recognized in the period earned.

The Museum receives support from the Chicago Park District based upon the annual tax levy ordinance of the Park District, as well as occasional funding from various federal and state agencies for programming and capital projects. Support from the Park District is recognized on an accrual basis and is classified as unrestricted government support.

Funding for specific programs are restricted and classified as temporarily restricted net assets and released from restriction as expenses are incurred. In the case of capital projects involving the construction or development of buildings, exhibits or software, restrictions are met as the asset is constructed or developed provided there are no additional restrictions.

Gains and losses on other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or law.

Donated Services and In-Kind Contributions: The financial statements reflect amounts for the value of donated services and in-kind contributions for which an objective basis is available to measure their value. The Museum has recorded donated services and in-kind contributions related to consulting activities and exhibits at their estimated fair values of \$179,071 and \$217,539 in 2015 and 2014, respectively. The amount relating to services is \$98,360 and \$1,950 in 2015 and 2014, respectively.

Volunteers contributed approximately 41,530 hours and 43,141 hours to the Museum in 2015 and 2014, respectively. The volunteers provided various services throughout the Museum. These services do not meet the criteria for financial statement recognition and, accordingly, the value of these services has not been reported in the financial statements.

Advertising Expense: Advertising expense is recorded in the period in which the advertising first takes place. Advertising expense was \$2,592,235 and \$2,646,390 for the years ended December 31, 2015 and 2014, respectively.

Income Tax: The Financial Accounting Standards Board (FASB) issued guidance requiring tax effects from uncertain tax positions to be recognized in the financial statements only if the position is more likely than not to be sustained should the position be challenged by a taxing authority. Management has determined that there are no material uncertain positions that require recognition in the financial statements. There are no tax positions for which a material change in any unrecognized tax benefit or liability is reasonably possible in the next twelve months.

Museum of Science and Industry

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

The Museum has federal net operating loss carryforwards available to offset future unrelated business taxable income. The net operating loss carryforwards expire through 2035 and total approximately \$4,400,000 and \$4,300,000 at December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, management has determined the likelihood of realizing the benefit from a future reversal of the net operating loss carryforwards is uncertain. Therefore, a 100% allowance has been applied to the deferred tax assets associated with the net operating loss carryforwards of \$1,716,000 and \$1,677,000 at December 31, 2015 and 2014, respectively.

The Museum files Forms 990 in the U.S. federal jurisdiction and the State of Illinois. Tax years before 2012 are generally no longer subject to examination by the Internal Revenue Service.

Recent Accounting Pronouncements: In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. Early adoption is permitted. The updated standard will be effective for the Museum's 2018 financial statements. The Museum has not selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This ASU will require that debt issuance costs be presented in the statement of financial position as a direct deduction from the carrying amount of the debt liability, in the same manner as debt discounts or premiums. ASU 2015-03 will be effective for the Museum for years beginning after December 15, 2015. The Museum is currently evaluating the impact of the adoption of this standard on its financial statements.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. This ASU eliminates the requirement to disclose investments in the fair value hierarchy if their fair value is measured at net asset value (NAV) per share (or its equivalent). The ASU is effective in 2016 for calendar-year-end public entities. For all other calendar-year-end entities, the ASU is effective in 2017. Early adoption is permitted. The Museum will not early adopt this standard, but has assessed that implementation will not have a significant impact on its financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Museum for years beginning after December 15, 2018. The Museum is currently evaluating the impact of the adoption of this standard on its financial statements.

Reclassifications: Certain 2014 amounts have been reclassified to conform with the current year presentation. These reclassifications have no effect on net assets or changes in net assets.

Museum of Science and Industry

Notes to Financial Statements

Note 3. Investments

Short-term investments consisted of the following at December 31:

	2015	2014
Common and preferred stocks	\$ 56,801	\$ 62,282
Fixed income fund	337,090	336,497
Money market fund	5,843,992	2,715,149
Money market account	11,434	41,447
	<u>\$ 6,249,317</u>	<u>\$ 3,155,375</u>

Long-term investments consisted of the following at December 31:

	2015	2014
Common and preferred stocks	\$ -	\$ 7,032,551
Equity funds:		
Domestic	20,138,735	19,899,404
International	15,762,759	27,860,210
Fixed income funds	43,816,230	27,465,229
Real estate funds	4,851,024	-
Money market fund	105,164	18,671
Total long-term investments	<u>\$ 84,673,912</u>	<u>\$ 82,276,065</u>

The trustees of the Museum have authorized a portion of the cumulative investment return for support of current operations. The remainder is retained to support operations of future years and to offset potential market declines. The amount designated for operations can be a 2.5% increase over the previous year's draw, but must be between 4% and 6% of the fair value of the investment pool as of September 30th of the previous year. The following schedule summarizes the investment return and its classification in the statement of activities:

	2015	2014
Interest	\$ 11,736	\$ 376,051
Dividends	2,189,374	1,699,149
Net realized gain on sale of investments	-	-
Net loss on investments	(3,718,148)	(177,905)
Management fees	(130,972)	(153,441)
	<u>(1,648,010)</u>	<u>1,743,854</u>
Total investment return		
Investment return designated for operations	(4,027,953)	(3,787,087)
Investment return, after amount designated for operations	<u>\$ (5,675,963)</u>	<u>\$ (2,043,233)</u>

Museum of Science and Industry

Notes to Financial Statements

Note 4. Fair Value of Financial Instruments

The Museum follows the accounting guidance on fair value measurements and disclosures, which defines fair value 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 and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under the Topic as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities includes investments for which quoted prices are available but which are traded less frequently and investments that are fairly valued using other securities, the parameters of which can be directly observed. Also included in Level 2 are investments measured using a net asset value (NAV) per share, or its equivalent, that may be redeemed at the NAV at the date of the statement of financial position or in the near term, which is generally considered to be within 90 days.

Level 3 - Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation. Also included in Level 3 are investments measured using an NAV per share, or its equivalent, that can never be redeemed at the NAV or for which redemption at NAV is uncertain due to lock-up periods or other investment restrictions.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes observable data requires significant judgment by the Museum. The Museum considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the fair value hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Museum's perceived risk of that instrument.

Transfers between levels are recognized as of the end of the reporting period. For the years ended December 31, 2015 and 2014, there were no such transfers.

Valuation of Investments: Investments with values that are based on quoted market prices in active markets and are, therefore, classified within Level 1 are publicly traded securities investments in money market funds, stocks, fixed-income funds, and domestic and international equity funds.

Investments classified within Level 2 are certain equity funds held at NAV. These funds are valued at fair value based on the applicable ownership of the funds' net assets as of the measurement date, as determined by the Museum. These funds are described further below.

Museum of Science and Industry

Notes to Financial Statements

Note 4. Fair Value of Financial Instruments (Continued)

The following tables summarize financial instruments by fair value levels as of December 31:

	2015			Total
	Level 1	Level 2	Level 3	
Assets:				
Money market fund	\$ 5,949,156	\$ -	\$ -	\$ 5,949,156
Common and preferred stocks	56,801	-	-	56,801
Fixed income funds	19,505,053	24,648,267	-	44,153,320
Real estate funds	4,851,024	-	-	4,851,024
Equity funds:				
Domestic	7,492,408	12,646,327	-	20,138,735
International	8,514,804	7,247,955	-	15,762,759
Total short- and long-term investments at fair value	<u>\$ 46,369,246</u>	<u>\$ 44,542,549</u>	<u>\$ -</u>	90,911,795
Short-term investments at cost				<u>11,434</u>
Total short- and long-term investments				<u>\$ 90,923,229</u>
Liabilities:				
Interest rate swap		<u>\$ (1,059,375)</u>		<u>\$ (1,059,375)</u>
	2014			Total
	Level 1	Level 2	Level 3	
Assets:				
Money market fund	\$ 2,733,820	\$ -	\$ -	\$ 2,733,820
Common and preferred stocks	7,094,833	-	-	7,094,833
Fixed income funds	27,801,726	-	-	27,801,726
Equity funds:				
Domestic	7,252,533	12,646,871	-	19,899,404
International	27,860,210	-	-	27,860,210
Total short- and long-term investments at fair value	<u>\$ 72,743,122</u>	<u>\$ 12,646,871</u>	<u>\$ -</u>	85,389,993
Short-term investments at cost				<u>41,447</u>
Total short- and long-term investments				<u>\$ 85,431,440</u>
Liabilities:				
Interest rate swap		<u>\$ (1,107,366)</u>		<u>\$ (1,107,366)</u>

Museum of Science and Industry

Notes to Financial Statements

Note 4. Fair Value of Financial Instruments (Continued)

Investments valued at NAV using the practical expedient as of December 31, 2015 consisted of the following:

	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Equity funds:				
Domestic (a)	\$ 12,646,327	\$ -	Daily	2 days
International (b)	7,247,955	-	Daily	2 days
Fixed income funds (c)	24,648,267	-	Daily	2 days
Balance as of December 31, 2015	<u>\$ 44,542,549</u>	<u>\$ -</u>		

Investments valued at NAV using the practical expedient as of December 31, 2014 consisted of the following:

	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Equity funds - domestic:				
Northern Trust US Marketcap (d)	\$ 8,061,672	\$ -	Daily	2 days
Wellington Fund (e)	4,585,199	-	Monthly	10 days
Balance as of December 31, 2014	<u>\$ 12,646,871</u>	<u>\$ -</u>		

- (a) Funds with principally long, diversified portfolios invested in highly liquid publicly traded U.S. equity securities, including large cap, medium cap, and small cap.
- (b) Funds with principally long, diversified portfolios invested in highly liquid international equity securities, including developed funds and emerging funds.
- (c) Fund positions include a broad variety of highly liquid investments that are anticipated to have primarily a fixed income focus, including corporate, government, and high yield investments.
- (d) The Northern Trust US Marketcap Fund invests in U.S.-headquartered equity securities, including common stocks, real estate investment trusts and limited partnerships that have readily available price data.
- (e) The Wellington Fund invests primarily in U.S.-listed common stock, depositary receipts and real estate securities. The portfolio will typically invest in any company with a market capitalization between \$100 million and \$2 billion at the time of initial purchase.

Cash: Cash approximates fair value.

Pledges Receivable: Pledges receivable are shown net of allowance for uncollectible pledges. The value was determined by discounting the expected future cash flows by a risk-adjusted rate of return and approximates fair value (Note 5).

Museum of Science and Industry

Notes to Financial Statements

Note 4. Fair Value of Financial Instruments (Continued)

Investments: Short-term investments are recorded primarily at fair value. Long-term investments are recorded in the financial statements at fair value. The fair value of investments in index funds and publicly traded securities is based upon quoted market prices. The fair value of investments in pooled equity investments and pooled fixed income funds is based on the reported NAV per share.

Interest Rate Swap Agreement: The fair value of the interest rate swap agreement is based on a quoted market price, which reflects the present value of the difference between estimated future fixed-rate payments and future variable-rate receipts.

Deferred Revenue: The carrying amount recorded approximates the fair value and is based upon revenue received in advance and not yet deemed to be earned by the Museum.

Notes Payable and Lines of Credit: The fair value of the variable-rate notes payable and lines of credit is presumed to approximate the carrying value.

The following table presents the carrying value and estimated fair values of the financial instruments not measured at fair value as of December 31, 2015 and 2014, and indicates the level of the estimated fair value measurement based on the observability of the inputs used:

	Level 1	Level 2	Level 3	Fair value	Carrying value
December 31, 2015					
Assets:					
Pledges receivable	\$ -	\$ -	\$ 34,843,452	\$ 34,843,452	\$ 34,843,452
Liabilities:					
Deferred revenue	-	-	1,316,118	1,316,118	1,316,118
Notes payable and lines of credit	-	62,195,000	-	62,195,000	62,195,000
December 31, 2014					
Assets:					
Pledges receivable	\$ -	\$ -	\$ 16,150,813	\$ 16,150,813	\$ 16,150,813
Liabilities:					
Deferred revenue	-	-	1,567,152	1,567,152	1,567,152
Notes payable and lines of credit	-	64,275,000	-	64,275,000	64,275,000

Museum of Science and Industry

Notes to Financial Statements

Note 5. Pledges Receivable

The Museum has received various pledges from individuals and corporate donors. The largest ten donors accounted for an aggregate of 69% of the gross total pledges receivable, and of the remaining balance, no individual donor had a balance in excess of 2% of the total. Pledges to be collected after one year are discounted using an annual rate of 5%, which is commensurate with the risk involved.

The following is a summary of pledges receivable as of December 31, 2015 and 2014, by expected period of payment:

	2015	2014
Amounts expected to be collected in		
Less than one year	\$ 13,101,171	\$ 5,335,462
One to five years	19,579,644	7,388,098
More than five years	8,550,000	9,050,000
Total pledges receivable	41,230,815	21,773,560
Less:		
Reserve on uncollectible pledges	(1,060,350)	(1,089,100)
Discount	(5,327,013)	(4,533,647)
Pledges receivable, net	34,843,452	16,150,813
Less current pledges receivable, net	(12,740,821)	(4,946,363)
Long-term pledges receivable, net	\$ 22,102,631	\$ 11,204,450

Conditional Pledges: In 2014, the Museum was awarded a grant in the total of \$2,000,000 to support the 2015 Robot Revolution exhibit. The grant included certain conditions that must be fulfilled prior to payment. As of December 31, 2015, conditions representing \$750,000 of the grant had not yet been fulfilled. The revenue will be recorded when the related conditions are met.

Note 6. Funds Held by Chicago Community Trust

In 1995, the Museum was notified that it is the designated beneficiary of the interest income on a \$1,000,000 endowment established and maintained by Chicago Community Trust. Chicago Community Trust has variance power over this endowment and, accordingly, the Museum has not included the endowment in the accompanying financial statements.

Note 7. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31:

	2015	2014
Time restricted	\$ 8,456,441	\$ 5,696,979
Education and cultural programs	16,072,753	9,011,280
Building preservation	691,216	398,599
Capital additions for exhibit development	9,814,814	8,495,500
	\$ 35,035,224	\$ 23,602,358

Museum of Science and Industry

Notes to Financial Statements

Note 7. Temporarily Restricted Net Assets (Continued)

Net assets were released from donor designations by incurring expenditures that satisfy the designated purpose and through the passage of time as defined below:

	2015	2014
Time restricted	\$ 1,103,255	\$ -
Education and cultural programs	5,250,426	4,762,936
Building preservation	194,331	34,550
Capital additions for exhibit development	5,201,274	8,522,386
	<u>\$ 11,749,286</u>	<u>\$ 13,319,872</u>

Note 8. Permanently Restricted Net Assets

Permanently restricted net assets consist of endowment pledges receivable and contributions where the Museum is obligated to retain the original value of the gift in perpetuity. Donors have restricted the income of these permanently restricted net assets to the purposes shown below at December 31:

	2015	2014
Education and cultural programs	\$ 808,487	\$ 100,000
Building preservation	14,761,905	-
Capital additions for exhibit development	5,442,500	5,440,000
	<u>\$ 21,012,892</u>	<u>\$ 5,540,000</u>

Note 9. Endowments

The Museum's endowment consists of donor-restricted funds primarily to support the maintenance and upkeep of certain exhibits.

The Museum accounts for endowment net assets by preserving 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, the Museum classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment and (3) 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 endowment 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, according to donor stipulations, until those amounts are appropriated for expenditure by the Museum for the donor-stipulated purpose. The Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund.
2. The purposes of the Museum and the donor-restricted endowment fund.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the Museum.
7. The investment policies of the Museum.

Museum of Science and Industry

Notes to Financial Statements

Note 9. Endowments (Continued)

Due to unrealized investment losses, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Museum to retain as a fund of perpetual duration. Deficiencies of this nature amounted to (\$192,262) as of December 31, 2015 and are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2014.

The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. As of December 31, 2015 and 2014, endowment assets only include those assets of donor-restricted funds that the Museum must hold in perpetuity or for donor-specified periods, as the Museum does not have any Board-designated endowment funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to provide adequate liquidity, maximizing returns on all funds invested and achieving full employment of all available funds as earning assets. The Museum has an active Finance Committee that meets regularly to ensure the objectives of the investment policy are being met, and that strategies used to meet the objectives are in accordance with the Museum's investment policy.

During 2015 and 2014, the Museum had the following endowment-related activities:

	Unrestricted endowment funds	Temporarily restricted endowment funds	Permanently restricted endowment funds	Total
Endowment net assets, December 31, 2013	\$ -	\$ 1,126,559	\$ 5,535,000	\$ 6,661,559
Private support	-	-	5,000	5,000
Investment returns:				
Interest and dividends	-	125,658	-	125,658
Realized gain on sale of investments	-	203,395	-	203,395
Net unrealized gain on investments	-	(221,271)	-	(221,271)
Total investment returns	-	107,782	-	107,782
Appropriation of endowment assets for expenditures	-	(273,595)	-	(273,595)
Total change in endowment net assets	-	(165,813)	-	(165,813)
Endowment net assets, December 31, 2014	-	960,746	5,540,000	6,500,746
Private support	-	-	4,995,679	4,995,679
Investment returns:				
Interest and dividends	119,688	145,306	-	264,994
Realized gain on sale of investments	71,151	579,012	-	650,163
Net unrealized loss on investments	(383,101)	(825,311)	-	(1,208,412)
Total investment returns	(192,262)	(100,993)	-	(293,255)
Appropriation of endowment assets for expenditures	-	(334,700)	-	(334,700)
Total change in endowment net assets	(192,262)	(435,693)	-	(627,955)
Endowment net assets, December 31, 2015	\$ (192,262)	\$ 525,053	\$ 10,535,679	\$ 10,868,470

The permanent endowment fund includes gifts of cash and securities received from donors and invested in perpetuity. Permanent gifts to the Museum, in the form of pledges receivable of \$10,477,213 and \$0 as of December 31, 2015 and 2014, respectively, will be reflected as additions to the permanently restricted endowment fund when payments are received.

Museum of Science and Industry

Notes to Financial Statements

Note 10. Retirement Plans

Defined Benefit Plan:

In May 1989, the Museum terminated its defined benefit retirement plan. Employees who participated in this plan (Original Employees) were automatically eligible to participate in the Original Employees' Retirement Plan (the Old Plan), a non-contributory retirement plan. Original Employees vested based upon completion of five years of continuous service. The employer contribution to the Old Plan was \$118,759 and \$52,635 in 2015 and 2014, respectively, based upon an actuarially determined calculation.

The Old Plan's assets are managed by Northern Trust and are invested in a manner similar to the Museum's endowment.

The following table sets forth the funded status of the Old Plan and amounts recognized in the Museum's financial statements as of December 31:

	2015	2014
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$ 4,390,875	\$ 4,037,370
Service cost	5,500	5,500
Interest cost	156,987	177,089
Benefits paid	(195,793)	(162,987)
Actuarial (gain) loss	(228,988)	333,903
Projected benefit obligation at end of year	<u>4,128,581</u>	<u>4,390,875</u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	3,608,949	3,531,641
Actual return on plan assets	104,590	194,368
Employer contributions	118,759	52,635
Benefits paid	(195,793)	(162,987)
Administrative expenses	(3,967)	(6,708)
Fair value of plan assets at end of year	<u>3,632,538</u>	<u>3,608,949</u>
Funded status (accrued pension liability)	<u>\$ (496,043)</u>	<u>\$ (781,926)</u>
Accumulated benefit obligation	<u>\$ 4,128,581</u>	<u>\$ 4,390,875</u>

Amounts that have not yet been recognized as a component of net periodic benefit cost consist of the following at December 31:

	2015	2014
Net actuarial loss	<u>\$ 972,952</u>	<u>\$ 1,091,523</u>

Museum of Science and Industry

Notes to Financial Statements

Note 10. Retirement Plans (Continued)

Net periodic pension benefit (or cost) and other amounts recognized in the statements of activities and changes in net assets are as follows at December 31:

	2015	2014
Service cost	\$ 5,500	\$ 5,500
Interest cost	156,987	177,089
Recognized actuarial loss	35,382	16,704
Expected return on plan assets	(246,422)	(246,723)
Net periodic pension benefit	<u>\$ (48,553)</u>	<u>\$ (47,430)</u>

The estimated net actuarial loss that will be amortized from unrestricted net assets into net periodic benefit cost within the next fiscal year is \$30,859.

Assumptions

The weighted-average assumptions for the years ended December 31, 2015 and 2014, were as follows:

	2015	2014
Discount rate (benefit expense)	3.70%	4.55%
Discount rate (benefit obligations)	4.10%	3.70%
Expected long-term rate of return on plan assets	7.12%	7.12%
Rate of compensation increase	4.00%	0.00%

Plan Assets

Weighted-average asset allocations by asset category for the years ended December 31, 2015 and 2014, are as follows:

	2015	2014
Domestic public equities	25%	48%
International public equities	19%	20%
Real Estate funds	6%	0%
Fixed income	50%	31%
Cash reserves	0%	1%
	<u>100%</u>	<u>100%</u>

The long-term expected rate of return on plan assets is based on the Old Plan's target asset allocation and current market conditions. By examining the expected rates of return by asset class, including any appropriate alpha, and long-term inflation expectations, a forward-looking expected return is developed that reflects the weighted average of the expected returns.

Plan assets for the Old Plan are managed through the trustee, The Northern Trust Company. The target asset allocation of 26% domestic public equities, 20% international public equities and 54% fixed-income securities are meant to result in a favorable long-term rate of return from a diversified portfolio of equity and fixed-income investments.

Museum of Science and Industry

Notes to Financial Statements

Note 10. Retirement Plans (Continued)

Plan assets consisted of the following at December 31:

	2015	2014
Equity funds:		
Domestic	\$ 907,347	\$ 1,733,723
International	693,856	727,153
Real estate funds	213,403	-
Fixed income fund	1,806,848	1,130,708
Money market fund	11,084	17,365
Total plan assets	<u>\$ 3,632,538</u>	<u>\$ 3,608,949</u>

The following table summarizes plan assets by fair value levels as of December 31, 2015:

	Level 1	Level 2	Total
Equity funds - domestic	\$ 257,201	\$ 650,146	\$ 907,347
Equity funds - international	383,789	310,067	693,856
Real estate fund	213,403	-	213,403
Money market fund	11,084	-	11,084
Fixed income fund	752,746	1,054,102	1,806,848
	<u>\$ 1,618,223</u>	<u>\$ 2,014,315</u>	<u>\$ 3,632,538</u>

The following table summarizes plan assets by fair value levels as of December 31, 2014:

	Level 1	Level 2	Total
Equity funds - domestic	\$ 1,196,747	\$ 536,976	\$ 1,733,723
Equity funds - international	727,153	-	727,153
Money market fund	17,365	-	17,365
Fixed income fund	-	1,130,708	1,130,708
	<u>\$ 1,941,265</u>	<u>\$ 1,667,684</u>	<u>\$ 3,608,949</u>

Investments valued at net asset value using the practical expedient as of December 31, 2015 consisted of the following:

	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Equity funds - domestic (a)	\$ 650,146	\$ -	Daily	2 days
Equity funds - international (b)	310,067	-	Daily	2 days
Fixed income funds (c)	1,054,102	-	Daily	2 days
	<u>\$ 2,014,315</u>	<u>\$ -</u>		

Museum of Science and Industry

Notes to Financial Statements

Note 10. Retirement Plans (Continued)

Investments valued at net asset value using the practical expedient as of December 31, 2014 consisted of the following:

	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Equity funds - domestic (a)	\$ 536,976	\$ -	Daily	2 days
Fixed income fund (c)	1,130,708	-	Daily	2 days
	<u>\$ 1,667,684</u>	<u>\$ -</u>		

- (a) Funds with principally long, diversified portfolios invested in highly liquid publicly traded U.S. equity securities, including large cap, medium cap, and small cap.
- (b) Funds with principally long, diversified portfolios invested in highly liquid international equity securities, including developed funds and emerging funds.
- (c) Fund positions include a broad variety of highly liquid investments that are anticipated to have primarily a fixed income focus, including corporate, government, and high yield investments.

The defined benefit pension plan annual benefit payments, which reflect expected future service, are expected to be paid as follows:

2016	\$ 292,307
2017	289,691
2018	286,866
2019	283,815
2020	280,514
2021 - 2025	1,342,656

Defined Contribution Plan:

In 1989, the Museum adopted a defined contribution plan. Effective January 1, 2015, the defined contribution plan was amended and restated in the form of a 401(k) plan (the New Plan). Under the approved amendment, each participant in the defined contribution plan as of December 31, 2014 shall continue as a participant after such date, subject to the terms and conditions of the New Plan, including the Museum's right to amend or terminate the New Plan in the future.

Under the terms and conditions of the New Plan, participants may annually defer up to 50% of his or her annual salary or a maximum amount defined by law of \$18,000 and \$17,500 for 2015 and 2014, respectively. Participants who have attained age 50 before the end of the plan year are also eligible to make catch-up contributions.

The terms and conditions of the New Plan provides for matching and employer profit sharing contributions. The Museum makes a matching contribution of 50% of the first 6% contributed by the participant. Vesting is 100% in the employee contribution and Museum match at all times. The Museum matches were \$430,938 and \$242,378 in 2015 and 2014, respectively.

Museum of Science and Industry

Notes to Financial Statements

Note 10. Retirement Plans (Continued)

A supplemental, discretionary contribution is determined from year to year by the Museum. The supplemental, discretionary contribution is based on a flat percentage which is determined annually, of an employee's annual salary. Employees are eligible to receive supplemental, discretionary contributions after completing one year of service. One-fifth of the supplemental, discretionary contribution is immediately vested and the remaining four-fifths become vested according to the following schedule: 28% after two years, 44% after three years, 68% after four years and 100% after five years. The Museum made supplemental, discretionary contributions to the New Plan of \$332,268 and \$0 for 2015 and 2014, respectively. Forfeiture balances used to fund the supplemental, discretionary contributions were \$160,416 and \$0 in 2015 and 2014, respectively.

Note 11. Museum Properties

The legal title to the Museum's land and original building is vested with the Chicago Park District. The sole and permanent right to the use and occupancy of the land and original building rests with the Museum under an agreement that extends into perpetuity as long as the Museum uses the property for the purposes under which it is incorporated.

Museum properties of \$5,000 or greater are recorded at cost and depreciated on a straight-line basis over the assets' estimated useful lives as follows:

Building improvements	15 to 30 years
Henry Crown Space Center	40 years
Exhibits	3 to 10 years
Underground garage	40 years
Equipment, including furniture and fixtures	5 to 10 years
Automobiles	3 years

	2015	2014
Building improvements	\$ 102,733,863	\$ 97,436,364
Henry Crown Space Center	12,242,984	12,242,984
Exhibits	173,047,691	168,439,475
Underground garage	54,692,965	54,692,965
Equipment, including furniture and fixtures	16,029,232	14,471,643
Automobiles	144,256	144,256
Construction in progress	5,466,440	8,808,439
Total properties	364,357,431	356,236,126
Less accumulated depreciation	(218,421,260)	(204,301,660)
Properties, net	<u>\$ 145,936,171</u>	<u>\$ 151,934,466</u>

Depreciation expense was \$14,119,601 and \$15,148,498 for the years ended December 31, 2015 and 2014, respectively. Interest of \$0 and \$5,572 was capitalized in 2015 and 2014, respectively.

Museum of Science and Industry

Notes to Financial Statements

Note 12. Other Assets

Other Assets balances at December 31:

	2015	2014
Bond issuance costs	\$ 1,165,681	\$ 1,165,681
Less amortization to date	(223,992)	(184,618)
	<u>941,689</u>	<u>981,063</u>
Charitable remainder trusts	284,009	294,203
Life insurance policy	75,398	54,411
Film consortium investment	253,709	335,563
Flexible spending account deposit	17,916	17,916
Total other assets	<u>\$ 1,572,721</u>	<u>\$ 1,683,156</u>

Other Assets consists of: (1) Bond issuance costs that are capitalized and amortized over the term of the bonds. (2) The Museum's interest in a private donor's charitable remainder trust. The asset recorded represents the present value of the earnings on the trust. (3) A life insurance policy that was purchased by a donor for the Museum and recorded at its surrender value. (4) The Museum's interest in the Giant Dome Theatre Consortium (the Consortium), whose purpose is to promote and support the development production, distribution and exhibition of educational films for giant dome theatres. (5) Security deposit with flexible spending account vendor, which represents approximately one month's portion of the Museum's annual election in 2015.

Note 13. Other Liabilities

The Museum entered into a purchase agreement for energy efficiency equipment, installation of which occurred during 2015. The Museum will pay \$1,768,660 for the equipment in equal installments over a 60-month period beginning in January 2016. The present value of the purchase agreement obligation using a rate of 1.22% is \$1,714,870, of which \$353,732 is recorded as a current liability and \$1,361,138 is recorded as a long-term liability.

Note 14. Related-Party Transactions

The Museum obtains banking and other services, as well as procures products from companies with which certain Museum trustees are associated. The Museum also receives pledges and contributions from its trustees. A summary appears below.

	2015	2014
Cash and investments held by the Museum	\$ 93,185,694	\$ 23,095,914
Investments held by the Old Plan	3,632,538	-
Debt held by the Museum	33,349,870	33,275,000
Bank fees	1,681,385	1,502,547
Utilities	1,540,132	1,401,884
Other	77,240	61,923
Outstanding pledges	36,080,099	15,212,583
Contributions and pledge payments	13,248,951	5,680,744
Acquisition of Museum Properties	1,714,870	-

Museum of Science and Industry

Notes to Financial Statements

Note 14. Related-Party Transactions (Continued)

Beginning in January 2015, the Museum entered into an investment management agreement with The Northern Trust Company (Northern Trust) to provide investment advisory and management services to the Museum. Northern Trust manages the Museum's portfolio of investments and the assets of the defined benefit pension plan.

Note 15. Notes Payable

Following is a summary of notes payable as of December 31:

	2015			2014
	Current	Long term	Total	Total
Illinois Finance Authority (IFA) secured notes:				
Series 2009A - Bank of America, N.A.	\$ 380,000	\$ 14,900,000	\$ 15,280,000	\$ 15,500,000
Series 2009B - JPMorgan Chase Bank, N.A.	380,000	14,900,000	15,280,000	15,500,000
Series 2009C - PNC Bank, N.A.	380,000	14,900,000	15,280,000	15,500,000
Series 2009D - The Northern Trust Company	380,000	14,900,000	15,280,000	15,500,000
New project line of credit	1,075,000	-	1,075,000	2,275,000
Total	<u>\$ 2,595,000</u>	<u>\$ 59,600,000</u>	<u>\$ 62,195,000</u>	<u>\$ 64,275,000</u>

Aggregate maturities of notes payable at December 31, 2015, are as follows:

2016	\$ 2,595,000
2017	1,580,000
2018	1,660,000
2019	1,720,000
2020	1,800,000
2021 and thereafter	52,840,000
Total	<u>\$ 62,195,000</u>

Secured Notes, 2009:

In December 2009, the Museum issued to the IFA four notes (Series 2009A - Bank of America, N.A.; Series 2009B - JPMorgan Chase Bank, N.A.; Series 2009C - Harris, N.A.; and Series 2009D - The Northern Trust Company) (the 2009 Notes), secured by letters of credit, in the amounts of \$16,000,000 each, totaling \$64,000,000. The IFA obtained the note proceeds through the issuance and sale of its Adjustable-Rate Demand Revenue Bonds, Museum of Science and Industry. Interest paid in 2015 and 2014 was \$22,779 and \$34,627, respectively.

In July 2011, the IFA secured note Series 2009C - Harris, N.A. was transferred to PNC Bank, N.A. Outstanding amounts bear interest based on the one-month LIBOR plus the basis points. The 2009 Notes were amended to reduce the interest on outstanding amounts from 125 to 80 basis points. At December 31, 2015 and 2014, the one-month LIBOR rate plus 0.80% was 1.2219 % and 0.9695%, respectively.

In July 2012, the Museum exercised its right of optional redemption in the amount of \$2,000,000 pro rata towards each of the Series 2009 Bond Indentures reducing the four secured notes to \$15,500,000 each, totaling \$62,000,000.

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Notes to Financial Statements

Note 15. Notes Payable (Continued)

There are financial covenants defined in the secured notes requiring (1) a minimum liquidity ratio of at least 85% (cash/investments to bond indebtedness/working capital facility), (2) minimum operating income (as defined) of at least \$-0-, (3) maintenance capital expenditures limit of \$5,000,000 or operating income (as defined) less capital expenditures to be break even and (4) an eligible pledge ratio of 1.0 (eligible pledges) to outstanding principal loan balance. Operating income as defined in the financial covenants includes interest on indebtedness and maintenance capital expenditures and excludes depreciation expense.

Project Line of Credit:

During 2011, the Museum entered into a project line of credit in the amount of \$40,000,000. The project line of credit agreement was amended as of June 30, 2014, which reduced the project line of credit available to \$10,000,000. The applicable rate is 0.25% and the interest rate for outstanding amounts is the one-month LIBOR rate plus 80 basis points. At December 31, 2015 and 2014, outstanding borrowings were \$1,075,000 and \$2,275,000 and the one-month LIBOR rate plus 0.80% was 1.2219 % and 0.9695%, respectively. Interest paid in 2015 and 2014 was \$14,462 and \$28,554, respectively. The project line of credit agreement expires on August 31, 2017.

General Line of Credit:

During 2011, the Museum entered into a working capital line of credit in the amount of \$6,000,000 with an applicable rate of 0.25% and an interest rate for outstanding amounts of the one-month LIBOR plus 80 basis points. The working capital line of credit agreement was transitioned into a general line of credit and amended as of June 30, 2014, which increased the credit available to \$10,000,000. The applicable rate was reduced to 0.20%. At both December 31, 2015 and 2014, outstanding borrowings were \$0. The one-month LIBOR rate plus 0.80% was 1.2219 % and 0.9695%, respectively. Interest paid in 2015 and 2014 was \$0 and \$0, respectively. The general line of credit agreement expires on August 31, 2017.

Interest Rate Swap Agreement:

In April 2011, the Museum entered into an interest rate swap agreement to convert exactly \$15,000,000 of notional principal from floating-rate to fixed-rate instruments on previously issued 2009 adjustable-rate demand revenue bonds. The agreement has annual settlement dates, fixes the interest rate at 2.45% and matures in May 2021. The fair value of the swap for 2015 and 2014 changed due to unrealized (losses) gains of \$47,990 and \$(277,767), respectively. As of December 31, 2015 and 2014, the accumulative unrealized loss was \$1,059,375 and \$1,107,366, respectively, based on the amount that such an instrument could be settled with a third party as determined by the counterparty.

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Notes to Financial Statements

Note 16. Functional Classification of Expenses

Expenses by functional classification for the years ended December 31, 2015 and 2014, are shown below. During 2015, management revised its process for allocating certain functional expenses. Depreciation, which is not allocated functionally on the statements of activities and changes in net assets, is allocated functionally below:

	2015	2014
Programs		
Exhibits and public programs	\$ 25,489,472	\$ 27,533,874
Education programs	10,705,973	5,791,513
Guest services	2,810,369	4,293,786
Retail and supporting services	3,430,706	3,249,991
Total program expenses	<u>42,436,520</u>	<u>40,869,164</u>
General and administrative		
Management and general	7,708,816	9,642,552
Marketing and public awareness	5,830,849	4,758,053
Development	4,983,093	3,576,143
Membership	1,272,175	1,324,842
Total general and administrative expenses	<u>19,794,933</u>	<u>19,301,590</u>
Total expenses	<u>\$ 62,231,453</u>	<u>\$ 60,170,754</u>
Expenses per the financial statements		
Total program expenses	\$ 30,091,599	\$ 26,115,850
Total general and administrative expenses	18,020,253	18,906,406
Depreciation	14,119,601	15,148,498
Total expenses	<u>\$ 62,231,453</u>	<u>\$ 60,170,754</u>

Note 17. Commitments and Contingencies

In its normal course of operations, the Museum has various contracts including food service, janitorial, advertising, and fabrication for exhibits. As of December 31, 2015, the total commitments under those contracts are approximately \$3,300,000.

The Museum is a defendant in legal proceedings arising out of the ordinary course of its business. Although the outcome of these proceedings cannot presently be determined; in the opinion of management, disposition of these proceedings would not have a material adverse effect on the financial position of the Museum.

Note 18. Subsequent Events

The Museum evaluated its December 31, 2015 financial statements for subsequent events through May 18, 2016, the date the financial statements were issued. The Museum is not aware of any subsequent events that would require recognition or disclosure in the financial statements.