

Museum of Science and Industry

Financial Report
December 31, 2016

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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, 2016 and 2015, 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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Chicago, Illinois
May 26, 2017

Museum of Science and Industry

Statements of Financial Position

December 31, 2016 and 2015

	2016	2015
Assets		
Cash	\$ 4,123,504	\$ 2,373,287
Operating investments	2,840,519	6,249,317
Pledges receivable, net	30,839,054	34,843,452
Other assets	4,269,795	3,297,746
Long-term investments	93,108,668	84,673,912
Museum properties, net	141,069,954	145,936,171
Total assets	\$ 276,251,494	\$ 277,373,885
Liabilities		
Accounts payable and accrued liabilities	\$ 5,821,323	\$ 5,453,979
Line of credit outstanding	-	1,075,000
Pension obligation	359,183	496,043
Bonds payable, net of unamortized financing fees	58,697,684	60,178,311
Other liabilities	5,574,953	5,215,680
Total liabilities	70,453,143	72,419,013
Net assets		
Unrestricted	148,040,398	148,906,756
Temporarily restricted	31,545,673	35,035,224
Permanently restricted	26,212,280	21,012,892
Total net assets	205,798,351	204,954,872
Total liabilities and net assets	\$ 276,251,494	\$ 277,373,885

See notes to financial statements.

Museum of Science and Industry

Statement of Activities and Changes in Net Assets
Year Ended December 31, 2016

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating income:				
Revenue and support:				
Admissions	\$ 14,287,442	\$ -	\$ -	\$ 14,287,442
Special exhibits	2,037,016	-	-	2,037,016
Ancillary services	8,125,863	-	-	8,125,863
Membership	3,648,245	-	-	3,648,245
Government support	5,836,335	1,082,345	-	6,918,680
Private support	6,793,156	11,348,647	5,199,388	23,341,191
Investment return designated for operations (Note 3)	3,787,561	407,047	-	4,194,608
Other income	1,762,133	-	-	1,762,133
Net assets released from restrictions	16,522,878	(16,522,878)	-	-
Total revenue and support	62,800,629	(3,684,839)	5,199,388	64,315,178
Expenses:				
Programs:				
Exhibits and public programs	15,448,495	-	-	15,448,495
Education programs	11,236,849	-	-	11,236,849
Guest services	2,654,038	-	-	2,654,038
Retail and supporting services	2,884,273	-	-	2,884,273
Total programs expenses	32,223,655	-	-	32,223,655
General and administrative:				
Management and general	6,133,070	-	-	6,133,070
Marketing and public awareness	5,513,965	-	-	5,513,965
Development	6,188,144	-	-	6,188,144
Membership	1,037,362	-	-	1,037,362
Total general and administrative expenses	18,872,541	-	-	18,872,541
Depreciation	13,017,952	-	-	13,017,952
Interest and bond financing expenses	1,273,007	-	-	1,273,007
Total expenses	65,387,155	-	-	65,387,155
Operating (loss) income	(2,586,526)	(3,684,839)	5,199,388	(1,071,977)
Non-operating (loss) income:				
Proceeds from sales of collections	-	52,200	-	52,200
Change in value of life insurance policy	21,629	-	-	21,629
Gain on long-term investments, net, after investment return designated for operations (Note 3)	1,460,955	602,900	-	2,063,855
Change in value of interest rate swap	249,032	-	-	249,032
Gain on film consortium investment	51,205	-	-	51,205
Loss on disposal of fixed assets	(116,717)	-	-	(116,717)
Recovery of (reserve for) uncollectible pledges	-	(459,812)	-	(459,812)
Change in value of the asset retirement obligation	(53,461)	-	-	(53,461)
Total non-operating income	1,612,643	195,288	-	1,807,931
Change in net assets before pension-related changes other than net periodic pension cost	(973,883)	(3,489,551)	5,199,388	735,954
Pension-related changes other than net periodic pension cost	107,525	-	-	107,525
Change in net assets	(866,358)	(3,489,551)	5,199,388	843,479
Net assets, beginning of year	148,906,756	35,035,224	21,012,892	204,954,872
Net assets, end of year	\$ 148,040,398	\$ 31,545,673	\$ 26,212,280	\$ 205,798,351

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	12,850,871	-	-	12,850,871
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	28,983,189	-	-	28,983,189
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
Interest and bond financing expenses	1,108,410	-	-	1,108,410
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 uncollectible pledges	-	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

Statements of Cash Flows

Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 843,479	\$ 16,936,446
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	13,017,952	14,119,601
Amortization of debt issuance costs	39,373	39,373
Change in value of interest rate swap	(249,032)	(47,991)
Loss on disposal of fixed assets	116,717	-
Proceeds from sale of collections	(52,200)	(391,700)
Realized loss (gain) on investments	884,737	(8,576,920)
Unrealized (gain) loss on investments	(4,785,784)	12,295,068
Capital gifts restricted for acquisition of Museum properties	(1,774,314)	(1,546,430)
Gifts restricted for permanent endowment	(7,220,229)	(4,995,679)
Changes in operating assets and liabilities:		
Pledges receivable, net	4,004,398	(18,667,159)
Other assets	(972,049)	114,868
Accounts payable and accrued liabilities	(320,194)	(609,446)
Other liabilities	47,600	(452,646)
Net cash provided by operating activities	3,580,454	8,217,385
Cash flows from investing activities:		
Proceeds from sale of collections	52,200	391,700
Purchase of investments	(37,166,685)	(164,449,663)
Proceeds from sale of investments	36,041,774	155,239,726
Purchase of Museum properties	(7,157,069)	(6,406,436)
Net cash used in investing activities	(8,229,780)	(15,224,673)
Cash flows from financing activities:		
Payment on line of credit	(1,075,000)	(1,200,000)
Payment on bonds payable	(1,520,000)	(880,000)
Gifts restricted for permanent endowment	7,220,229	4,995,679
Capital gifts restricted for acquisition of Museum properties	1,774,314	1,520,950
Net cash provided by financing activities	6,399,543	4,436,629
Net change in cash	1,750,217	(2,570,659)
Cash, beginning of year	2,373,287	4,943,946
Cash, end of year	\$ 4,123,504	\$ 2,373,287
Supplemental disclosure of cash flow information:		
Interest paid	\$ 267,885	\$ 36,321
Acquisition of Museum properties through purchase agreement	\$ 423,845	\$ 1,714,870
Accounts payable and accrued liabilities for Museum properties	\$ 687,538	\$ -
Donated assets	\$ 645,542	\$ -

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 1,500,000 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, 2016 and 2015. 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 operating or long-term, based on intended use.

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.

Pledges Receivable: 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.

Pledges 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 receivables are past due, previous collection history, the donor's current ability to pay, and the condition of the general economy and industry as a whole. The Museum writes off pledges receivable that have become uncollectible, and any payments subsequently received on such receivables are credited to the allowance for uncollectible amounts.

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 \$977,773 and \$1,069,209 at December 31, 2016 and 2015, 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 liability is included within other liabilities group on the statement of financial position as shown in Note 13.

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.

Museum of Science and Industry

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

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, which is included within other liabilities 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 \$972,598 and \$179,071 in 2016 and 2015, respectively. The amount relating to services is \$228,262 and \$98,360 in 2016 and 2015, respectively.

Volunteers contributed approximately 42,050 hours and 41,530 hours to the Museum in 2016 and 2015, 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 \$2,501,880 and \$2,592,235 for the years ended December 31, 2016 and 2015, 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.

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 \$4,200,000 and \$4,400,000 at December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, 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 \$1,638,000 and \$1,716,000 at December 31, 2016 and 2015, respectively.

Museum of Science and Industry

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

The Museum files Forms 990 in the U.S. federal jurisdiction and the State of Illinois. Tax years before 2013 are generally no longer subject to examination by the Internal Revenue Service.

Recent Accounting Pronouncements: In 2016, the Museum adopted FASB Accounting Standards Update (ASU) 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The ASU requires 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. Accordingly, the Museum has presented its unamortized debt issuance costs net of its bonds payable. The unamortized debt issuance costs are \$902,316 and \$941,689 as of December 31, 2016 and 2015, respectively.

In 2016, the Museum early adopted a portion of ASU 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The Museum early adopted the portion of the ASU that eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost. The remaining portions of the ASU will be effective for the Museum's 2019 financial statements, but can be early adopted in 2018. The Museum has assessed that the remaining portions of the ASU will not have a significant impact on the financial statements.

In 2014, the FASB issued 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 its financial statements.

In 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 will be effective for the Museum's 2017 financial statements. The Museum has assessed that implementation will not have a significant impact on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU is the first phase of improvements to financial reporting and presentation. The guidance addresses net asset classifications, and reporting and disclosures about liquidity, financial performance, expenses, and cash flows. The ASU will be effective for the Museum's 2018 financial statements, and its impact on the financial statements is under evaluation.

In March 2017, the FASB issued ASU 2017-07, *Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This standard requires that an employer disaggregate service cost component from other components of net benefit costs. The new standard is effective for the Museum in 2019 and early adoption is allowed. The Museum has assessed that implementation will not have a significant impact on its financial statements.

Reclassifications: Certain 2015 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

Operating investments consisted of the following at December 31:

	2016	2015
Money market fund	\$ 479,327	\$ 5,855,426
Common and preferred stocks	72,934	56,801
Corporate bonds	1,040,020	-
Fixed income funds	1,248,238	337,090
Total operating investments	<u>\$ 2,840,519</u>	<u>\$ 6,249,317</u>

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

	2016	2015
Short-term investment fund	\$ 2,132,048	\$ 105,164
Common and preferred stocks	3,133,594	-
Equity funds:		
Domestic	23,657,461	20,138,735
International	15,719,597	15,762,759
Natural resources	5,312,217	-
Real estate	6,304,528	4,851,024
Fixed income funds	36,849,223	43,816,230
Total long-term investments	<u>\$ 93,108,668</u>	<u>\$ 84,673,912</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 must be between 4% and 6% of the fair value of the investment pool as of September 30th of the previous year. Beginning in 2016, the amount designated for operations is calculated using the average fair value of the investment pool for the twelve trailing quarters ending September 30th of the previous year. The following schedule summarizes the investment return and its classification in the statement of activities:

	2016	2015
Interest and dividends	\$ 2,574,658	\$ 2,201,109
Net realized (loss) gain on sale of investments	(884,737)	8,576,920
Net unrealized gain (loss) on investments	4,785,784	(12,295,067)
Management fees	(217,242)	(130,972)
Total investment return	<u>6,258,463</u>	<u>(1,648,010)</u>
Investment return designated for operations	(4,194,608)	(4,027,953)
Investment return, after amount designated for operations	<u>\$ 2,063,855</u>	<u>\$ (5,675,963)</u>

Museum of Science and Industry

Notes to Financial Statements

Note 4. Fair Value Disclosures

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. 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.

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, 2016 and 2015, there were no such transfers.

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 short-term investment funds, stocks, fixed-income funds, and equity funds.

Investments classified within Level 2 are certain equity funds held at NAV and corporate bonds. 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.

Charitable trusts are recorded at their estimated fair value based on the present value of the estimated future cash receipts from the trust. Assumptions are made regarding the expected rate of return on investments in the trust, the discount rate, and the expected mortality of the individual(s) if the termination of the agreement is dependent on life expectancy. As the fair value of these trusts is derived from internal estimates of the present value of the Museum's interest in the underlying assets, the amounts ultimately received could differ from the amounts reflected in the historical financial statements. The fair value estimate is classified as Level 3.

Museum of Science and Industry

Notes to Financial Statements

Note 4. Fair Value Disclosures (Continued)

The interest rate swap is valued using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the interest rate swap. This analysis reflects the contractual terms of the interest rate swap, including the period to maturity, and uses of observable market-based inputs, including interest rates. The fair value estimate is classified as Level 2.

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

	2016			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments				
Money market fund	\$ 479,327	\$ -	\$ -	\$ 479,327
Short-term investment fund	-	2,132,048	-	2,132,048
Common and preferred stocks	3,206,528	-	-	3,206,528
Equity funds:				
Domestic	11,939,770	11,717,691	-	23,657,461
International	8,134,895	7,584,702	-	15,719,597
Natural resources	5,312,217	-	-	5,312,217
Real estate	6,304,528	-	-	6,304,528
Corporate bonds	-	1,040,020	-	1,040,020
Fixed income funds	22,226,588	15,870,874	-	38,097,461
Total investments at fair value	57,603,853	38,345,335	-	95,949,187
Charitable trusts	-	-	525,631	525,631
Total assets at fair value	\$ 57,603,853	\$ 38,345,335	\$ 525,631	\$ 96,474,818
Liabilities:				
Interest rate swap	\$ -	\$ (810,343)	\$ -	\$ (810,343)
2015				
	Level 1	Level 2	Level 3	Total
Assets:				
Investments				
Money market fund	\$ 5,855,426	\$ -	\$ -	\$ 5,855,426
Short-term investment fund	105,164	-	-	105,164
Common and preferred stocks	56,801	-	-	56,801
Equity funds:				
Domestic	7,492,408	12,646,327	-	20,138,735
International	8,514,804	7,247,955	-	15,762,759
Real estate funds	4,851,024	-	-	4,851,024
Fixed income funds	19,505,053	24,648,267	-	44,153,320
Total investments at fair value	46,380,680	44,542,549	-	90,923,229
Charitable trusts	-	-	284,009	284,009
Total assets at fair value	\$ 46,380,680	\$ 44,542,549	\$ 284,009	\$ 91,207,238
Liabilities:				
Interest rate swap	\$ -	\$ (1,059,375)	\$ -	\$ (1,059,375)

Museum of Science and Industry

Notes to Financial Statements

Note 4. Fair Value Disclosures (Continued)

Investments valued at NAV using the practical expedient as of December 31, 2016, consisted of the following:

	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Short-term investment fund (a)	\$ 2,132,048	\$ -	Daily	2 days
Equity funds:				
Domestic (b)	11,717,691	-	Daily	2 days
International (c)	7,584,702	-	Daily	2 days
Fixed income funds (d)	15,870,874	-	Daily	2 days
Balance as of December 31, 2016	<u>\$ 37,305,315</u>	<u>\$ -</u>		

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 (b)	\$ 12,646,327	\$ -	Daily	2 days
International (c)	7,247,955	-	Daily	2 days
Fixed income funds (d)	24,648,267	-	Daily	2 days
Balance as of December 31, 2015	<u>\$ 44,542,549</u>	<u>\$ -</u>		

- (a) Funds invested in high-grade money market instruments with short maturities.
- (b) Funds with principally long, diversified portfolios invested in highly liquid publicly traded U.S. equity securities, including large cap, mid-cap, and small cap.
- (c) Funds with principally long, diversified portfolios invested in highly liquid international equity securities, including developed funds and emerging funds.
- (d) 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.

A reconciliation of the Museum's interest in charitable trusts, which are measured at fair value on a recurring basis using significant unobservable inputs (Level 3), for the years ended December 31, 2016 and 2015, is as follows:

Museum of Science and Industry

Notes to Financial Statements

Note 4. Fair Value Disclosures (Continued)

Charitable trusts, December 31, 2014	\$ 294,203
Trust additions	-
Change in beneficial interest	<u>(10,194)</u>
Charitable trusts, December 31, 2015	284,009
Trust additions	225,361
Change in beneficial interest	<u>16,261</u>
Charitable trusts, December 31, 2016	<u><u>\$ 525,631</u></u>

Note 5. Pledges Receivable

The Museum has received various pledges from individuals and corporate donors. The largest ten donors accounted for an aggregate of 72% of the gross total pledges receivable, and of the remaining balance, no individual donor had a balance in excess of 3% 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, 2016 and 2015, by expected period of payment:

	<u>2016</u>	<u>2015</u>
Amounts expected to be collected in		
Less than one year	\$ 12,430,080	\$ 13,101,171
One to five years	16,458,620	19,579,644
More than five years	<u>8,442,858</u>	<u>8,550,000</u>
Total pledges receivable	37,331,558	41,230,815
Less:		
Reserve on uncollectible pledges	(1,520,000)	(1,060,350)
Discount	<u>(4,972,504)</u>	<u>(5,327,013)</u>
Pledges receivable, net	<u><u>\$ 30,839,054</u></u>	<u><u>\$ 34,843,452</u></u>

Conditional Pledges: In 2014, the Museum was awarded a grant in the total of \$2,000,000 to support the Robot Revolution exhibit. The grant included certain conditions that must be fulfilled prior to payment. As of December 31, 2016, 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.

Museum of Science and Industry

Notes to Financial Statements

Note 7. Temporarily Restricted Net Assets

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

	2016	2015
Time restricted	\$ 6,951,958	\$ 8,456,441
Education and cultural programs	14,841,330	16,072,753
Building preservation	6,246,262	691,216
Capital additions for exhibit development	3,506,123	9,814,814
	<u>\$ 31,545,673</u>	<u>\$ 35,035,224</u>

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

	2016	2015
Time restricted	\$ 2,947,998	\$ 1,103,255
Education and cultural programs	6,201,442	5,250,426
Building preservation	5,147,814	194,331
Capital additions for exhibit development	2,225,624	5,201,274
	<u>\$ 16,522,878</u>	<u>\$ 11,749,286</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:

	2016	2015
Education and cultural programs	\$ 4,993,897	\$ 808,487
Building preservation	14,902,394	14,761,905
Capital additions for exhibit development	5,445,000	5,442,500
Endowment for operations	870,989	-
	<u>\$ 26,212,280</u>	<u>\$ 21,012,892</u>

Museum of Science and Industry

Notes to Financial Statements

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.

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 \$378 and \$192,262 as of December 31, 2016 and 2015, respectively, and are reported in unrestricted net assets.

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, 2016 and 2015, 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.

Museum of Science and Industry

Notes to Financial Statements

Note 9. Endowments (Continued)

During 2016 and 2015, 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, 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
Private support	-	-	7,220,229	7,220,229
Investment returns:				
Interest and dividends	-	410,948	-	410,948
Realized loss on sale of investments	-	(139,537)	-	(139,537)
Net unrealized gain on investments	191,884	738,536	-	930,420
Total investment returns	191,884	1,009,947	-	1,201,831
Appropriation of endowment assets for expenditures	-	(407,047)	-	(407,047)
Total change in endowment net assets	191,884	602,900	-	794,784
Endowment net assets, December 31, 2016	\$ (378)	\$ 1,127,953	\$ 17,755,908	\$ 18,883,483

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 \$8,456,371 and \$10,477,213 as of December 31, 2016 and 2015, respectively, will be reflected as additions to the permanently restricted endowment fund when payments are received.

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 Pension Plan), a non-contributory retirement plan. Original Employees vested based upon completion of five years of continuous service. The employer contribution to the Pension Plan was \$0 and \$118,759 in 2016 and 2015, respectively, based upon an actuarially determined calculation.

Museum of Science and Industry

Notes to Financial Statements

Note 10. Retirement Plans (Continued)

The Pension 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 Pension Plan and amounts recognized in the Museum's financial statements as of December 31:

	2016	2015
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$ 4,128,581	\$ 4,390,875
Service cost	-	5,500
Interest cost	163,280	156,987
Benefits paid	(191,373)	(195,793)
Actuarial (gain) loss	(59,761)	(228,988)
Projected benefit obligation at end of year	<u>4,040,727</u>	<u>4,128,581</u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	3,632,538	3,608,949
Actual return on plan assets	240,379	104,590
Employer contributions	-	118,759
Benefits paid	(191,373)	(195,793)
Administrative expenses	-	(3,967)
Fair value of plan assets at end of year	<u>3,681,544</u>	<u>3,632,538</u>
Funded status (accrued pension liability)	<u>\$ (359,183)</u>	<u>\$ (496,043)</u>
Accumulated benefit obligation	<u>\$ 4,040,727</u>	<u>\$ 4,128,581</u>

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

	2016	2015
Net actuarial loss	\$ 865,427	\$ 972,952

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:

	2016	2015
Service cost	\$ -	\$ 5,500
Interest cost	163,280	156,987
Recognized actuarial loss	30,859	35,382
Expected return on plan assets	(223,474)	(246,422)
Net periodic pension benefit	<u>\$ (29,335)</u>	<u>\$ (48,553)</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 \$27,961.

Museum of Science and Industry

Notes to Financial Statements

Note 10. Retirement Plans (Continued)

The weighted-average assumptions for the years ended December 31, 2016 and 2015, were as follows:

	2016	2015
Discount rate (benefit expense)	4.10%	3.70%
Discount rate (benefit obligations)	3.88%	4.10%
Expected long-term rate of return on plan assets	6.41%	7.12%
Rate of compensation increase	4.00%	4.00%

Weighted-average asset allocations by asset category for the years ended December 31, 2016 and 2015, are as follows:

	2016	2015
Short-term investments	1%	0%
Equity funds:		
Domestic	28%	25%
International	17%	19%
Natural resources	6%	0%
Real estate	6%	6%
Fixed income	42%	50%
	<u>100%</u>	<u>100%</u>

The long-term expected rate of return on plan assets is based on the Pension 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.

Museum of Science and Industry

Notes to Financial Statements

Note 10. Retirement Plans (Continued)

Plan assets for the Pension 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.

Plan assets consisted of the following at December 31:

	2016	2015
Short-term investment fund	\$ 29,450	\$ -
Money market fund	-	11,084
Equity funds:		
Domestic	1,055,656	907,347
International	639,184	693,856
Natural resources	199,559	-
Real estate	208,401	213,403
Fixed income	1,549,294	1,806,848
Total plan assets	<u>\$ 3,681,544</u>	<u>\$ 3,632,538</u>

The following table summarizes plan assets by fair value levels as of December 31, 2016:

	Level 1	Level 2	Total
Short-term investment fund	\$ -	\$ 29,450	\$ 29,450
Equity funds:			
Domestic	358,983	696,673	1,055,656
International	355,183	284,001	639,184
Natural resources	199,559	-	199,559
Real estate	208,401	-	208,401
Fixed income	921,205	628,089	1,549,294
Total plan assets	<u>\$ 2,043,331</u>	<u>\$ 1,638,213</u>	<u>\$ 3,681,544</u>

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

	Level 1	Level 2	Total
Money market fund	\$ 11,084	\$ -	\$ 11,084
Equity funds:			
Domestic	257,201	650,146	907,347
International	383,789	310,067	693,856
Real estate	213,403	-	213,403
Fixed income	752,746	1,054,102	1,806,848
Total plan assets	<u>\$ 1,618,223</u>	<u>\$ 2,014,315</u>	<u>\$ 3,632,538</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, 2016, consisted of the following:

	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Short-term investment fund (a)	\$ 29,450	\$ -	Daily	2 days
Equity funds:				
Domestic (b)	696,673	-	Daily	2 days
International (c)	284,001	-	Daily	2 days
Fixed income funds (d)	628,089	-	Daily	2 days
	<u>\$ 1,638,213</u>	<u>\$ -</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 (b)	\$ 650,146	\$ -	Daily	2 days
International (c)	310,067	-	Daily	2 days
Fixed income funds (d)	1,054,102	-	Daily	2 days
	<u>\$ 2,014,315</u>	<u>\$ -</u>		

- (a) Funds invested in high-grade money market instruments with short maturities.
- (b) Funds with principally long, diversified portfolios invested in highly liquid publicly traded U.S. equity securities, including large cap, medium cap, and small cap.
- (c) Funds with principally long, diversified portfolios invested in highly liquid international equity securities, including developed funds and emerging funds.
- (d) 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:

2017	\$ 293,663
2018	290,609
2019	287,280
2020	283,653
2021	279,703
2022 - 2026	1,326,305

Museum of Science and Industry

Notes to Financial Statements

Note 10. Retirement Plans (Continued)

Defined Contribution Plan:

Effective January 1, 2015, the defined contribution plan was amended and restated in the form of a 401(k) plan (the 401(k) 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 401(k) Plan, including the Museum's right to amend or terminate the 401(k) Plan in the future.

Under the terms and conditions of the 401(k) 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 \$18,000 for 2016 and 2015, 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 401(k) 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 \$469,404 and \$430,938 in 2016 and 2015, respectively.

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 401(k) Plan of \$0 and \$332,268 for 2016 and 2015, respectively. Forfeiture balances used to fund the supplemental, discretionary contributions were \$0 and \$160,416 in 2016 and 2015, 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 in 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:

<u>Asset description</u>	<u>Life</u>
Building improvements	15 to 30 years
Henry Crown Space Center	40 years
Exhibits	3 to 10 years
Underground garage	40 years
Equipment, furniture and fixtures	3 to 10 years

Museum of Science and Industry

Notes to Financial Statements

Note 11. Museum Properties (Continued)

	2016	2015
Building improvements	\$ 103,937,664	\$ 102,733,863
Henry Crown Space Center	12,234,684	12,242,984
Exhibits	165,182,749	173,047,691
Underground garage	54,667,365	54,692,965
Equipment, furniture and fixtures	16,944,095	16,173,488
Construction in progress	6,531,771	5,466,440
Total properties	<u>359,498,328</u>	<u>364,357,431</u>
Less accumulated depreciation	(218,428,374)	(218,421,260)
Properties, net	<u>\$ 141,069,954</u>	<u>\$ 145,936,171</u>

Depreciation expense was \$13,017,952 and \$14,119,601 for the years ended December 31, 2016 and 2015, respectively.

Note 12. Other Assets

Other assets balances at December 31:

	2016	2015
Inventories	\$ 389,807	\$ 447,700
Prepaid expenses	1,358,264	1,008,551
Trade accounts receivable	1,576,236	1,210,463
Charitable remainder trusts	525,631	284,009
Life insurance policy	97,028	75,398
Film consortium investment	304,913	253,709
Flexible spending account deposit	17,916	17,916
Total other assets	<u>\$ 4,269,795</u>	<u>\$ 3,297,746</u>

Other assets consists of: (1) inventories, primarily for items held for resale, (2) prepaid expenses for insurance and other agreements whose economic benefits extend into future fiscal years, (3) trade accounts receivable arising through the normal course of business, (4) the Museum's interest in donors charitable remainder trusts; the asset recorded represents the fair value of the Museum's remainder principal interest in the trusts, discounted using an annual rate of 5%. Distributions from the trusts to the Museum are made in accordance with the trust agreements, which generally specify a one-time distribution at a future date, (5) a life insurance policy that was purchased by a donor for the Museum and recorded at its surrender value, (6) 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 and (7) security deposit with flexible spending account vendor, which represents approximately one month's portion of the Museum's annual election.

Museum of Science and Industry

Notes to Financial Statements

Note 13. Other Liabilities

Other liabilities balances at December 31:

	2016	2015
Deferred revenue	\$ 1,746,663	\$ 1,133,856
Funds on deposit	210,124	206,347
Interest payable	60,971	32,023
Asset retirement obligation	977,773	1,069,209
Purchase agreement	1,769,079	1,714,870
Interest rate swap	810,343	1,059,375
Total other liabilities	<u>\$ 5,574,953</u>	<u>\$ 5,215,680</u>

Other liabilities consists of: (1) deferred revenue from guests' purchases of future admissions and advance payments from retail partners, (2) funds on deposit for group admissions and rental space, (3) interest payable on the Museum's outstanding bonds, (4) an asset retirement obligation for the Museum's estimated cost of asbestos remediation, (5) the present value of amounts due under a purchase agreement for energy efficiency equipment, and (6) the fair value of the Museum's interest rate swap agreement (see note 4).

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.

	2016	2015
Cash and investments held by the Museum	\$ 99,933,770	\$ 93,185,694
Investments held by the Pension Plan	3,681,544	3,632,538
Debt held by the Museum	14,900,000	33,349,870
Bank fees	223,531	1,681,385
Utilities	1,746,577	1,540,132
Other	83,204	77,240
Outstanding pledges	29,703,007	36,080,099
Contributions and pledge payments	11,494,600	13,248,951
Amounts due under purchase agreements	1,769,079	1,714,870

Museum of Science and Industry

Notes to Financial Statements

Note 15. Bonds Payable and Lines of Credit

Following is a summary of bonds payable and lines of credit as of December 31:

	2016			2015
	Current	Long term	Total	Total
Illinois Finance Authority (IFA) secured bonds:				
Series 2009A - Bank of America, N.A.	\$ 395,000	\$ 14,505,000	\$ 14,900,000	\$ 15,280,000
Series 2009B - JPMorgan Chase Bank, N.A.	395,000	14,505,000	14,900,000	15,280,000
Series 2009C - PNC Bank, N.A.	395,000	14,505,000	14,900,000	15,280,000
Series 2009D - The Northern Trust Company	395,000	14,505,000	14,900,000	15,280,000
Project line of credit	-	-	-	1,075,000
Total	<u>\$ 1,580,000</u>	<u>\$ 58,020,000</u>	59,600,000	62,195,000
Less unamortized financing fees			(902,316)	(941,689)
Bonds payable and line of credit outstanding, per statement of financial position:			<u>\$ 58,697,684</u>	<u>\$ 61,253,311</u>

Aggregate maturities of bonds payable at December 31, 2016, are as follows:

2017	\$ 1,580,000
2018	1,660,000
2019	1,720,000
2020	1,800,000
2021	1,880,000
2022 and thereafter	50,960,000
Total	<u>\$ 59,600,000</u>

Secured Bonds, 2009:

In December 2009, the Museum issued to the IFA four bonds (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 Bonds), secured by letters of credit, in the amounts of \$16,000,000 each, totaling \$64,000,000. The IFA obtained the bond proceeds through the issuance and sale of its Adjustable-Rate Demand Revenue Bonds, Museum of Science and Industry. Interest paid in 2016 and 2015 was \$261,937 and \$22,779, respectively.

In July 2011, the IFA secured bond Series 2009C - Harris, N.A. was transferred to PNC Bank, N.A. The standby letters of credit underlying the bonds bear interest based on the one-month LIBOR plus the basis points. The 2009 Bonds were amended to reduce the interest on outstanding amounts from 125 to 80 basis points. At December 31, 2016 and 2015, the one-month LIBOR rate plus 0.80% was 1.517% and 1.2219 %, 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 bonds to \$15,500,000 each, totaling \$62,000,000.

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Notes to Financial Statements

Note 15. Bonds Payable and Lines of Credit (Continued)

There are financial covenants defined in the secured bonds 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, 2016 and 2015, outstanding borrowings were \$0 and \$1,075,000 and the one-month LIBOR rate plus 0.80% was 1.5717% and 1.2219%, respectively. Interest paid in 2016 and 2015 was \$5,948 and \$14,462, 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, 2016 and 2015, outstanding borrowings were \$0. The one-month LIBOR rate plus 0.80% was 1.5717% and 1.2219%, respectively. Interest paid in 2016 and 2015 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 \$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 2016 and 2015 changed due to unrealized gains of \$249,032 and \$47,991, respectively. As of December 31, 2016 and 2015, the accumulative unrealized loss was \$810,343 and \$1,059,375, 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, 2016 and 2015, are shown below. Depreciation, which is not allocated functionally on the statements of activities and changes in net assets, is allocated functionally below:

	2016	2015
Programs:		
Exhibits and public programs	\$ 26,954,598	\$ 25,489,472
Education programs	11,689,695	10,705,973
Guest services	2,654,038	2,810,369
Retail and supporting services	3,307,652	3,430,706
Total program expenses	<u>44,605,983</u>	<u>42,436,520</u>
General and administrative:		
Management and general	8,041,702	7,708,816
Marketing and public awareness	5,513,965	5,830,849
Development	6,188,143	4,983,093
Membership	1,037,362	1,272,175
Total general and administrative expenses	<u>20,781,172</u>	<u>19,794,933</u>
Total expenses	<u><u>\$ 65,387,155</u></u>	<u><u>\$ 62,231,453</u></u>
Expenses per the financial statements:		
Total program expenses	\$ 32,223,655	\$ 28,983,189
Total general and administrative expenses	18,872,541	18,020,253
Depreciation	13,017,952	14,119,601
Interest and bond financing expenses	1,273,007	1,108,410
Total expenses	<u><u>\$ 65,387,155</u></u>	<u><u>\$ 62,231,453</u></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, 2016, the total commitments under those contracts are approximately \$4,150,000.

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, 2016 financial statements for subsequent events through May 26, 2017, 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.