

Museum of Science and Industry

Financial Statements
As of and for the Years Ended December 31, 2017
and 2016 and Independent Auditor's Report

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Independent Auditor's Report

RSM US LLP

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, 2017 and 2016, 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, 2017 and 2016, 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, 2018

Museum of Science and Industry

Statements of Financial Position

December 31, 2017 and 2016

	2017	2016
Assets		
Cash	\$ 1,669,369	\$ 4,123,504
Operating investments	256,479	2,840,519
Pledges receivable, net	26,421,466	30,839,054
Other assets	4,107,417	4,269,795
Pension asset	37,096	-
Long-term investments	107,521,108	93,108,668
Museum properties, net	133,179,676	141,069,954
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Total assets	\$ 273,192,611	\$ 276,251,494
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Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 5,342,937	\$ 5,821,323
Pension obligation	-	359,183
Bonds payable, net of unamortized financing fees	57,991,398	58,697,684
Other liabilities	4,109,549	5,574,953
Total liabilities	67,443,884	70,453,143
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Net assets:		
Unrestricted	147,744,620	148,040,398
Temporarily restricted	31,032,514	31,545,673
Permanently restricted	26,971,593	26,212,280
Total net assets	205,748,727	205,798,351
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Total liabilities and net assets	\$ 273,192,611	\$ 276,251,494
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See notes to financial statements.

Museum of Science and Industry

**Statement of Activities and Changes in Net Assets
Year Ended December 31, 2017**

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating income:				
Revenue and support:				
Admissions	\$ 13,957,567	\$ -	\$ -	\$ 13,957,567
Special exhibits	2,916,735	-	-	2,916,735
Ancillary services	7,847,477	-	-	7,847,477
Membership	3,061,155	-	-	3,061,155
Government support	5,483,968	549,213	-	6,033,181
Private support	6,724,992	9,658,086	759,313	17,142,391
Investment return designated for operations (Note 3)	3,833,858	862,021	-	4,695,879
Other income	973,277	-	-	973,277
Net assets released from restrictions	13,852,581	(13,852,581)	-	-
Total revenue and support	58,651,610	(2,783,261)	759,313	56,627,662
Expenses:				
Programs:				
Exhibits and public programs	15,108,434	-	-	15,108,434
Education programs	11,737,956	-	-	11,737,956
Guest services	2,571,330	-	-	2,571,330
Retail and supporting services	3,044,636	-	-	3,044,636
Total programs expenses	32,462,356	-	-	32,462,356
General and administrative:				
Management and general	6,139,364	-	-	6,139,364
Marketing and public awareness	6,433,772	-	-	6,433,772
Development	5,363,283	-	-	5,363,283
Membership	892,839	-	-	892,839
Total general and administrative expenses	18,829,258	-	-	18,829,258
Total programs, general and administrative expenses	51,291,614	-	-	51,291,614
Operating income (loss), before depreciation, interest and financing expenses	7,359,996	(2,783,261)	759,313	5,336,048
Depreciation	13,166,765	-	-	13,166,765
Interest and financing expenses	1,343,515	-	-	1,343,515
Operating income (loss), including depreciation, interest and financing expenses	(7,150,284)	(2,783,261)	759,313	(9,174,232)
Non-operating (loss) income:				
Change in value of life insurance policy	22,176	-	-	22,176
Gain on long-term investments, net, after investment return designated for operations (Note 3)	7,105,191	2,270,102	-	9,375,293
Change in value of interest rate swap	239,730	-	-	239,730
Loss on film consortium investment	(2,085)	-	-	(2,085)
Loss on disposal of fixed assets	(12,443)	-	-	(12,443)
Loss on extinguishment of bonds payable	(666,894)	-	-	(666,894)
Change in value of the asset retirement obligation	(48,889)	-	-	(48,889)
Total non-operating income	6,636,786	2,270,102	-	8,906,888
Change in net assets before pension-related changes other than net periodic pension cost	(513,498)	(513,159)	759,313	(267,344)
Pension-related changes other than net periodic pension cost	217,720	-	-	217,720
Change in net assets	(295,778)	(513,159)	759,313	(49,624)
Net assets, beginning of year	148,040,398	31,545,673	26,212,280	205,798,351
Net assets, end of year	\$ 147,744,620	\$ 31,032,514	\$ 26,971,593	\$ 205,748,727

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 exhibit	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
Total programs, general and administrative expenses	51,096,196	-	-	51,096,196
Operating income (loss), before depreciation, interest and financing expenses	11,704,433	(3,684,839)	5,199,388	13,218,982
Depreciation	13,017,952	-	-	13,017,952
Interest and financing expenses	1,273,007	-	-	1,273,007
Operating income (loss), including depreciation, interest and financing expenses	(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

Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ (49,624)	\$ 843,479
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	13,166,765	13,017,952
Amortization of debt issuance costs	24,426	39,373
Change in value of interest rate swap	(239,730)	(249,032)
Loss on disposal of fixed assets	12,443	116,717
Loss on extinguishment of bonds payable	666,894	-
Proceeds from sale of collections	-	(52,200)
Realized (gain) loss on investments	(1,410,113)	884,737
Unrealized gain on investments	(10,565,427)	(4,785,784)
Gifts restricted for permanent endowment	(759,313)	(5,199,388)
Gifts restricted for acquisition of Museum properties	(1,400,892)	(3,221,148)
Changes in operating assets and liabilities:		
Pledges receivable, net	(1,036,317)	2,090,033
Other assets	162,378	(972,049)
Accounts payable and accrued liabilities	(189,502)	(320,194)
Other liabilities	(1,621,953)	47,600
Net cash (used in) provided by operating activities	(3,239,965)	2,240,096
Cash flows from investing activities:		
Proceeds from sale of collections	-	52,200
Purchase of investments	(35,362,370)	(37,166,685)
Proceeds from sale of investments	35,509,510	36,041,774
Purchase of Museum properties	(5,577,814)	(7,157,069)
Net cash used in investing activities	(5,430,674)	(8,229,780)
Cash flows from financing activities:		
Payment on line of credit	-	(1,075,000)
Payment for debt issuance costs	(213,606)	-
Proceeds from bonds payable	60,000,000	-
Payment on bonds payable	(61,184,000)	(1,520,000)
Proceeds from gifts restricted for permanent endowment	6,471,518	7,220,229
Proceeds from gifts restricted for acquisition of Museum properties	1,142,592	3,114,672
Net cash provided by financing activities	6,216,504	7,739,901
Net change in cash	(2,454,135)	1,750,217
Cash, beginning of year	4,123,504	2,373,287
Cash, end of year	\$ 1,669,369	\$ 4,123,504
Supplemental disclosure of cash flow information:		
Interest paid	\$ 713,759	\$ 267,885
Acquisition of Museum properties through purchase agreement	-	423,845
Accounts payable and accrued liabilities for Museum properties	288,884	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 85 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. More than 365,000 students are among the nearly 1,500,000 guests that visit each year, making the Museum the number one field trip destination in Chicago for the ninth consecutive year. Through its Welcome to Science Initiative, 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: A Mirror Maze*, 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 Giant Dome 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.

Museum of Science and Industry

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

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.

Cash: The Museum had deposits in excess of federally insured limits at December 31, 2017 and 2016. 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 and changes in net assets. 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 \$1,015,669 and \$977,773 at December 31, 2017 and 2016, 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 the other liabilities group on the statements of financial position as shown in Note 13.

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, 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 at their estimated fair values of \$587,257 and \$972,598 in 2017 and 2016, respectively. The amount relating to services is \$120,438 and \$228,262 in 2017 and 2016, respectively.

Volunteers contributed approximately 43,850 and 42,050 hours to the Museum in 2017 and 2016, 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 \$2,451,963 and \$2,501,880 for the years ended December 31, 2017 and 2016, 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 \$4,100,000 and \$4,200,000 at December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, 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 approximately \$1,100,000 and \$1,600,000 at December 31, 2017 and 2016, respectively.

The Museum files Form 990 in the U.S. federal jurisdiction and the State of Illinois. Tax years before 2014 are generally no longer subject to examination by the Internal Revenue Service.

Recent accounting pronouncements: In 2017, the Museum adopted FASB Accounting Standards Update (ASU) 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. The 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 fair value disclosures, including investments measured at NAV, are included in Note 4.

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 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 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 2019 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.

Reclassifications: Certain 2016 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:

	2017	2016
Money market fund	\$ 247,479	\$ 479,327
Common and preferred stocks	9,000	72,934
Corporate bonds	-	1,040,020
Fixed income funds	-	1,248,238
Total operating investments	<u>\$ 256,479</u>	<u>\$ 2,840,519</u>

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

	2017	2016
Short-term investment fund	\$ 1,309,635	\$ 2,132,048
Common and preferred stocks	-	3,133,594
Equity funds:		
Domestic	23,960,872	23,657,461
International	32,428,221	15,719,597
Natural resources	6,615,895	5,312,217
Real estate	7,600,209	6,304,528
Fixed income funds	35,606,276	36,849,223
Total long-term investments	<u>\$ 107,521,108</u>	<u>\$ 93,108,668</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 is calculated using the average fair value of the investment pool for the twelve trailing quarters ending September 30 of the previous year. The following schedule summarizes the investment return and its classification in the statements of activities and changes in net assets:

	2017	2016
Interest and dividends	\$ 2,298,280	\$ 2,574,658
Net realized gain (loss) on sale of investments	1,410,113	(884,737)
Net unrealized gain on investments	10,565,427	4,785,784
Management fees	(202,648)	(217,242)
Total investment return	<u>14,071,172</u>	<u>6,258,463</u>
Investment return designated for operations	(4,695,879)	(4,194,608)
Investment return, after amount designated for operations	<u>\$ 9,375,293</u>	<u>\$ 2,063,855</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.

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, 2017 and 2016, there were no such transfers.

Investments with values that are based on quoted market prices in active markets are classified within Level 1 of the hierarchy. These include investments in money market funds, stocks, fixed-income funds, and equity funds.

Corporate bonds are classified within Level 2 of the hierarchy.

Museum of Science and Industry

Notes to Financial Statements

Note 4. Fair Value Disclosures (Continued)

The fair value of the Museum's investments in certain equity funds and corporate bonds generally represents the amount the Museum would expect to receive if it were to liquidate its investments in funds excluding any redemption charges that may apply. The fair value of these funds is based on the applicable percentage ownership of the underlying funds' net assets as of the measurement date, as determined by the fund manager or the Museum. In determining fair value, the Museum utilizes valuations provided by the underlying investment funds. The underlying investment funds value securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the underlying investment funds are determined by the managers of the investment fund. Investments in these funds have certain restrictions on liquidation and may have underlying investments in private placements or other securities for which prices are not readily available.

For these investments, the Museum used the practical expedient. The practical expedient represents the applicable percentage ownership of the underlying funds' net assets as of the measurement date or net asset value (NAV).

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.

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.

Museum of Science and Industry

Notes to Financial Statements

Note 4. Fair Value Disclosures (Continued)

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

	2017				
	Level 1	Level 2	Level 3	Valued Using NAV ⁽¹⁾	Total
Assets:					
Investments					
Money market fund	\$ 247,479	\$ -	\$ -	\$ -	\$ 247,479
Short-term investment fund	-	-	-	1,309,635	1,309,635
Common and preferred stocks	9,000	-	-	-	9,000
Equity funds:					
Domestic	11,697,278	-	-	12,263,594	23,960,872
International	20,673,399	-	-	11,754,822	32,428,221
Natural resources	6,615,895	-	-	-	6,615,895
Real estate	7,600,209	-	-	-	7,600,209
Fixed income funds	30,390,125	-	-	5,216,151	35,606,276
Total investments at fair value	77,233,385	-	-	30,544,202	107,777,587
Charitable trusts	-	-	601,840	-	601,840
Total assets at fair value	\$ -	\$ -	\$ 601,840	\$ -	\$ 108,379,427
Liabilities:					
Interest rate swap	\$ -	\$ (570,613)	\$ -	\$ -	\$ (570,613)
2016					
	Level 1	Level 2	Level 3	Valued Using NAV ⁽¹⁾	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 funds	6,304,528	-	-	-	6,304,528
Corporate bonds	-	1,040,020	-	-	1,040,020
Fixed income funds	22,226,587	-	-	15,870,874	38,097,461
Total investments at fair value	57,603,852	1,040,020	-	37,305,315	95,949,187
Charitable trusts	-	-	525,631	-	525,631
Total assets at fair value	\$ 57,603,852	\$ 1,040,020	\$ 525,631	\$ 37,305,315	\$ 96,474,818
Liabilities:					
Interest rate swap	\$ -	\$ (810,343)	\$ -	\$ -	\$ (810,343)

- (1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in the tables above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

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, 2017, consisted of the following:

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Short-term investment fund (a)	\$ 1,309,635	\$ -	Daily	2 days
Equity funds:				
Domestic (b)	12,263,594	-	Daily	2 days
International (c)	11,754,822	-	Daily	2 days
Fixed income funds (d)	5,216,151	-	Daily	2 days
Balance as of December 31, 2017	<u>\$ 30,544,202</u>	<u>\$ -</u>		

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

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
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>		

- (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.

Museum of Science and Industry

Notes to Financial Statements

Note 4. Fair Value Disclosures (Continued)

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, 2017 and 2016, is as follows:

Charitable trusts, January 1, 2016	\$ 284,009
Trust additions	225,361
Change in beneficial interest	<u>16,261</u>
Charitable trusts, December 31, 2016	525,631
Trust additions	-
Trust distributions	(54,977)
Change in beneficial interest	<u>131,186</u>
Charitable trusts, December 31, 2017	<u><u>\$ 601,840</u></u>

Charitable trusts are included in other assets (Note 12) on the statement of financial position.

Note 5. Pledges Receivable

The Museum has received various pledges from individuals and corporate donors. The largest ten donors accounted for an aggregate of 75% 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, 2017 and 2016, by expected period of payment:

	<u>2017</u>	<u>2016</u>
Amounts expected to be collected in		
Less than one year	\$ 9,369,497	\$ 12,430,080
One to five years	15,533,572	16,458,620
More than five years	7,800,000	8,442,858
Total pledges receivable	<u>32,703,069</u>	<u>37,331,558</u>
Less:		
Reserve on uncollectible pledges	(1,520,000)	(1,520,000)
Discount	<u>(4,761,603)</u>	<u>(4,972,504)</u>
Pledges receivable, net	<u><u>\$ 26,421,466</u></u>	<u><u>\$ 30,839,054</u></u>

Note 6. Funds Held by Chicago Community Trust

The Museum is the designated beneficiary of the interest income on a \$1,000,000 endowment established and maintained by Chicago Community Trust. The 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:

	2017	2016
Time restricted	\$ 3,604,778	\$ 5,427,194
Strategic initiatives	4,991	1,524,764
Education programs	15,819,681	14,841,330
Building preservation	4,314,955	3,506,123
Exhibit development	7,288,109	6,246,262
	<u>\$ 31,032,514</u>	<u>\$ 31,545,673</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:

	2017	2016
Time restricted	\$ 754,000	\$ 22,751
Strategic initiatives	1,823,841	2,925,247
Education programs	6,265,605	6,201,442
Building preservation	2,748,749	2,225,624
Exhibit development	2,260,386	5,147,814
	<u>\$ 13,852,581</u>	<u>\$ 16,522,878</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:

	2017	2016
Education and cultural programs	\$ 5,219,496	\$ 4,993,897
Building preservation	14,829,366	14,902,394
Exhibit development	5,447,500	5,445,000
Endowment for operations	1,475,231	870,989
	<u>\$ 26,971,593</u>	<u>\$ 26,212,280</u>

Museum of Science and Industry

Notes to Financial Statements

Note 9. Donor Restricted 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 \$0 and \$378 as of December 31, 2017 and 2016, 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, 2017 and 2016, 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. Donor Restricted Endowments (Continued)

During 2017 and 2016, the Museum had the following endowment-related activities:

	Unrestricted endowment funds	Temporarily restricted endowment funds	Permanently restricted endowment funds	Total
Endowment net assets, January 1, 2016	\$ (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
Private support	-	-	6,471,518	6,471,518
Investment returns:				
Interest and dividends	-	467,435	-	467,435
Realized gain on sale of investments	-	346,944	-	346,944
Net unrealized gain on investments	378	2,317,744	-	2,318,122
Total investment returns	378	3,132,123	-	3,132,501
Appropriation of endowment assets for expenditures	-	(862,021)	-	(862,021)
Total change in endowment net assets	378	2,270,102	-	2,270,480
Endowment net assets, December 31, 2017	\$ -	\$ 3,398,055	\$ 24,227,426	\$ 27,625,481

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 \$2,744,167 and \$8,456,371 as of December 31, 2017 and 2016, 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 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 \$128,812 and \$0 in 2017 and 2016, respectively, based upon an actuarially determined calculation.

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:

	2017	2016
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$ 4,040,727	\$ 4,128,581
Interest cost	151,137	163,280
Benefits paid	(191,811)	(191,373)
Actuarial (gain) loss	130,344	(59,761)
Projected benefit obligation at end of year	<u>4,130,397</u>	<u>4,040,727</u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	3,681,544	3,632,538
Actual return on plan assets	548,948	240,379
Employer contributions	128,812	-
Benefits paid	(191,811)	(191,373)
Fair value of plan assets at end of year	<u>4,167,493</u>	<u>3,681,544</u>
Funded status (accrued pension liability)	<u>\$ 37,096</u>	<u>\$ (359,183)</u>
Accumulated benefit obligation	<u>\$ 4,130,397</u>	<u>\$ 4,040,727</u>

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

	2017	2016
Net actuarial loss	\$ 647,707	\$ 865,427

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

	2017	2016
Interest cost	\$ 151,137	\$ 163,280
Recognized actuarial loss	27,961	30,859
Expected return on plan assets	(228,845)	(223,474)
Net periodic pension benefit	<u>\$ (49,747)</u>	<u>\$ (29,335)</u>

Museum of Science and Industry

Notes to Financial Statements

Note 10. Retirement Plans (Continued)

The estimated net actuarial loss that will be amortized from unrestricted net assets into net periodic benefit cost within the next fiscal year is \$14,795.

The weighted-average assumptions for the years ended December 31, 2017 and 2016, are as follows:

	2017	2016
Discount rate (benefit expense)	3.88%	4.10%
Discount rate (benefit obligations)	3.44%	3.88%
Expected long-term rate of return on plan assets	6.47%	6.41%
Rate of compensation increase	4.00%	4.00%

Weighted-average asset allocations by asset category for the years ended December 31, 2017 and 2016, are as follows:

	2017	2016
Short-term investments	0%	1%
Equity funds:		
Domestic	33%	28%
International	21%	17%
Natural resources	6%	6%
Real estate	7%	6%
Fixed income	33%	42%
	<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.

Plan assets for the Pension Plan are managed through the trustee, The Northern Trust Company. The target asset allocation of 20% domestic public equities, 25% international public equities, 7% real estate equities, 6% natural resources equities, and 42% 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:

	2017	2016
Short-term investment fund	\$ 1,660	\$ 29,450
Equity funds:		
Domestic	1,361,695	1,055,656
International	854,288	639,184
Natural resources	261,052	199,559
Real estate	295,098	208,401
Fixed income	1,393,700	1,549,294
Total plan assets	<u>\$ 4,167,493</u>	<u>\$ 3,681,544</u>

The following table summarizes plan assets by fair value levels as of December 31, 2017:

	Level 1	Valued Using NAV	Total
Short-term investment fund	\$ -	\$ 1,660	\$ 1,660
Equity funds:			
Domestic	746,400	615,295	1,361,695
International	432,656	421,632	854,288
Natural resources	261,052	-	261,052
Real estate	295,098	-	295,098
Fixed income	1,214,795	178,905	1,393,700
Total plan assets	<u>\$ 2,950,001</u>	<u>\$ 1,217,492</u>	<u>\$ 4,167,493</u>

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

	Level 1	Valued Using NAV	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>

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, 2017, consisted of the following:

	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Short-term investment fund (a)	\$ 1,660	\$ -	Daily	2 days
Equity funds:				
Domestic (b)	615,295	-	Daily	2 days
International (c)	421,632	-	Daily	2 days
Fixed income funds (d)	178,905	-	Daily	2 days
	<u>\$ 1,217,492</u>	<u>\$ -</u>		

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>		

- (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:

2018	\$ 297,290
2019	293,872
2020	290,135
2021	286,053
2022	281,601
2023 - 2027	1,326,610

Museum of Science and Industry

Notes to Financial Statements

Note 10. Retirement Plans (Continued)

Defined Contribution Plan:

The Museum has an active 401(k) plan. 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 2017 and 2016, 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 employer matching contributions. Effective January 1, 2017, the Museum makes a matching contribution of 100% of the first 1% contributed by participants and 50% of the next 5% contributed by participants. In 2016, the Museum made a matching contribution of 50% of the first 6% contributed by participants. Vesting is 100% in the employee contribution and Museum match at all times. The Museum matches were \$585,862 and \$469,404 in 2017 and 2016, 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 properties consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Building improvements	\$ 104,013,326	\$ 103,937,664
Henry Crown Space Center	12,234,684	12,234,684
Exhibits	167,852,645	165,182,749
Underground garage	54,667,365	54,667,365
Equipment, furniture and fixtures	19,614,867	16,944,095
Construction in progress	6,387,008	6,531,771
Total properties	<u>364,769,895</u>	<u>359,498,328</u>
Less accumulated depreciation	<u>(231,590,219)</u>	<u>(218,428,374)</u>
Properties, net	<u>\$ 133,179,676</u>	<u>\$ 141,069,954</u>

Depreciation expense was \$13,166,765 and \$13,017,952 for the years ended December 31, 2017 and 2016, respectively.

Museum of Science and Industry

Notes to Financial Statements

Note 12. Other Assets

Other assets balances at December 31:

	2017	2016
Inventories	\$ 409,528	\$ 389,807
Prepaid expenses	1,198,438	1,358,264
Trade accounts receivable	1,457,663	1,576,236
Charitable remainder trusts	601,840	525,631
Life insurance policy	119,204	97,028
Film consortium investment	302,828	304,913
Flexible spending account deposit	17,916	17,916
Total other assets	<u>\$ 4,107,417</u>	<u>\$ 4,269,795</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.

Note 13. Other Liabilities

Other liabilities balances at December 31:

	2017	2016
Deferred revenue	\$ 862,559	\$ 1,746,663
Funds on deposit	215,790	210,124
Interest payable	110,066	60,971
Asset retirement obligation	1,015,669	977,773
Purchase agreement	1,334,852	1,769,079
Interest rate swap	570,613	810,343
Total other liabilities	<u>\$ 4,109,549</u>	<u>\$ 5,574,953</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).

Museum of Science and Industry

Notes to Financial Statements

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.

	2017	2016
Cash and investments held by the Museum	\$ 109,385,638	\$ 99,933,770
Investments held by the Pension Plan	4,167,493	3,681,544
Debt held by the Museum	24,341,000	14,900,000
Bank fees	355,465	223,531
Utilities	1,566,611	1,746,577
Other	88,639	83,204
Outstanding pledges	29,242,001	29,703,007
Contributions and pledge payments	13,655,957	11,494,600
Amounts due under purchase agreements	1,334,852	1,769,079

Note 15. Bonds Payable and Lines of Credit

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

	2017			2016
	Current	Long term	Total	Total
Illinois Finance Authority (IFA) secured bonds:				
Series 2009A - Bank of America, N.A.	\$ -	\$ -	\$ -	\$ 14,900,000
Series 2009B - JPMorgan Chase Bank, N.A.	-	-	-	14,900,000
Series 2009C - PNC Bank, N.A.	-	-	-	14,900,000
Series 2009D - The Northern Trust Company	-	-	-	14,900,000
Series 2017A - PNC Bank, N.A.	978,000	33,097,000	34,075,000	-
Series 2017B - BMO Harris Bank	700,000	23,641,000	24,341,000	-
Total	<u>\$ 1,678,000</u>	<u>\$ 56,738,000</u>	58,416,000	59,600,000
Less unamortized financing fees			(424,602)	(902,316)
Bonds payable and line of credit outstanding, per statements of financial position:			<u>\$ 57,991,398</u>	<u>\$ 58,697,684</u>

Aggregate maturities of bonds payable at December 31, 2017, are as follows:

2018	\$ 1,678,000
2019	1,738,000
2020	1,818,000
2021	1,898,000
2022	1,978,000
2023 and thereafter	49,306,000
Total	<u>\$ 58,416,000</u>

Museum of Science and Industry

Notes to Financial Statements

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

Interest and financing expenses for the years ended December 31, 2017 and 2016 consisted of the following:

	2017	2016
Interest	\$ 1,062,835	\$ 634,709
Financing expenses	280,680	638,298
	<u>\$ 1,343,515</u>	<u>\$ 1,273,007</u>

IFA Series 2017 Bonds:

In June 2017, the Museum issued to the IFA tax-exempt bonds (Series 2017A – PNC Bank, N.A. and Series 2017B – BMO Harris Bank) totaling \$60,000,000 through a private placement. The proceeds were loaned to the Museum for the purpose of redeeming the Series 2009 variable revenue demand bonds. The bonds have a variable interest rate based on 68-70% of one-month LIBOR plus 55-70 basis points (2017A – 1.50%; 2017B – 1.79% at December 31, 2017). Certain expenses incurred in connection with the bond issue were deferred and are being amortized over the period the bonds are outstanding. As a result of the Series 2009 redemption, the Museum recognized a loss on extinguishment of debt of \$666,894 for the year ended December 31, 2017, which represents the write-off of unamortized bond issuance costs associated with the extinguished debt.

Interest Rate Swap Agreement:

The Museum has 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 bonds. The agreement, which expires in May 2021, has monthly settlement and a fixed interest rate of 2.54% and 2.45% in 2017 and 2016, respectively. The fair value of the swap for 2017 and 2016 changed due to unrealized gains of \$239,730 and \$249,032, respectively. As of December 31, 2017 and 2016, the cumulative unrealized loss was \$570,613 and \$810,343, respectively, based on the amount that such an instrument could be settled with a third party as determined by the counterparty.

Lines of Credit:

In June 2017, the Museum entered into a \$10,000,000 working capital line of credit agreement with an interest rate of the one-month LIBOR plus 65 basis points on outstanding amounts, which expires in May 2019. The agreement replaces a \$10,000,000 line of credit that expired in 2017. In June 2017, the Museum entered into a \$25,000,000 pledge-backed project line of credit with an interest rate of the one-month LIBOR plus 3.0% on outstanding amounts, which expires in May 2022. The agreement replaces a \$10,000,000 project line of credit, which expired in 2017. There were no borrowings on the lines of credit during 2017 and 2016.

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Notes to Financial Statements

Note 16. Functional Classification of Expenses

Expenses by functional classification for the years ended December 31, 2017 and 2016, are shown below. Depreciation, interest and debt service expenses, which are not allocated functionally on the statements of activities and changes in net assets, is allocated functionally below:

	2017	2016
Programs:		
Exhibits and public programs	\$ 27,256,633	\$ 26,954,598
Education programs	12,166,031	11,689,695
Guest services	2,571,331	2,654,038
Retail and supporting services	3,444,856	3,307,652
Total program expenses	<u>45,438,851</u>	<u>44,605,983</u>
General and administrative:		
Management and general	7,673,149	8,041,702
Marketing and public awareness	6,433,772	5,513,965
Development	5,363,283	6,188,143
Membership	892,839	1,037,362
Total general and administrative expenses	<u>20,363,043</u>	<u>20,781,172</u>
Total expenses	<u><u>\$ 65,801,894</u></u>	<u><u>\$ 65,387,155</u></u>
Expenses per the financial statements:		
Total program expenses	\$ 32,462,356	\$ 32,223,655
Total general and administrative expenses	18,829,258	18,872,541
Depreciation	13,166,765	13,017,952
Interest and debt service expenses	1,343,515	1,273,007
Total expenses	<u><u>\$ 65,801,894</u></u>	<u><u>\$ 65,387,155</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, 2017, the total commitments under those contracts are approximately \$3,600,000.

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, 2017 financial statements for subsequent events through May 18, 2018, 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.