



Reviewed Financial Statements

May 31, 2017 and 2016

CHILDREN’S MUSEUM OF TACOMA

Reviewed Financial Statements

May 31, 2017 and 2016

INDEPENDENT ACCOUNTANTS’ REVIEW REPORT 1

REVIEWED FINANCIAL STATEMENTS

Statements of Financial Position 2-3

Statements of Activities 4-5

Statement of Functional Expenses with Comparative Totals for the Year Ended
May 31, 2016 6

Statements of Cash Flows..... 7-8

Notes to Financial Statements 9-20

Independent Accountants' Review Report

To the Board of Directors
Children's Museum of Tacoma

We have reviewed the accompanying financial statements of Children's Museum of Tacoma (a nonprofit organization), which comprise the statements of financial position as of May 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, the statement of functional expenses for the year ended May 31, 2017 and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.


Accountants' Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.



THE DOTY GROUP, P.S.

Tacoma, Washington
November 15, 2017



REVIEWED FINANCIAL STATEMENTS

CHILDREN'S MUSEUM OF TACOMA

STATEMENTS OF FINANCIAL POSITION

May 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 18,843	\$ 4,082
Restricted cash	48,564	121,282
Accounts receivable	36,467	13,948
Campaign receivable, current portion	96,783	61,433
Grants and pledges receivable	35,940	62,510
Inventory	6,784	2,180
Prepaid expenses	<u>32,629</u>	<u>31,522</u>
Total Current Assets	276,010	296,957
PROPERTY AND EQUIPMENT		
Computers and equipment	125,340	114,644
Office furniture and fixtures	73,430	64,080
Vehicles	47,933	47,933
Leasehold improvements	<u>3,103,973</u>	<u>3,103,973</u>
	3,350,676	3,330,630
Accumulated depreciation and amortization	<u>1,034,473</u>	<u>831,372</u>
Total Property and Equipment	2,316,203	2,499,258
OTHER ASSETS		
Investments	84,176	84,413
Campaign receivable, net of current portion	<u>54,321</u>	<u>76,052</u>
Total Other Assets	138,497	160,465
PERMANENT COLLECTION		
	<u>90,000</u>	<u>90,000</u>
Total Assets	<u>\$ 2,820,710</u>	<u>\$ 3,046,680</u>

See accompanying notes and independent accountants' review report.

	<u>2017</u>	<u>2016</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	\$ 173,500	
Current portion of deferred rent liability	7,079	\$ 4,193
Lines of credit	63,225	278,225
Accounts payable	65,504	64,746
Accrued expenses	36,204	3,660
Deferred revenue	<u>88,785</u>	<u>33,161</u>
Total Current Liabilities	434,297	383,985
LONG-TERM LIABILITIES		
Notes payable, net of current portion	213,762	232,038
Deferred rent liability, net of current portion	<u>31,783</u>	<u>38,861</u>
Total Long-Term Liabilities	<u>245,545</u>	<u>270,899</u>
Total Liabilities	679,842	654,884
NET ASSETS		
Unrestricted	1,836,615	2,031,977
Temporarily restricted	220,370	275,936
Permanently restricted	<u>83,883</u>	<u>83,883</u>
Total Net Assets	2,140,868	2,391,796
Total Liabilities and Net Assets	<u>\$ 2,820,710</u>	<u>\$ 3,046,680</u>

CHILDREN'S MUSEUM OF TACOMA

STATEMENTS OF ACTIVITIES

Years Ended May 31, 2017 and 2016

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT, REVENUE, AND RECLASSIFICATIONS				
Contributions and sponsorships	\$ 158,572	\$ 100,000		\$ 258,572
Grants	283,234			283,234
In-kind contributions	8,889			8,889
Preschool	168,426			168,426
Membership and pay-as-you-will admissions	289,338			289,338
Education/product	813,143			813,143
Rental income	34,604			34,604
Investment income	405			405
Special events	293,999			293,999
Miscellaneous	1,943			1,943
Total Support and Revenue	<u>2,052,553</u>	<u>100,000</u>		<u>2,152,553</u>
Net assets released from restriction	155,566	(155,566)		
Total Support, Revenue and Reclassifications	<u>2,208,119</u>	<u>(55,566)</u>		<u>2,152,553</u>
EXPENSES				
Program services:				
Preschool	155,716			155,716
Muse	604,333			604,333
Memberships and pay-as-you-will admissions	419,284			419,284
Education/product	409,354			409,354
Total Program Services	<u>1,588,687</u>			<u>1,588,687</u>
Supporting services:				
Management and administration	449,193			449,193
Fundraising	365,601			365,601
Total Supporting Services	<u>814,794</u>			<u>814,794</u>
Total Expenses	<u>2,403,481</u>			<u>2,403,481</u>
CHANGE IN NET ASSETS	(195,362)	(55,566)		(250,928)
NET ASSETS, AT BEGINNING OF YEAR	<u>2,031,977</u>	<u>275,936</u>	<u>\$ 83,883</u>	<u>2,391,796</u>
NET ASSETS, AT END OF YEAR	<u>\$ 1,836,615</u>	<u>\$ 220,370</u>	<u>\$ 83,883</u>	<u>\$ 2,140,868</u>

See accompanying notes and independent accountants' review report.

CHILDREN'S MUSEUM OF TACOMA

STATEMENTS OF ACTIVITIES (Continued)

Years Ended May 31, 2017 and 2016

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT, REVENUE, AND RECLASSIFICATIONS				
Contributions and sponsorships	\$ 285,778	\$ 186,800		\$ 472,578
Grants	273,028			273,028
In-kind contributions	1,632			1,632
Preschool	83,539			83,539
Membership and pay-as-you-will admissions	278,729			278,729
Education/product	338,559			338,559
Rental income	22,826			22,826
Investment income	735			735
Gain on disposal of property and equipment	3,519			3,519
Special events	266,684			266,684
Miscellaneous	2,686			2,686
Total Support and Revenue	<u>1,557,715</u>	<u>186,800</u>		<u>1,744,515</u>
Net assets released from restriction	683,939	(683,939)		
Total Support, Revenue and Reclassifications	<u>2,241,654</u>	<u>(497,139)</u>		<u>1,744,515</u>
EXPENSES				
Program services:				
Preschool	82,307			82,307
Muse	193,933			193,933
Memberships and pay-as-you-will admissions	407,806			407,806
Education/product	395,921			395,921
Total Program Services	<u>1,079,967</u>			<u>1,079,967</u>
Supporting services:				
Management and administration	423,177			423,177
Fundraising	414,963			414,963
Total Supporting Services	<u>838,140</u>			<u>838,140</u>
Total Expenses	<u>1,918,107</u>			<u>1,918,107</u>
Change in Net Assets Before Effects of Discontinued Operating Segment	323,547	(497,139)		(173,592)
OTHER CHANGES:				
DISCONTINUED OPERATIONS	<u>(2,215)</u>			<u>(2,215)</u>
CHANGE IN NET ASSETS	321,332	(497,139)		(175,807)
NET ASSETS, AT BEGINNING OF YEAR	<u>1,710,645</u>	<u>773,075</u>	\$ 83,883	<u>2,567,603</u>
NET ASSETS, AT END OF YEAR	<u>\$ 2,031,977</u>	<u>\$ 275,936</u>	<u>\$ 83,883</u>	<u>\$ 2,391,796</u>

See accompanying notes and independent accountants' review report.

CHILDREN'S MUSEUM OF TACOMA

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended May 31, 2017 with Comparative Totals for the Year Ended May 31, 2016

	Program Services					Supporting Services			Total	
	Preschool	Muse	Membership / Pay-as-You-Will Admissions	Education / Product	Total Program Services	Management and Administrative	Fundraising	Total Supporting Services	2017	2016
Compensation and Related Expenses:										
Salaries	\$ 87,136	\$ 353,871	\$ 200,646	\$ 213,073	\$ 854,726	\$ 225,437	\$ 123,590	\$ 349,027	\$ 1,203,753	\$ 839,554
Payroll taxes	6,859	29,011	16,299	16,904	69,073	42,172	10,992	53,164	122,237	82,532
Employee benefits		50,779	5,721	28,913	85,413	25,907	11,442	37,349	122,762	72,572
Total Compensation and Related Expenses	93,995	433,661	222,666	258,890	1,009,212	293,516	146,024	439,540	1,448,752	994,658
Advertising	145	162	1,650	622	2,579	1,406	759	2,165	4,744	7,418
Bad debt expense		2,529			2,529				2,529	2,190
Bank fees	3,635	9,198	13,132	109	26,074	7,205	3,463	10,668	36,742	26,753
Catering/food	2,094	578	453	5,196	8,321	965	37,395	38,360	46,681	49,643
Contracted services	50	6,344	14,945	25,955	47,294	31,894	93,476	125,370	172,664	179,757
Depreciation	15,522	60,127	41,975	40,760	158,384	44,717		44,717	203,101	189,106
Dues and subscriptions	1,339	1,444	580	762	4,125	12,592	1,907	14,499	18,624	12,678
Insurance	639	777		3,435	4,851	10,032		10,032	14,883	13,315
Interest expense			1,359		1,359	2,338	21,730	24,068	25,427	24,246
Merchandise			5,021		5,021	44	226	270	5,291	6,310
Parking expense		2,838	6,352	1,659	10,849	(1,387)	153	(1,234)	9,615	7,534
Photography	100			393	493		767	767	1,260	3,382
Postage		99	1,299	96	1,494	768	2,613	3,381	4,875	4,868
Printing and publications	1,520	1,480	1,624	5,285	9,909	5,931	12,621	18,552	28,461	26,023
Professional development	170	1,692	980	930	3,772	1,843	2,720	4,563	8,335	7,812
Rent	17,640	43,335	78,387	9,838	149,200	15,975		15,975	165,175	176,706
Small equipment and furniture	5,314	(10)	3,814	4,368	13,486	(482)	7,608	7,126	20,612	27,158
Supplies	12,812	38,247	22,943	45,592	119,594	9,440	23,291	32,731	152,325	116,961
Taxes and licenses	12	1,013	86		1,111	183	325	508	1,619	13,739
Telephone	729	800	2,102		3,631	5,521		5,521	9,152	9,391
Travel		19	2	5,378	5,399	6,692	10,523	17,215	22,614	18,459
Total Expenses	\$ 155,716	\$ 604,333	\$ 419,284	\$ 409,354	\$ 1,588,687	\$ 449,193	\$ 365,601	\$ 814,794	\$ 2,403,481	\$ 1,918,107

See accompanying notes and independent accountants' review report.

CHILDREN'S MUSEUM OF TACOMA

STATEMENTS OF CASH FLOWS

Years Ended May 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (250,928)	\$ (175,807)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	203,101	189,106
Gain on disposal of property and equipment		(3,519)
Bad debt expense	2,529	2,190
Change in operating accounts:		
Accounts receivable	(25,048)	(5,679)
Grants and pledges receivable	26,570	7,044
Campaign receivable	(50,000)	
Inventory	(4,604)	2,791
Prepaid expense	(1,107)	2,922
Accounts payable	758	43,933
Accrued expenses	32,544	485
Deferred revenues	55,624	4,551
Deferred rent liability	(4,192)	(1,379)
Assets restricted for long-term purposes:		
Restricted cash	<u>72,718</u>	<u>368,641</u>
Net Cash Provided by Operating Activities	57,965	435,279
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments with reinvested earnings	237	38
Proceeds from sale of asset		5,524
Purchase of property and equipment	<u>(20,046)</u>	<u>(572,201)</u>
Net Cash Used by Investing Activities	(19,809)	(566,639)

See accompanying notes and independent accountants' review report.

CHILDREN'S MUSEUM OF TACOMA

STATEMENTS OF CASH FLOWS (Continued)

Years Ended May 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions and income restricted for:		
Collection of campaign pledges	\$ 36,381	\$ 2,553
Other financing activities:		
Proceeds from lines of credit, net	35,000	270,000
Payments on notes payable	<u>(94,776)</u>	<u>(184,288)</u>
Net Cash (Used) Provided by Financing Activities	<u>(23,395)</u>	<u>88,265</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14,761	(43,095)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>4,082</u>	<u>47,177</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 18,843</u>	<u>\$ 4,082</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 25,427</u>	<u>\$ 24,246</u>
NONCASH FINANCING ACTIVITY		
Conversion of line of credit into a term note	<u>\$ 250,000</u>	

See accompanying notes and independent accountants' review report.

CHILDREN'S MUSEUM OF TACOMA

NOTES TO FINANCIAL STATEMENTS

May 31, 2017 and 2016

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Children's Museum of Tacoma (the Museum) was formed during 1985 in the State of Washington as a non-profit organization. The Museum is organized to provide an educational environment for children of all ages through interactive hands-on exhibits as well as through preschool and daycare programs. The facility is located in Tacoma, Washington, where the majority of the services are provided. The Museum also provides services throughout Pierce County using leased locations.

Basis of Presentation

The financial statements are presented in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) industry topic applicable to *Not-for-Profit Entities*. In accordance with the FASB ASC topic, the Museum reports information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Under these provisions, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Museum and changes therein are classified and reported as follows:

Unrestricted Net Assets

Unrestricted net assets include all Museum net assets on which there are no donor-imposed restrictions for use, or on which donor-imposed restrictions were temporary and have expired.

Temporarily Restricted Net Assets

Temporarily restricted net assets include all Museum net assets received by donations on which the donor imposed some restriction. Such restrictions are time or purpose dependent and will expire when the Museum makes use of the net assets sometime in the future for the restricted purpose.

Permanently Restricted Net Assets

Permanently restricted net assets include all Museum net assets received by donations on which the donor imposed a permanent restriction on the use of the gift. This category of net assets is composed of endowment gifts given over the year by donors who required that the gift be invested and only the income from such investments be used to support scholarships or other purposes. By law and agreement with the donor, the Museum may never invade the principal of these gifts.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

CHILDREN'S MUSEUM OF TACOMA

NOTES TO FINANCIAL STATEMENTS

May 31, 2017 and 2016

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid instruments with maturities of three months or less at the date of acquisition other than those held in the Museum's investment portfolio.

Restricted Cash

Restricted cash consists of amounts donated for use in servicing debt incurred for building improvements. Restricted cash at May 31, 2017 and 2016 was \$48,564 and \$121,282, respectively.

Accounts Receivable

Accounts receivable represent amounts that have been billed for educational and other services, and are presented at the amount management expects to collect. As of May 31, 2017 and 2016, management has determined, based on historical experience, that all amounts are fully collectible and no allowance for doubtful accounts is necessary.

Grants and Pledges Receivable

Only those grants and pledges receivable which are determined to be an unconditional promise to give are recorded as a receivable in the accompanying statement of financial position. In making this determination, management considers factors and indicators such as (a) method for determining payment amount; (b) penalties for nonperformance and (c) the Museum's intent for seeking the funding. As of May 31, 2017 and 2016, all grants and pledges receivable were considered collectible and as a result, no allowance has been recorded.

Capital Campaigns

The Museum has long-term pledges which were generated from capital campaigns. In accordance with the FASB ASC topic, *Not-for-Profit Entities-Revenue Recognition-Contributions Received*, the Museum records long-term pledges in the year that the pledge was communicated and verifiable. Management reviews the capital campaign pledges to determine if the Museum continues to have a legally enforceable right to receive the individual pledges receivable. Should the right to a pledge decline, the receivable would be reduced to the net realizable value with an allowance. No such reductions were made during the years ended May 31, 2017 and 2016.

CHILDREN'S MUSEUM OF TACOMA

NOTES TO FINANCIAL STATEMENTS

May 31, 2017 and 2016

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventory is valued at the lower of cost or market and consists of small, incidental items that are available for sale.

Property and Equipment

Property and equipment are recorded at cost, and those received by donations are recorded at their estimated fair market values on the date received. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, which ranges from 5 to 39 years. The Museum capitalizes all property and equipment with costs or donated fair market values in excess of \$500. Depreciation and amortization expense for the years ended May 31, 2017 and 2016 was \$203,101 and \$189,106, respectively.

Investments

The Museum has adopted a statement of investment objectives and guidelines, which serves as its investment policy. The policy outlines the type of financial instruments that may be utilized and a general asset allocation guideline range. The policy also contains spending guidelines, which are intended to place a dollar limit upon amounts, which are awarded currently to scholarship and grant recipients. The spending policy includes a formula that utilizes the rate of return over a five-year rolling average, which, in turn, is used to compute the maximum allowable amount available for current awards. Overall, the policy strives to maintain a prudent level of risk in order to preserve the corpus, or principal, of the endowment.

Collections

In accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) topic for *Not-for-Profit Entities-Property, Plant and Equipment*, items are recorded at cost if purchased and at fair value at date of accession if donated. Gains and losses from deaccessions are reported as changes in net assets based on the absence or existence and nature of donor-imposed restrictions. Collection items are protected, kept unencumbered, cared for, and preserved.

Deferred Revenue

Income from birthday parties and other private events, paid in advance, are deferred and recognized in the period that the event occurs.

Advertising

The Museum expenses advertising and marketing costs as they are incurred. Advertising costs totaled \$4,744 and \$7,418 for the years ended May 31, 2017 and 2016, respectively.

CHILDREN'S MUSEUM OF TACOMA

NOTES TO FINANCIAL STATEMENTS

May 31, 2017 and 2016

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees received in advance are deferred to the applicable period in which the related services are performed.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions of assets other than cash are recorded at their estimated fair value when originally pledged or donated.

Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value, which is measured at the present value of future cash flows. If material, long-term contributions and pledges receivable are discounted in the accompanying statements of financial position at an appropriate rate commensurate with the risks involved. Amortization of discounts, if any, is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Conditional Promises and Intentions to Give

From time-to-time, the Museum receives a conditional promise or intention to give, the receipt of which is contingent upon external factors over which the Museum has no control. Under the FASB ASC industry topic for *Not-for-Profit Entities*, conditional promises and intentions are not recognized in the financial statements until they become unconditional; that is, when the conditions on which they depend are substantially met. Such conditional contributions to give at May 31, 2017 are not determinable.

Contributed Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Museum. In addition, volunteers also provide program and fundraising services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria was not met.

Allocation of Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs, management and general and fundraising based on the benefits derived.

CHILDREN'S MUSEUM OF TACOMA

NOTES TO FINANCIAL STATEMENTS

May 31, 2017 and 2016

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. On an ongoing basis, management evaluates the estimates and assumptions based on new information. Management believes that the estimates and assumptions are reasonable in the circumstances; however, actual results could differ from those estimates.

Presentation of Sales Tax

The State of Washington and other jurisdictions within the State impose a sales tax on all of the Museum's sales to non-exempt customers. The Museum collects that sales tax from customers and remits the entire amount to the State. The Museum's accounting policy is to exclude the tax collected and remitted to the State from revenue and expenses.

Federal Income Tax

The Museum is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Museum reports its federal income taxes using FASB ASC topic for *Income Taxes*.

In evaluating the Museum's tax provisions and accruals, future taxable income and the reversal of temporary differences, interpretations and tax planning strategies are considered. The Museum believes their estimates are appropriate based on current facts and circumstances. The Internal Revenue Service (IRS) generally has three years from the date the return is filed to examine and assess additional tax. The Museum has filed its federal tax returns timely with the IRS.

The Museum's accounting policy for tax-related penalties and interest is to classify those items as federal income tax penalties and interest expense, respectively. No amounts were incurred for income tax related interest and penalties during the years ended May 31, 2017 or 2016.

Reclassifications

Certain reclassifications have been made to the 2016 balances to conform to the 2017 presentation. These changes had no effect on the Museum's net assets or cash flows.

NOTE 2 - COMPARATIVE FINANCIAL STATEMENTS

The financial statements include certain prior year summarized comparative information in total but not by functional category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended May 31, 2016 from which the summarized information was derived.

CHILDREN'S MUSEUM OF TACOMA

NOTES TO FINANCIAL STATEMENTS

May 31, 2017 and 2016

NOTE 3 - CAMPAIGN RECEIVABLE

The Museum's campaign receivable is comprised of amounts restricted to servicing debt on capital improvements as well as amounts received for further expansion of the Museum (see Note 15). The total capital campaign receivable, at May 31, 2017 and 2016, was \$151,104 and \$137,485, respectively.

Payments are expected to be collected as follows:

Year ended May 31:

2018	\$ 96,783
2019	<u>54,321</u>
Total	\$ <u>151,104</u>

NOTE 4 - FAIR VALUE MEASUREMENTS

The Museum uses the FASB ASC topic for *Fair Value Measurements*, which establishes a fair value hierarchy for reporting that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority; Level 2 inputs consist of observable units other than quoted prices for identical assets; and Level 3 inputs have the lowest priority. When available, the Museum measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

NOTE 5 - ENDOWMENT INVESTMENTS

The Museum maintains the permanently restricted contribution from one donor in a certificate of deposit.

Donor-Restricted Endowment (Investments)

As required by generally accepted accounting principles, net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

CHILDREN'S MUSEUM OF TACOMA

NOTES TO FINANCIAL STATEMENTS

May 31, 2017 and 2016

NOTE 5 - ENDOWMENT INVESTMENTS (Continued)

Interpretation of SPMIFA

The Board of Directors has interpreted the Washington State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence described in SPMIFA. In accordance with SPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected rate of total return from income and the appreciation of investments, (6) other resources of the Museum and (7) the Museum's investment policy.

Investment Income-Endowment Account

The certificate of deposit reconciliation at May 31 in which the permanently restricted funds are held, is as follows:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 84,413	\$ 84,451
Interest income	253	254
Interest withdrawal	<u>(490)</u>	<u>(292)</u>
Ending Balance	\$ <u>84,176</u>	\$ <u>84,413</u>

NOTE 6 - DEFERRED RENT LIABILITY AND OPERATING LEASES

The Museum uses the FASB ASC topic for *Leases*, which requires the lessee to recognize the expense associated with an operating lease on a straight-line basis over the lease term. For operating leases whose payments are disproportionate, the amount paid currently will differ from the expense recognized under the straight-line method. The Museum entered into a ten-year building lease agreement with United Way during January 2011. This agreement calls for payments of approximately \$10,000 per month and includes escalations and three five-year options to renew. The agreement contained a rent-free period at the inception. In accordance with the FASB ASC topic for *Leases*, the Museum recognizes the rent on a straight-line basis for financial statement reporting purposes.

CHILDREN'S MUSEUM OF TACOMA

NOTES TO FINANCIAL STATEMENTS

May 31, 2017 and 2016

NOTE 6 - DEFERRED RENT LIABILITY AND OPERATING LEASES (Continued)

Total payments under the terms of the lease will be \$1,113,453. Payments-to-date at May 31, 2017 and 2016 are \$675,604 and \$560,066, respectively. From inception of the lease through May 31, 2017 and 2016, the straight-line method expense exceeds the actual payments made by \$38,862 and \$43,054, respectively. This excess has been included in the accompanying statement of financial position as deferred rent liability. The current portion of the deferred rent liability is \$7,079 and \$4,193 at May 31, 2017 and 2016, respectively.

During the year ended May 31, 2016, the Museum entered into an additional six year lease with United Way for ground floor space to house the Muse. This lease calls for payments of \$3,700 per month and includes annual escalations. The Museum also entered into a three-year lease agreement with the Hoyt School to provide early learning services in one of its classrooms. The lease calls for payments of \$800 per month with 3% annual increases throughout the term of the lease.

The future minimum lease payments under all noncancelable operating leases for the next five years are as follows:

<u>Year Ended:</u>	
May 31, 2018	\$ 172,699
2019	176,179
2020	171,313
2021	119,362
2022	<u>26,863</u>
Total	\$ <u>666,416</u>

Rent expense for the years ended May 31, 2017 and 2016 was \$165,175 and \$176,706, respectively, and includes common area charges.

CHILDREN'S MUSEUM OF TACOMA

NOTES TO FINANCIAL STATEMENTS

May 31, 2017 and 2016

NOTE 7 - NOTES PAYABLE

Notes payable consist of the following:

	<u>2017</u>	<u>2016</u>
Note payable to Commencement Bank, fixed interest of 5%, requires monthly interest-only payments with the total principal due as a lump sum in December 2017. The note is secured by an interest in certain assets, as specified within the commercial security agreement. The note also requires compliance with certain covenants.	\$ 142,597	\$ 232,038
Note payable to Key Bank, payable at \$3,573 per month including fixed interest at 5.25%. The note matures on March 2024 and is secured by certain assets as specified within the commercial security agreement.	<u>244,665</u>	<u> </u>
Total Long-term Debt	387,262	232,038
Less portion due within one year	<u>173,500</u>	<u> </u>
Long-term Debt, Net	<u>\$ 213,762</u>	<u>\$ 232,038</u>

The future maturities on long-term debt are as follows at May 31:

2018	\$ 173,500
2019	32,500
2020	34,000
2021	36,000
2022	38,000
Thereafter	<u>73,262</u>
Total	<u>\$ 387,262</u>

NOTE 8 - LINE OF CREDIT

In the year ended May 31, 2017, the Museum converted its outstanding line of credit with Key Bank into a term loan agreement for \$250,000 (see Note 7).

In January 2017, the Museum amended its agreement with Commencement Bank to increase the total available credit on its existing \$70,000 line of credit to \$84,000. The line of credit expires in April 2018. Interest is fixed at 4.0% and is collateralized by a certificate of deposit.

CHILDREN'S MUSEUM OF TACOMA

NOTES TO FINANCIAL STATEMENTS

May 31, 2017 and 2016

NOTE 9 - IN-KIND CONTRIBUTIONS

During the years ended May 31, 2017 and 2016, the Museum recognized in-kind contributions of \$8,889 and \$1,632, respectively, in donated goods and services in the accompanying statement of activities.

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for future activities, events and specific program uses. In accordance with generally accepted accounting principles, unconditional promises to give over a specified period are recorded as temporarily restricted in the period that the notice from the donor is received by the Museum.

	<u>2017</u>	<u>2016</u>
Grants and contributions for future periods		\$ 18,994
Artwork	\$ 90,000	90,000
Early Learning Center future construction	6,155	15,575
Feasibility study	66,312	
Muse capital campaign	<u>57,903</u>	<u>151,367</u>
Total Temporarily Restricted Net Assets	\$ <u>220,370</u>	\$ <u>275,936</u>

NOTE 11 - CONCENTRATIONS

Concentration of Credit Risk

The Museum may, at times, have a cash or cash equivalent balance that exceeds federally insured deposit limits. Management has not experienced any losses and believes there is minimal risk associated with these cash balances. Investment accounts are not federally insured and accordingly are subject to loss of principal.

Two donors comprise 66% and 54% of total campaign receivables at May 31, 2017 and 2016, respectively.

Regional Concentration

The Museum is located in Tacoma, Washington and members and visitors are primarily from the Pierce County and surrounding region.

CHILDREN'S MUSEUM OF TACOMA

NOTES TO FINANCIAL STATEMENTS

May 31, 2017 and 2016

NOTE 12 - RELATED PARTY TRANSACTIONS

During the year ended May 31, 2015, the Museum engaged a construction company owned by a board member, Korsmo Construction, to build out the Muse center under a contract totaling approximately \$590,000. Additionally, this construction company was used to perform various other improvement projects that totaled approximately \$-0- and \$20,000 for the years ended May 31, 2017 and 2016, respectively. Amounts due to this company at May 31, 2017 and 2016 was \$-0- and \$28,000, respectively. The contract was awarded under a competitive bid process in which the board member did not participate.

NOTE 13 - DISCONTINUED SERVICE

In July 2015, management permanently closed the café. In accordance with the applicable FASB ASC topic, the discontinued service has been reported as discontinued operations in the accompanying statement of activities for May 31, 2016. The net loss on discontinued operations was \$2,215 for the year ended May 31, 2016.

NOTE 14 - MEMORANDUM OF UNDERSTANDING WITH JOINT BASE LEWIS-MCCHORD

In June 2016, the Museum entered into a memorandum of understanding (MOU) with Joint Base Lewis-McChord (JBLM) to place a satellite children's museum on the JBLM base. A \$100,000 seed pledge was made and is being used for research and initial design of Museum exhibits. Approximately \$33,000 of the seed pledge was expended during the year ended May 31, 2017. The anticipated opening date of the satellite museum at JBLM has not yet been determined. See also Note 16.

NOTE 15 - CAPITAL CAMPAIGN FEASIBILITY STUDY

A feasibility study which tests the viability of a major fundraising effort was launched during the year ended May 31, 2017, to provide structure for funding the JBLM project as well as to raise sustainability funds for the Museum in the form of an endowment and/or restricted reserve funds. Stakeholders are providing input and guidance toward the formation of a project whose scope will be \$8 to \$10 million over the next three years. Key components of the project include creation of a satellite children's museum at JBLM, a new playscape at the downtown flagship location, reserve/endowment funds and stability of the Museum's Pay-As-You-Will admissions program. See also Note 16.

CHILDREN'S MUSEUM OF TACOMA

NOTES TO FINANCIAL STATEMENTS

May 31, 2017 and 2016

NOTE 16 - SUBSEQUENT EVENTS

Subsequent to May 31, 2017, an additional \$18,400 was expended under the JBLM MOU and an additional grant totaling \$500,000 was awarded for this project. The anticipated opening date of the satellite museum at JBLM has not yet been determined.

Management has reviewed subsequent events through November 15, 2017, which is the date that the financial statements were available to be issued.