

The Discovery Museums, Inc.
Financial Statements
and Independent Auditor's Report
December 31, 2016 and 2015

The Discovery Museums, Inc.

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Independent Auditor's Report

To the Board of Directors
The Discovery Museums, Inc.

We have audited the accompanying financial statements of The Discovery Museums, Inc. (the "Museum"), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Discovery Museums, Inc. as of December 31, 2016, and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2016, the Museum adopted new accounting guidance related to the presentation of debt issuance costs. Our report is not modified with respect to this matter.

CohnReznick LLP

Boston, Massachusetts
June 15, 2017

The Discovery Museums, Inc.

Statements of Financial Position
December 31, 2016 and 2015

	<u>Assets</u>							
	2016				2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Current assets								
Cash	\$ 924,326	\$ 100,286	\$ -	\$ 1,024,612	\$ 510,773	\$ 70,166	\$ -	\$ 580,939
Accounts receivable	61,500	-	-	61,500	56,258	-	-	56,258
Pledges receivable, current portion	390,025	997,581	-	1,387,606	243,002	1,187,715	-	1,430,717
Inventory	30,892	-	-	30,892	20,675	-	-	20,675
Total current assets	<u>1,406,743</u>	<u>1,097,867</u>	<u>-</u>	<u>2,504,610</u>	<u>830,708</u>	<u>1,257,881</u>	<u>-</u>	<u>2,088,589</u>
Property and equipment								
Land	25,000	-	-	25,000	25,000	-	-	25,000
Building and improvements	4,335,488	-	-	4,335,488	2,166,876	-	-	2,166,876
Exhibits	391,349	-	-	391,349	391,349	-	-	391,349
Furniture and fixtures	39,823	-	-	39,823	39,823	-	-	39,823
Computer software	116,890	-	-	116,890	85,346	-	-	85,346
Construction in progress	25,000	-	-	25,000	824,948	-	-	824,948
Total property and equipment	4,933,550	-	-	4,933,550	3,533,342	-	-	3,533,342
Less - accumulated depreciation	(2,099,452)	-	-	(2,099,452)	(1,966,169)	-	-	(1,966,169)
Net property and equipment	<u>2,834,098</u>	<u>-</u>	<u>-</u>	<u>2,834,098</u>	<u>1,567,173</u>	<u>-</u>	<u>-</u>	<u>1,567,173</u>
Other assets								
Assets restricted for acquisition of property								
Restricted cash	-	1,371,831	-	1,371,831	-	1,514,342	-	1,514,342
Bank certificates of deposit	-	1,269,916	-	1,269,916	-	1,256,611	-	1,256,611
Pledges receivable, net of current portion and discount	82,437	-	-	82,437	387,295	227,701	-	614,996
Investments	-	96,248	133,125	229,373	-	71,651	133,125	204,776
Total other assets	<u>82,437</u>	<u>2,737,995</u>	<u>133,125</u>	<u>2,953,557</u>	<u>387,295</u>	<u>3,070,305</u>	<u>133,125</u>	<u>3,590,725</u>
Total assets	<u>\$ 4,323,278</u>	<u>\$ 3,835,862</u>	<u>\$ 133,125</u>	<u>\$ 8,292,265</u>	<u>\$ 2,785,176</u>	<u>\$ 4,328,186</u>	<u>\$ 133,125</u>	<u>\$ 7,246,487</u>

The Discovery Museums, Inc.

Statements of Financial Position
December 31, 2016 and 2015

Liabilities and Net Assets

	2016				2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Current liabilities								
Accounts payable and accrued expenses	\$ 53,456	\$ -	\$ -	\$ 53,456	\$ 99,220	\$ -	\$ -	\$ 99,220
Mortgage payable, current maturity	10,851	-	-	10,851	9,503	-	-	9,503
Sewer betterment obligation, current maturity	3,252	-	-	3,252	3,252	-	-	3,252
Deferred revenue	36,213	-	-	36,213	32,019	-	-	32,019
Total current liabilities	103,772	-	-	103,772	143,994	-	-	143,994
Long-term liabilities								
Mortgage payable, current portion, net	291,434	-	-	291,434	302,497	-	-	302,497
Sewer betterment obligation, current portion, net	39,786	-	-	39,786	42,362	-	-	42,362
Total long-term liabilities	331,220	-	-	331,220	344,859	-	-	344,859
Total liabilities	434,992	-	-	434,992	488,853	-	-	488,853
Net assets								
Unrestricted								
Operating	1,807,571	-	-	1,807,571	1,649,316	-	-	1,649,316
Property and equipment	2,080,715	-	-	2,080,715	647,007	-	-	647,007
Total unrestricted	3,888,286	-	-	3,888,286	2,296,323	-	-	2,296,323
Temporarily restricted	-	3,835,862	-	3,835,862	-	4,328,186	-	4,328,186
Permanently restricted	-	-	133,125	133,125	-	-	133,125	133,125
Total net assets	3,888,286	3,835,862	133,125	7,857,273	2,296,323	4,328,186	133,125	6,757,634
Total liabilities and net assets	\$ 4,323,278	\$ 3,835,862	\$ 133,125	\$ 8,292,265	\$ 2,785,176	\$ 4,328,186	\$ 133,125	\$ 7,246,487

See Notes to Financial Statements.

The Discovery Museums, Inc.

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

	Unrestricted			Temporarily restricted	Permanently restricted	Total
	Operating	Property and equipment	Total unrestricted			
Operating support and revenue						
Admissions	\$ 684,949	\$ -	\$ 684,949	\$ -	\$ -	\$ 684,949
Grants and contributions	299,829	-	299,829	-	-	299,829
Educational programs	284,014	-	284,014	-	-	284,014
Memberships	242,020	-	242,020	-	-	242,020
Rental income	57,907	-	57,907	-	-	57,907
Gift shop income	49,148	-	49,148	-	-	49,148
Investment and other income	20,300	-	20,300	-	-	20,300
Total operating support and revenue	1,638,167	-	1,638,167	-	-	1,638,167
Operating expenses						
Program services	1,202,229	118,044	1,320,273	-	-	1,320,273
Management and general	127,192	8,276	135,468	-	-	135,468
Fundraising and public relations	212,452	6,963	219,415	-	-	219,415
Total expenses	1,541,873	133,283	1,675,156	-	-	1,675,156
Changes in net assets from operations	96,294	(133,283)	(36,989)	-	-	(36,989)
Non-operating revenue (expense)						
Capital grants	290,486	-	290,486	1,087,186	-	1,377,672
Net gain on investments	-	-	-	13,846	-	13,846
Endowment investment income	-	-	-	10,751	-	10,751
Capital campaign expenses	(265,641)	-	(265,641)	-	-	(265,641)
Satisfaction of capital restrictions	37,116	1,566,991	1,604,107	(1,604,107)	-	-
Total non-operating revenue (expense)	61,961	1,566,991	1,628,952	(492,324)	-	1,136,628
Change in net assets	158,255	1,433,708	1,591,963	(492,324)	-	1,099,639
Net assets, beginning	1,649,316	647,007	2,296,323	4,328,186	133,125	6,757,634
Net assets, ending	\$ 1,807,571	\$ 2,080,715	\$ 3,888,286	\$ 3,835,862	\$ 133,125	\$ 7,857,273

See Notes to Financial Statements.

The Discovery Museums, Inc.

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

	Unrestricted			Temporarily restricted	Permanently restricted	Total
	Operating	Property and equipment	Total unrestricted			
Operating support and revenue						
Admissions	\$ 529,389	\$ -	\$ 529,389	\$ -	\$ -	\$ 529,389
Grants and contributions	350,413	-	350,413	51,433	-	401,846
Educational programs	271,926	-	271,926	-	-	271,926
Memberships	168,043	-	168,043	-	-	168,043
Rental income	54,495	-	54,495	-	-	54,495
Gift shop income	39,330	-	39,330	-	-	39,330
Investment and other income	8,021	-	8,021	-	-	8,021
Satisfaction of purpose restriction	23,589	-	23,589	(23,589)	-	-
Total operating support and revenue	1,445,206	-	1,445,206	27,844	-	1,473,050
Operating expenses						
Program services	1,112,389	77,213	1,189,602	-	-	1,189,602
Management and general	133,454	5,063	138,517	-	-	138,517
Fundraising and public relations	197,944	3,276	201,220	-	-	201,220
Total operating expenses	1,443,787	85,552	1,529,339	-	-	1,529,339
Changes in net assets from operations	1,419	(85,552)	(84,133)	27,844	-	(56,289)
Non-operating revenue (expense)						
Capital grants	1,004,010	-	1,004,010	2,535,308	-	3,539,318
Net loss on investment	-	-	-	(22,609)	-	(22,609)
Endowment investment income	-	-	-	10,414	-	10,414
Capital campaign expenses	(163,168)	-	(163,168)	-	-	(163,168)
Satisfaction of capital restrictions	-	189,749	189,749	(189,749)	-	-
Total non-operating revenue (expense)	840,842	189,749	1,030,591	2,333,364	-	3,363,955
Change in net assets	842,261	104,197	946,458	2,361,208	-	3,307,666
Net assets, beginning	807,055	542,810	1,349,865	1,966,978	133,125	3,449,968
Net assets, ending	\$ 1,649,316	\$ 647,007	\$ 2,296,323	\$ 4,328,186	\$ 133,125	\$ 6,757,634

See Notes to Financial Statements.

The Discovery Museums, Inc.

Statements of Functional Expenses
Years Ended December 31, 2016 and 2015

	2016				2015			
	Program services	Management and general	Fundraising	Total	Program services	Management and general	Fundraising	Total
Personnel and related								
Salaries and wages	\$ 784,100	\$ 101,490	\$ 164,332	\$ 1,049,922	\$ 718,682	\$ 93,219	\$ 154,097	\$ 965,998
Payroll taxes and fringe benefits	80,861	10,452	16,871	108,184	77,039	9,992	16,518	103,549
Total personnel and related	864,961	111,942	181,203	1,158,106	795,721	103,211	170,615	1,069,547
Occupancy								
Depreciation	118,044	8,276	6,963	133,283	76,947	5,063	3,276	85,286
Maintenance	49,290	3,658	3,814	56,762	43,598	3,093	3,224	49,915
Utilities	42,256	4,153	4,328	50,737	38,917	3,825	3,986	46,728
Interest	11,763	1,129	1,178	14,070	13,559	1,306	1,362	16,227
Insurance	12,363	1,215	1,266	14,844	11,290	1,110	1,156	13,556
Total occupancy	233,716	18,431	17,549	269,696	184,311	14,397	13,004	211,712
Other								
Professional and bank fees	72,241	3,413	5,433	81,087	66,220	19,551	-	85,771
Education and outreach	72,765	-	-	72,765	65,599	-	-	65,599
Gift shop	12,320	-	-	12,320	20,895	-	-	20,895
Printing	6,858	-	184	7,042	11,787	-	369	12,156
Advertising	7,928	-	-	7,928	10,768	-	-	10,768
Exhibits and workshops	10,231	-	-	10,231	8,242	-	-	8,242
Office supplies and postage	16,761	1,642	1,716	20,119	12,831	1,318	1,374	15,523
Travel	14,490	40	603	15,133	7,240	40	599	7,879
Dues and publications	7,502	-	-	7,502	5,474	-	-	5,474
Miscellaneous	500	-	-	500	514	-	-	514
Fundraising events	-	-	12,727	12,727	-	-	15,259	15,259
Total other	221,596	5,095	20,663	247,354	209,570	20,909	17,601	248,080
Total expenses	\$ 1,320,273	\$ 135,468	\$ 219,415	\$ 1,675,156	\$ 1,189,602	\$ 138,517	\$ 201,220	\$ 1,529,339

See Notes to Financial Statements.

The Discovery Museums, Inc.
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Change in net assets	\$ 1,099,639	\$ 3,307,666
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	133,283	85,552
Amortization of debt issuance costs	266	266
Net realized and unrealized (gains) losses on investments	(13,846)	22,609
Interest income on investments reinvested	(10,751)	(10,414)
Contributions restricted for long-term purposes	(1,004,010)	(3,539,318)
Amortization of discount on pledges	56,913	28,856
Changes in assets and liabilities		
Increase (decrease) in assets		
Accounts receivables	(5,242)	(2,663)
Pledges receivable	219,698	136,171
Inventory	(10,217)	(1,134)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(8,472)	14,624
Deferred revenue	4,194	(6,589)
Net cash provided by operating activities	461,455	35,626
Cash flows from investing activities		
Purchases of property and equipment	(1,437,500)	(710,452)
Restricted cash for acquisition of property	142,511	(1,514,342)
Bank certificates of deposit	(13,305)	(755,350)
Net cash provided by (used in) investing activities	(1,308,294)	(2,980,144)
Cash flows from financing activities		
Proceeds from contributions restricted for long-term purposes	1,303,069	2,528,406
Principal payments on mortgage note payable	(9,981)	(9,284)
Payments on sewer betterment obligation	(2,576)	(1,912)
Net cash provided by financing activities	1,290,512	2,517,210
Net increase (decrease) in cash	443,673	(427,308)
Cash, beginning of year	580,939	1,008,247
Cash, end of year	\$ 1,024,612	\$ 580,939
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 13,804	\$ 15,961
Schedule of noncash investing and financing activities		
Costs incurred for purchase of property and equipment during the year	\$ 1,400,208	\$ 724,344
Amounts included in accounts payable at beginning of year	37,292	23,400
Amounts included in accounts payable at end of year	-	(37,292)
Payments for property and equipment	\$ 1,437,500	\$ 710,452

See Notes to Financial Statements.

The Discovery Museums, Inc.

Notes to Financial Statements December 31, 2016 and 2015

Note 1 - Organization

The Discovery Museums, Inc. (the "Museum") was incorporated in October, 1981 as a nonprofit organization. The Museum is comprised of two museums on a four-plus acre property; a Children's Discovery Museum and Science Discovery Museum. The museums are based on the principle of "learning by doing" and that hands-on experiences are a superior means to learn the physical world.

Note 2 - Summary of significant accounting policies

Basis of accounting

The financial statements of the Museum have been prepared on the accrual basis of accounting, consistent with accounting principles generally accepted in the United States of America.

Financial statement presentation

The financial statements are presented on the basis of unrestricted, temporarily restricted and permanently restricted net assets, in accordance with guidance issued by the Financial Accounting Standards Board ("FASB"). Accordingly, net assets of the Museum and changes therein are classified and reported as follows:

<i>Unrestricted net assets</i>	Net assets that are not subject to donor-imposed restrictions;
<i>Temporarily restricted net assets</i>	Net assets subject to explicit or implicit donor-imposed restrictions that may or will be met either by actions of the Museum and/or the passage of time; and
<i>Permanently restricted net assets</i>	Net assets subject to donor-imposed restrictions that they be maintained permanently 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 general or specific purposes.

Operations

The statements of activities report changes in net assets from operating and non-operating activity. Operating activity consists of those items attributed to programmatic, general and administrative and fundraising activities. Investment income and realized and unrealized gains and losses from investments not related to the Museum's operations and activity related to the Museum's capital campaign are reported as non-operating.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reported period. Actual results could differ from those estimates.

The Discovery Museums, Inc.

Notes to Financial Statements December 31, 2016 and 2015

Risks and uncertainties

The Museum maintains an investment portfolio consisting of mutual funds and other investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the value of these investments will occur in the near term and such changes could materially affect the Museum's investment account balances.

Accounts and pledges receivable

Accounts and pledges receivable are stated at the amount the Museum's management expects to collect from outstanding balances. The Museum's management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on historical collection experience, its assessment of current economic conditions, review and assessment of estimated funding sources and the financial condition of the debtor. Balances which are still outstanding after the Museum's management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

At December 31, 2016 and 2015, accounts and pledges receivable were deemed fully collectible by management of the Museum.

Inventory

Inventory is accounted for at the lower of cost (as determined by the first-in, first-out method) or market value, and primarily consists of clothing and educational materials.

Bank certificates of deposit

The Museum's holdings consist of bank certificates of deposit which are carried at fair value. As of December 31, 2016, the certificates of deposit held by the Museum bear interest at rates between .55% and 1.10% and mature between January 2017 and April 2017. The certificate of deposit which matured in January 2017 was renewed for a six month term. The certificate of deposit which matured in April 2017 was not renewed. As of December 31, 2016, the certificates of deposit held by the Museum bear interest at rates between .55% and 1.10% and mature between April 2017 and January 2017. The certificate of deposit which matured in April 2016 was renewed for an additional twelve month period.

Investments

The Museum's investments consist of mutual funds and other investment securities which are carried at their fair values. Unrealized gains and losses are included in the changes in net assets. Gains and losses on the disposition of investments are determined based on various methods, including the average cost method, first-in first-out method, and last-in last-out method, depending on the type of underlying fund. Investment income and gains on assets restricted by a donor are reported as increases in temporarily restricted net assets. When the restriction expires (either a stipulated time period ends or a purpose restriction is accomplished), the net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction.

Endowments

The Museum maintains an endowment that was donated in prior years to provide income for operating purposes. No funds have been designated by the Board of Directors to function as an endowment as of December 31, 2016 and 2015. In conformity with accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Discovery Museums, Inc.

Notes to Financial Statements December 31, 2016 and 2015

Interpretation of relevant law

The Board of Directors has interpreted the Massachusetts Uniform Prudent Management of Institutional Funds Act (the "Act") as requiring the preservation of 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 and the preservation of the fair value of the Board-designated endowment funds absent explicit 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, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified 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 prescribed by the Act.

The Museum may accumulate so much of the annual net income as is deemed prudent to meet (1) the long and short term needs of the Museum in carrying out its mission; (2) problems specific to the Museum; (3) present and anticipated financial requirements; (4) expected total return on its investments; (5) price level trends; and (6) general economic conditions. In addition, the Museum may hold any or all of such accumulated income for subsequent expenditure for the uses and purposes for which the endowment was established or may add any or all of the accumulated income to the principal endowment fund that is deemed prudent.

In accordance with the Act, the Museum considers the following factors in making a determination to appropriate or accumulate restricted endowment funds: (i) the duration and preservation of the fund, (ii) the purposes of the Museum and the restricted endowment fund, (iii) general economic conditions, (iv) the possible effect of inflation and deflation, (v) the expected total return from income and the appreciation of investments, (vi) other resources of the Museum, and (vii) the investment policies of the Museum.

Investment and spending policies

The Museum has adopted investment and spending policies for endowment assets that aim to safeguard the purchasing power of the endowment principal, generate an ongoing revenue source and provide for growth of the investment principal in accordance with the Act. Investments are to be allocated between equity, fixed income, and commodity investments to accomplish these goals. The endowment assets are invested to provide a competitive total rate of return commensurate with prudent diversification and moderate risk. Risk and diversification parameters have been established and the endowment is maintained and rebalanced, if necessary, according to the Museum's investment policy. The Museum relies on a total rate of return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current income (interest and dividends). While it is understood that the endowment assets are to be managed with a long-term focus, the Museum monitors investment performance against applicable benchmarks periodically.

Once the endowment funds reach 3.5 times the Museum's annual operating budget, the Museum's finance committee may appropriate for operations a maximum of 4% of the current value of the endowment assets. Effective in January 2015, the Museum changed its spending policy commencing with fiscal year 2015. The new policy provides for a maximum appropriation of no more than 5% of the three-year average of the market value of the endowment. There were no amounts appropriated for operations in 2016 or 2015. In establishing this policy, the Museum

The Discovery Museums, Inc.

**Notes to Financial Statements
December 31, 2016 and 2015**

considered the expected returns plus an adjustment for inflation. This is consistent with the stated goal of enhancing the purchasing power of the endowment over time, while providing necessary funds for operations. In the event of a significant market decline, the Museum will consider all factors relevant to the stated goal in determining any change to the appropriation as allowed by the Act.

Funds with deficiencies

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Museum to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. There were no deficiencies of this nature as of December 31, 2016 or 2015.

Property and equipment and depreciation

Property and equipment is carried at cost or, if donated, at the approximate fair value at the date of donation. All acquisitions of property and equipment and expenditures for repairs, maintenance, renewals, and betterments in excess of \$1,000 that materially prolong the useful lives of assets are capitalized. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	5 - 35 years
Exhibits	5 years
Furniture and fixtures	5 - 10 years
Computer software	3 - 5 years

At December 31, 2016 and 2015, property and equipment with an original cost of approximately \$757,000 and \$677,000, respectively, was fully depreciated and still in service.

Debt issuance costs

Debt issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the mortgage loan payable to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is computed using an imputed interest rate on the related loan.

Impairment of long-lived assets

The Museum's long-lived assets are reviewed for impairment when events or changes in circumstances indicate that such assets may be impaired. An evaluation is performed by measuring the estimated future undiscounted cash flows (without interest charges) associated with the asset to the asset's carrying amount to determine if a write-down to fair value is required. If an impairment is present, the assets are reported at the lower of carrying value or fair value.

In 2016 and 2015, no events or circumstances occurred or existed which indicated that the Museum's long-lived assets might be impaired; accordingly, no such loss provision has been included in the accompanying financial statements.

Revenue recognition

Revenue from membership dues, admissions and various program services are recognized as services are performed. Revenue from gift shop sales is recognized as merchandise is sold. Revenue received for future dues, admissions, and other program services and activities is deferred and reflected as deferred revenue until the applicable year in which they are earned.

The Discovery Museums, Inc.

Notes to Financial Statements December 31, 2016 and 2015

Contributions and donor restrictions

Contributions, including grants, are recognized when the donor makes a promise to give to the Museum that is, in substance, unconditional. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted support that increase those net asset classes. When a restriction expires, the net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction.

Unconditional promises to give are reported at net realizable value if at the time the promise is made collection is expected to be received in one year or less. Unconditional promises to give that are expected to be collected in more than one year are reported at fair value using present value techniques and a discount rate determined by management of the Museum. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Contributions in the form of property and equipment and other assets are recorded at fair value on the date the donation is received. Contributed services that require specialized skill are recognized as revenue at the estimated fair value when the service is received. In addition, individuals volunteer their time and perform a variety of tasks that assist the Museum, but these services do not meet the criteria for recognition as contributed services.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among programs and supporting services benefited.

Advertising and marketing

Advertising and marketing costs are expensed when incurred. Amounts incurred for the years ended December 31, 2016 and 2015 totaled \$7,928 and \$10,768, respectively.

Income taxes

The Museum is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Museum's tax-exempt purpose is subject to taxation as unrelated business income. The Museum had no unrelated business income for the years ended December 31, 2016 and 2015. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Accrued interest and penalties associated with uncertain tax positions are recognized as part of interest expense and miscellaneous other expenses, respectively, in the accompanying statements of activities. The Museum has no accrued interest and penalties associated with uncertain tax positions at December 31, 2016 and 2015 and none were incurred during the years then ended.

Management has evaluated significant tax positions against the criteria established by professional standards and believes there are no such tax positions requiring accounting recognition in the financial statements. Management does not believe its evaluation of tax positions will significantly change within 12 months of December 31, 2016. Any changes in tax positions will be recorded when the ultimate outcome becomes known. The Museum's income tax returns are subject to examination by taxing authorities generally for the years ended December 31, 2013, 2014 and 2015.

The Discovery Museums, Inc.

**Notes to Financial Statements
December 31, 2016 and 2015**

Recently adopted accounting pronouncement

During 2016, the Museum adopted the provisions of Accounting Standards Update 2015-03, *Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"), which modifies the presentation of debt issuance costs and the related amortization. This change in accounting principle under ASU 2015-03 improves the reporting of debt issuance costs by no longer reporting them as assets. It also improves the reporting of the related amortization by including it as a component of interest expense. ASU 2015-03 has been adopted by the Museum on a retrospective basis. As a result, total assets as well as loans payable for the year ended December 31, 2015 have been reduced by the effect of the reclassification of debt issuance costs, net of accumulated amortization of \$4,030.

Note 3 - Concentration of credit risk

The Museum maintains its cash balances in several accounts in various banks. The cash balances are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 at each bank. At times, these balances may exceed the federal insurance limits; however, the Museum has not experienced any losses with respect to its bank balances in excess of government provided insurance.

In addition, some of the Museum's financial institutions participate in the Depositors Insurance Fund ("DIF"), which insures all deposits at chartered savings banks in Massachusetts above FDIC limits.

The Museum believes that no significant concentration of credit risk exists with respect to these cash balances at December 31, 2016 and 2015.

Note 4 - Pledges receivable

The Museum had pledges and contributions receivable representing the following at December 31, 2016:

	2016		
	Current	Long-term	Total
Capital campaign	\$ 1,243,216	\$ 94,148	\$ 1,337,364
Annual fund	9,006	-	9,006
Other	135,384	-	135,384
	1,387,606	94,148	1,481,754
Discount on pledges (a)	-	(11,711)	(11,711)
Total	\$ 1,387,606	\$ 82,437	\$ 1,470,043

The Discovery Museums, Inc.

Notes to Financial Statements
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	Unrestricted	Temporarily restricted	Total
Capital campaign	\$ 447,115	\$ 890,143	\$ 1,337,258
Annual fund	9,006	-	9,006
Other	28,052	107,438	135,490
	484,173	997,581	1,481,754
Discount on pledges (a)	(11,711)	-	(11,711)
Total	<u>\$ 472,462</u>	<u>\$ 997,581</u>	<u>\$ 1,470,043</u>

	Unrestricted	Temporarily restricted	Total
Receivables in less than one year	\$ 389,320	\$ 997,581	\$ 1,386,901
Receivables in one to five years	94,853	-	94,853
	484,173	997,581	1,481,754
Discount on pledges (a)	(11,711)	-	(11,711)
Total	<u>\$ 472,462</u>	<u>\$ 997,581</u>	<u>\$ 1,470,043</u>

The Museum had pledges and contributions receivable representing the following at December 31, 2015:

	2015		
	Current	Long-term	Total
Capital campaign	\$ 1,157,278	\$ 683,620	\$ 1,840,898
Annual fund	28,156	-	28,156
Other	245,283	-	245,283
	1,430,717	683,620	2,114,337
Discount on pledges (a)	-	(68,624)	(68,624)
Total	<u>\$ 1,430,717</u>	<u>\$ 614,996</u>	<u>\$ 2,045,713</u>

The Discovery Museums, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

	Unrestricted	Temporarily restricted	Total
Capital campaign	\$ 640,882	\$ 1,200,016	\$ 1,840,898
Annual fund	28,156	-	28,156
Other	7,738	237,545	245,283
	<u>676,776</u>	<u>1,437,561</u>	<u>2,114,337</u>
Discount on pledges (a)	<u>(46,479)</u>	<u>(22,145)</u>	<u>(68,624)</u>
Total	<u>\$ 630,297</u>	<u>\$ 1,415,416</u>	<u>\$ 2,045,713</u>

	Unrestricted	Temporarily restricted	Total
Receivables in less than one year	\$ 243,002	\$ 1,187,715	\$ 1,430,717
Receivables in one to five years	433,774	249,846	683,620
	<u>676,776</u>	<u>1,437,561</u>	<u>2,114,337</u>
Discount on pledges (a)	<u>(46,479)</u>	<u>(22,145)</u>	<u>(68,624)</u>
Total	<u>\$ 630,297</u>	<u>\$ 1,415,416</u>	<u>\$ 2,045,713</u>

(a) Management has measured pledges receivable using present value techniques that use a discount rate equal to the prime rate in effect at the date of each pledge plus 1.5%.

Note 5 - Investments

The Museum maintains a portfolio of investments. The cost and fair market value of these investments at December 31, 2016 and 2015 are as follows:

	2016		2015	
	Cost	Fair value	Cost	Fair value
Mutual Funds				
Equity funds	\$ 180,359	\$ 185,169	\$ 170,499	\$ 162,516
Bond funds	38,875	35,628	38,055	33,999
Other securities				
Other assets	9,014	8,576	8,938	8,261
	<u>\$ 228,248</u>	<u>\$ 229,373</u>	<u>\$ 217,492</u>	<u>\$ 204,776</u>

The Discovery Museums, Inc.

**Notes to Financial Statements
December 31, 2016 and 2015**

Realized and unrealized gains (losses) on investments for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Realized gain (loss) on investments	\$ -	\$ -
Unrealized gain (loss) on investments	13,846	(22,609)
Net realized and unrealized gain (loss) on investments	\$ 13,846	\$ (22,609)

For the years ended December 31, 2016 and 2015, investment activity for the portfolio was as follows:

	2016	2015
Investments, beginning of year	\$ 204,776	\$ 216,971
Investment income		
Dividends and interest	10,751	10,414
Realized and unrealized gains (loss)	13,846	(22,609)
Investments, end of year	\$ 229,373	\$ 204,776

The investments are invested in several funds and industry segments. At December 31, 2016 and 2015, funds comprising greater than 10% of the fair value of investments were as follows:

	2016	2015
Aston Fairpointe Mid Cap	20.91%	18.88%
Nuveen Tradewinds Value Oppty A	16.73%	17.20%
Parnassus Small Cap Fund	18.01%	17.38%

Note 6 - Endowment

The endowment net asset composition by type of fund as of December 31, 2016 was as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment	\$ -	\$ 96,248	\$ 133,125	\$ 229,373

The Discovery Museums, Inc.

Notes to Financial Statements
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	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 71,651	\$ 133,125	\$ 204,776
Investment return:				
Investment income	-	10,751	-	10,751
Depreciation, realized and unrealized	-	13,846	-	13,846
Total investment return	-	24,597	-	24,597
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	-	-	-	-
Investment management fees	-	-	-	-
Endowment net asset, end of year	<u>\$ -</u>	<u>\$ 96,248</u>	<u>\$ 133,125</u>	<u>\$ 229,373</u>

The endowment net asset composition by type of fund as of December 31, 2015 was as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment	<u>\$ -</u>	<u>\$ 71,651</u>	<u>\$ 133,125</u>	<u>\$ 204,776</u>
Endowment net assets, beginning of year	\$ -	\$ 83,846	\$ 133,125	\$ 216,971
Investment return:				
Investment income	-	10,414	-	10,414
Depreciation, realized and unrealized	-	(22,609)	-	(22,609)
Total investment return	-	(12,195)	-	(12,195)
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	-	-	-	-
Investment management fees	-	-	-	-
Endowment net asset, end of year	<u>\$ -</u>	<u>\$ 71,651</u>	<u>\$ 133,125</u>	<u>\$ 204,776</u>

The Discovery Museums, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

Note 7 - Fair value measurements

The Museum follows FASB's guidance on fair value measurements. The guidance framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants. The guidance establishes a three-level hierarchy based upon observable and non-observable inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The fair value hierarchy under the guidance is as follows:

- Level 1* Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2* Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly; and
- Level 3* Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance requires the use of observable data if such data is available without undue cost and effort.

The fair value of assets measured on a recurring basis at December 31, 2016 are as follows:

	<u>Fair value</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
Mutual funds				
Equity funds	\$ 185,169	\$ 185,169	\$ -	\$ -
Bond funds	35,628	35,628	-	-
Other securities				
Other assets	<u>8,576</u>	<u>8,576</u>	<u>-</u>	<u>-</u>
	<u><u>\$ 229,373</u></u>	<u><u>\$ 229,373</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The Discovery Museums, Inc.

**Notes to Financial Statements
December 31, 2016 and 2015**

The fair value of assets measured on a recurring basis at December 31, 2015 are as follows:

	<u>Fair value</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
Mutual funds				
Equity funds	\$ 162,516	\$ 162,516	\$ -	\$ -
Bond funds	33,999	33,999	-	-
Other securities				
Other assets	<u>8,261</u>	<u>8,261</u>	<u>-</u>	<u>-</u>
	<u>\$ 204,776</u>	<u>\$ 204,776</u>	<u>\$ -</u>	<u>\$ -</u>

Fair values for investments are determined by reference to quoted market prices for Level I inputs.

There were no assets measured at fair value on a recurring basis using other relevant information generated by market transactions (Level II inputs) or significant unobservable inputs (Level III inputs) at December 31, 2016 and 2015.

Note 8 - Mortgage note payable

The Museum has a note payable which is due in April, 2036 and bears interest at a fixed rate of 4.75% for the first five years. The interest rate will be reviewed every five years and adjusted to 2% over the daily high Federal Home Loan Bank Boston Classic Advance Five Year Regular Rate. In March 2016, the interest rate decreased from 4.75% to 3.88%. The interest rate is next scheduled to be reviewed in 2021. The note payable is secured by a first mortgage and an assignment of rents and leases on the Museum's property. Estimated annual principal payments on the mortgage note payable for the next five years and in the aggregate as of December 31, 2016 are as follows:

2017	\$ 10,851
2018	11,280
2019	11,725
2020	12,188
2021	12,670
Thereafter	<u>247,335</u>
	<u>\$ 306,049</u>

The mortgage note payable contains various covenants as described in the agreement.

As of December 31, 2016, the outstanding principal balance of the mortgage note payable amounted to \$306,049, less net debt issuance costs of \$3,764, amounted to \$302,285.

As of December 31, 2015, the outstanding principal balance of the mortgage note payable amounted to \$316,030, less net debt issuance costs of \$4,030, amounted to \$312,000.

Debt issuance costs, net of accumulated amortization, totaled \$3,764 and \$4,030 as of December 31, 2016 and 2015, respectively. Amortization of debt issuance costs on the above loan is being amortized using an imputed interest of 4.28% as of December 31, 2016 and 4.30% as of December 31, 2015.

The Discovery Museums, Inc.

**Notes to Financial Statements
December 31, 2016 and 2015**

Note 9 - Line of credit

The Museum has a \$100,000 line of credit with a bank that bears interest at the prime rate as published in the *Wall Street Journal* (3.75% and 3.50% at December 31, 2016 and 2015, respectively). There was no balance outstanding as of December 31, 2016 and 2015. The line of credit is due on demand and is secured by the Museum's property.

Note 10 - Sewer betterment obligation

The Museum has entered into a financing arrangement with the Town of Acton for payment of a sewer betterment charge, payable over 25 years. Interest on the outstanding betterment charge accrues at 1.55% annually. Payments of \$813, including principal and interest, are required every three months through November 1, 2030. Payments remaining are as follows:

2017	\$	3,252
2018		3,252
2019		3,252
2020		3,252
2021		3,252
Thereafter		26,778
	\$	43,038

Note 11 - Net assets

Unrestricted

The Museum has grouped its unrestricted net assets into the following categories:

- Operating net assets consist of amounts relating to programs and other operating activities.
- Property and equipment net assets reflect activities relating to the Museum's fixed assets, net of related debt.

Temporarily restricted net assets

Temporarily restricted net assets were available for the following purposes at December 31, 2016 and 2015:

	2016	2015
Purpose restriction	\$ 100,286	\$ 70,166
Capital campaign	3,098,113	3,819,230
Property improvements	541,215	367,139
Appreciation (depreciation) on permanently restricted net assets	96,248	71,651
	\$ 3,835,862	\$ 4,328,186

The Discovery Museums, Inc.

Notes to Financial Statements December 31, 2016 and 2015

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by the donor during the years ended December 31, 2016 and 2015 as follows:

	<u>2016</u>	<u>2015</u>
Purpose restriction	\$ 37,116	\$ 23,589
Capital campaign	1,415,723	-
Property improvements	<u>151,268</u>	<u>189,749</u>
	<u>\$ 1,604,107</u>	<u>\$ 213,338</u>

Permanently restricted net assets

The Museum maintains an endowment that was donated in prior years to provide income for operating purposes. Endowment funds are those in which the donor has stipulated that the principal is to be maintained in perpetuity and only the income from the investments may be expended.

In addition, the Museum is the beneficiary of an endowment fund held by a local community foundation and receives up to 5% of the market value of the fund annually. There were no distributions from this fund during 2016 and 2015. The community foundation retains variance power over the fund; therefore, these funds are not reflected in the accompanying financial statements.

Note 12 - Retirement plan

The Museum has a qualified tax deferred annuity plan through Teachers Insurance and Annuity Association College Retirement Equities Fund ("TIAA-CREF"). All eligible employees are immediately vested. The Museum's contributions are discretionary. The Museum did not make contributions to TIAA-CREF in 2016 or 2015.

Note 13 - Capital campaign

The Museum is conducting an \$8,400,000 capital campaign, of which \$7,400,000 would fund the expansion and renovation of the Museum's campus. The Museum's vision is to:

- i. provide a high quality, play-centered family learning experience,
- ii. connect families with nature,
- iii. create play spaces that mindfully foster early brain development,
- iv. develop places and ways to support a broad array of learning styles, and
- v. deliver experiences to support Science, Technology, Engineering, and Math ("STEM") confidence and 21st century learning skills.

The remaining \$1,000,000 is designated for the Museum's operating reserve, critical to managing the Museum smoothly through the ups and downs of the economy and providing the resources necessary to make strategic programming investments.

The Discovery Museums, Inc.

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The Museum has received two conditional grants from a private foundation in support of its capital campaign for campus expansion and renovation. The grants are contingent upon the Museum raising matching funds, while the release of the funds from the donor is contingent upon certain conditions including the receipt of signed construction contracts approved by the Museum's Board of Directors. Accordingly, the revenue recognized from this grant is recorded when matching funds are raised by the Museum and certified by the donor.

The first conditional grant in the amount of \$3,000,000 was received during 2013. During the year ended December 31, 2015, \$1,778,997 of funds were recognized under the terms of this grant. As of December 31, 2015, the conditions of this grant were met in full. The second conditional grant in the amount of \$1,000,000 was received during 2016. During the year ended December 31, 2016, \$650,486 of funds were recognized under the terms of this grant. As of December 31, 2016 and 2015, \$270,486 and \$444,000, were receivable from the donor.

The Museum entered into a construction contract for Phase I of the expansion and renovation of the Museum's campus. In September 2015, Phase I consisted of planning and site work in preparation for Phase II of the project. Total costs incurred under the contract totaled approximately \$472,400, all of which were paid as of December 31, 2015.

The Museum entered into an amendment to the construction contract to complete Phase II of the expansion and renovation of the Museum's campus. In March 2016, Phase II consists of landscaping and Treehouse construction. Construction was completed in July 2016 and was placed in service on July 16, 2016. Total costs incurred under the contract totaled approximately \$1,001,136, all of which were paid as of December 31, 2016.

The Museum entered into an amendment to the construction contract to complete Phase III of the expansion and renovation of the Museum's campus. Phase III consists of renovations and additions to the Museum's science building. Construction is expected to commence in June 2017 and be completed by December 2017. During the construction period, the Museum will be closed for renovations. Total costs expected to be incurred for Phase III total approximately \$4,243,500.

In connection with the renovations and additions to the science building in Phase III, the Museum has entered into a contract with an unrelated third party to design and build exhibits for the science building. The agreement was executed in June 2016. Completion of the exhibits is expected by December 2017. Total costs expected to be incurred for the contract total approximately \$709,700. Total costs incurred as of December 31, 2016 totaled \$25,000, all of which is recorded in construction in progress on the accompanying balance sheet.

Note 14 - Major donors

For the years ended December 31, 2016 and 2015, the Museum received contributions totaling approximately \$950,500 and \$2,216,800 from two donors, respectively. These contributions represent approximately 31% and 44% of the Museum's total revenue as of December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015 approximately \$570,500 and \$694,000 were receivable from these donors, respectively.

The Discovery Museums, Inc.

**Notes to Financial Statements
December 31, 2016 and 2015**

Note 15 - Subsequent events

Events that occur after the statement of financial position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of financial position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of financial position date require disclosure in the accompanying notes. Management evaluated the activity of the Museum through June 15, 2017 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosures in the notes to the financial statements, except as disclosed in Note 13.