

The Great Lakes Museum of Science, Environment and Technology

**Financial Statements
September 30, 2016**



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Independent Auditor's Report

To the Board of Directors
The Great Lakes Museum of Science, Environment and Technology

Report on the Financial Statements

We have audited the accompanying financial statements of The Great Lakes Museum of Science, Environment and Technology (the "Science Center," a nonprofit corporation), which comprise the statement of financial position as of September 30, 2016, and the related statements of activities and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

To the Board of Directors
The Great Lakes Museum of Science, Environment and Technology

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Science Center as of September 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Science Center's 2015 financial statements, and we expressed an unmodified audit opinion on those financial statements, in our report dated December 1, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2016, on our consideration of the Science Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Science Center's internal control over financial reporting and compliance.

Ciuni + Panichi, Inc.

Cleveland, Ohio
December 6, 2016

The Great Lakes Museum of Science, Environment and Technology

Statement of Financial Position

September 30, 2016 (with comparative totals for 2015)

	<u>Assets</u>	
	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 123,252	\$ 64,547
Accounts receivable	99,388	77,761
Prepaid expenses and other assets	181,922	440,280
Pledges and grants receivable, net	1,830,086	2,359,268
Marketable securities	8,635,775	9,249,713
Cash and cash equivalents restricted for purchase of property and equipment	697,133	474,999
Property and equipment, net	<u>32,854,420</u>	<u>33,364,412</u>
Total assets	\$ <u>44,421,976</u>	\$ <u>46,030,980</u>
	<u>Liabilities and Net Assets</u>	
Liabilities:		
Accounts payable	\$ 551,213	\$ 598,529
Accrued expenses and other liabilities	108,065	112,398
Deferred revenue	42,718	130,657
Lines of credit	2,300,000	2,300,000
Loan payable	945,719	1,073,743
Capital lease obligation	6,609	17,418
Pension withdrawal liability	<u>141,490</u>	<u>141,490</u>
Total liabilities	4,095,814	4,374,235
Net assets:		
Unrestricted:		
Undesignated	21,569,662	22,551,650
Board-designated	<u>3,724,500</u>	<u>2,477,688</u>
Total unrestricted	25,294,162	25,029,338
Temporarily restricted	10,546,115	10,141,522
Permanently restricted	<u>4,485,885</u>	<u>6,485,885</u>
Total net assets	<u>40,326,162</u>	<u>41,656,745</u>
Total liabilities and net assets	\$ <u>44,421,976</u>	\$ <u>46,030,980</u>

The accompanying notes are an integral part of these financial statements

The Great Lakes Museum of Science, Environment and Technology

Statement of Activities

For the year ended September 30, 2016 (with comparative totals for 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
Operating revenues:					
Admissions	\$ 1,918,606	\$ -	\$ -	\$ 1,918,606	\$ 1,873,261
Memberships	725,247	-	-	725,247	740,949
Educational programs	675,238	-	-	675,238	828,280
Facility rentals	258,234	-	-	258,234	211,518
Contract income	854,494	-	-	854,494	674,076
Other	40,368	-	-	40,368	53,387
Net assets released from operating restrictions	<u>4,573</u>	<u>(4,573)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating revenues	4,476,760	(4,573)	-	4,472,187	4,381,471
Investment return designated for operations	476,732	-	-	476,732	613,792
Federal grants	458,794	-	-	458,794	627,449
Contribution revenues:					
Individual contributions	125,982	18,500	-	144,482	178,759
Corporate and foundation contributions	353,925	252,668	-	606,593	1,341,297
Public funding	361,952	-	-	361,952	445,681
Fundraising events, net	47,879	-	-	47,879	48,862
Net assets released from program restrictions	<u>488,723</u>	<u>(488,723)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total contribution revenues	<u>1,378,461</u>	<u>(217,555)</u>	<u>-</u>	<u>1,160,906</u>	<u>2,014,599</u>
Total revenues	6,790,747	(222,128)	-	6,568,619	7,637,311
Operating expenses:					
Guest services	1,198,541	-	-	1,198,541	1,228,712
Exhibits	1,040,540	-	-	1,040,540	1,112,462
Facilities	1,477,503	-	-	1,477,503	1,508,387
Educational programs	924,649	-	-	924,649	1,486,143
Marketing	999,529	-	-	999,529	965,561
Development and membership	518,242	-	-	518,242	554,955
General administration	1,191,714	-	-	1,191,714	1,062,630
Interest	88,481	-	-	88,481	71,763
Operating expenses before depreciation	<u>7,439,199</u>	<u>-</u>	<u>-</u>	<u>7,439,199</u>	<u>7,990,613</u>
Change in net assets from operating activities before depreciation and capital related releases	(648,452)	(222,128)	-	(870,580)	(353,302)
Depreciation	(1,827,256)	-	-	(1,827,256)	(1,894,404)
Net assets released from capital restrictions	<u>578,192</u>	<u>(578,192)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets from operating activities	(1,897,516)	(800,320)	-	(2,697,836)	(2,247,706)
Non-operating activities:					
Capital campaign contributions	-	1,080,198	-	1,080,198	519,407
Capital campaign expenses	-	-	-	-	(10,882)
Endowment management fees	(16,930)	(24,397)	-	(41,327)	(47,091)
Interest and dividends	96,205	189,638	-	285,843	329,633
Net realized and unrealized gain (loss) on investments	214,243	305,028	-	519,271	(556,322)
Investment return designated for operations	(131,178)	(345,554)	-	(476,732)	(613,792)
Net asset reclassification of endowment funds (see Note 8)	2,000,000	-	(2,000,000)	-	-
Loss from pension withdrawal liability	-	-	-	-	(141,490)
Change in net assets from non-operating activities	<u>2,162,340</u>	<u>1,204,913</u>	<u>(2,000,000)</u>	<u>1,367,253</u>	<u>(520,537)</u>
Change in net assets – total	264,824	404,593	(2,000,000)	(1,330,583)	(2,768,243)
Net assets – beginning of year	<u>25,029,338</u>	<u>10,141,522</u>	<u>6,485,885</u>	<u>41,656,745</u>	<u>44,424,988</u>
Net assets – end of year	<u>\$ 25,294,162</u>	<u>\$ 10,546,115</u>	<u>\$ 4,485,885</u>	<u>\$ 40,326,162</u>	<u>\$ 41,656,745</u>

The accompanying notes are an integral part of these financial statements

The Great Lakes Museum of Science, Environment and Technology

Statement of Cash Flows

For the year ended September 30, 2016 (with comparative totals for 2015)

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (1,330,583)	\$ (2,768,243)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	1,827,256	1,894,404
Net realized and unrealized (gain) loss on investments	(519,271)	556,322
Contributions restricted for long-term purposes	(1,080,198)	(557,007)
Provision for uncollectible accounts	-	32,250
Loss from pension withdrawal liability	-	141,490
Changes in operating assets and liabilities:		
Accounts receivable	(21,627)	37,610
Prepaid expenses and other assets	258,358	32,582
Pledges and grants receivable	495,483	(492,603)
Accounts payable	(105,644)	335,546
Accrued expenses and other liabilities	(4,333)	(68,905)
Deferred revenue	(87,939)	(22,387)
Net cash used by operating activities	(568,498)	(878,941)
Cash flows from investing activities:		
Purchases of marketable securities	(2,641,177)	(3,966,189)
Sales of marketable securities	3,774,386	4,359,091
Purchases of property and equipment	(1,258,936)	(96,887)
Net funding of cash restricted for purchase of property and equipment	(222,134)	-
Net cash (used) provided by investing activities	(347,861)	296,015
Cash flows from financing activities:		
Collection of contributions restricted for long-term purposes	1,113,897	946,971
Net repayments on lines of credit	-	(237,500)
Principal payments on loan payable	(128,024)	(124,244)
Principal payments on capital lease obligation	(10,809)	(4,318)
Net cash provided by financing activities	975,064	580,909
Net increase (decrease) in cash and cash equivalents	58,705	(2,017)
Cash and cash equivalents, beginning of year	64,547	66,564
Cash and cash equivalents, end of year	\$ 123,252	\$ 64,547
Supplemental disclosures of cash flow information:		
Cash paid for interest during the year	\$ 88,481	\$ 82,645
Property and equipment acquired by incurrence of accounts payable	58,328	-
Property and equipment acquired through capital lease	-	21,736

The accompanying notes are an integral part of these financial statements

The Great Lakes Museum of Science, Environment and Technology

Notes to Financial Statements

For the year ended September 30, 2016

Note 1: Summary of Significant Accounting Policies

Nature of Activities

The Great Lakes Museum of Science, Environment and Technology, (the “Science Center”), was formed on July 22, 1988. The Science Center was organized exclusively for charitable, educational, and scientific purposes. The primary purpose of the Science Center is to be a science, environment, and technology center, with a particular emphasis on the Great Lakes region and a commitment to informational science education for families and visitors to the region. The Science Center opened in July 1996. The Science Center’s attached parking garage opened in November 1998.

Basis of Presentation

The financial statements have been prepared in accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”), which is the single source of authoritative accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared on the accrual basis of accounting. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Science Center and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions. This includes net assets that are board-designated.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed restrictions that may or will be met, either by actions of the Science Center and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If donor-imposed restrictions are met in the same year as they are imposed, the net assets are reported as unrestricted. For net assets restricted to long-lived assets in which donor-imposed restrictions do not expressly stipulate how or how long the long-lived asset must be used, the Science Center reports contributions received as temporarily restricted net assets. Depreciation is recorded over the long-lived asset’s useful life, and temporarily restricted net assets are reclassified from temporarily restricted to unrestricted net assets as depreciation is recognized.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained by the Science Center in perpetuity. Generally, the donors of these assets permit the Science Center to use all or part of the income earned on any related investments for general or specific purposes. The income or loss from investment of these assets is included in the interest and dividends or net realized and unrealized gain or loss on investments in the accompanying statement of activities.

The Great Lakes Museum of Science, Environment and Technology

Notes to Financial Statements

For the year ended September 30, 2016

Note 1: Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

Non-operating activities reflect transactions of a long-term investment nature. These include contributions to be invested by the Science Center to generate a return that will support future operations, contributions to be used for facilities and equipment, capital campaign contributions and related expenses, and investment earnings (including interest and dividends and realized and unrealized investment gains or losses).

Reclassifications

Certain accounts in the prior year financial statements have been reclassified to conform with the presentation in the current year financial statements.

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 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 could differ from those estimates.

Cash Equivalents

The Science Center considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents, excluding those funds held in brokerage accounts that have been restricted/designated for long-term purposes.

Receivables and Credit Policies

Accounts receivable are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date. Accounts receivable are stated at the amount billed to the customer. Customer account balances with invoices dated over 90 days old are considered delinquent.

Management individually reviews all accounts receivable balances that exceed 90 days from the invoice date and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. At September 30, 2016, management estimated that no allowance for doubtful accounts was required.

Pledges and Grants Receivable

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence and/or nature of any donor-imposed restrictions.

The Great Lakes Museum of Science, Environment and Technology

Notes to Financial Statements

For the year ended September 30, 2016

Note 1: Summary of Significant Accounting Policies (continued)

Pledges and Grants Receivable (continued)

Unconditional contributions are recognized as revenue in the period the promise is received. Conditional contributions are recognized when conditions upon which they depend are substantially met. Pledges expected to be collected within one year are recognized at the face value of the pledge, which is deemed equivalent to its fair value on the date of the donation. Pledges that are to be received over a period of years are discounted to their estimate fair value assuming their respective payment terms and appropriate discount rate as of the date the pledge is received. The discount is amortized into contribution revenue over the term of the respective pledge agreement.

The Science Center uses the allowance method to record their estimate of uncollectible pledges receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Marketable Securities

Investments in marketable securities are reported at their fair values in the statement of financial position.

Property and Equipment

Property and equipment are stated at cost and are depreciated utilizing the straight-line method. The Science Center capitalizes purchases that exceed \$5,000 or have an estimated useful life that is greater than or equal to five years. The estimated useful lives of assets are as follows:

Building	50 years
Parking garage	30 years
Mather Connector	20 years
Exhibits	5 to 10 years
Furniture and equipment	5 to 10 years

Deferred Revenue

Deferred revenue primarily consists of rental deposits for future events and payments received for future education programs.

Donated Services

The Science Center recognizes contributions of services received when those services (a) create or enhance non-financial assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by the donation.

The Great Lakes Museum of Science, Environment and Technology

Notes to Financial Statements

For the year ended September 30, 2016

Note 1: Summary of Significant Accounting Policies (continued)

Marketing

Marketing initiatives are designed to generate attendance and secure optimum exposure for the Science Center's exhibits, programs, community relationships and special events. Marketing costs are expensed when incurred.

Functional Allocation of Expenses

The costs of providing various programs and related supporting services have been summarized on a functional basis in the notes to financial statements. Accordingly, certain costs have been allocated to the appropriate programs and supporting services. Indirect expenses are allocated primarily based on square footage of the Science Center and percentages of employees' time in functional areas.

Concentrations of Risk

Financial instruments which potentially subject the Science Center to concentrations of credit risk consist of cash, investment securities, and pledges and grants receivable.

At various times during the year, the Science Center's cash in bank balances may exceed federally insured limits.

The Science Center has significant investments in equity and debt securities and is therefore subject to concentrations of credit risk. Investments are managed by investment advisors who operate under an investment policy approved by the Investment Committee. Though the market value of investments is subject to fluctuations, the Committee believes that the investment policy is prudent for the long-term welfare of the Science Center.

Credit risk with respect to pledges and grants receivable is limited due to the number and credit worthiness of the foundations, corporations, governmental agencies, and individuals who comprise the contributor base. At September 30, 2016, \$1,100,000 (57%) of the Science Center's gross pledges receivable is due from three donors.

Hourly admission supervisors, and projectionists for the DOME Theater, are covered under union contracts. The union contracts' original terms were from October 1, 2003 until September 30, 2006, and automatically renew themselves from year-to-year thereafter unless either party serves notice of its desire to terminate the agreement at least 60 days prior to October 1 of a given year. During fiscal year 2015, the projectionists' union contract and the theatrical employees' union contract were both extended through September 30, 2019.

The Great Lakes Museum of Science, Environment and Technology

Notes to Financial Statements

For the year ended September 30, 2016

Note 1: Summary of Significant Accounting Policies (continued)

Income Tax Status

The Science Center is tax-exempt, under Section 501(c)(3) of the Internal Revenue Code of 1986. No provision for federal income taxes has been reported in its financial statements. The Science Center has not been classified as a private foundation within the meaning of Section 509(a) and does qualify for deductible contributions.

The Science Center accounts for income taxes in accordance with the “Income Taxes” topic of the FASB ASC. Uncertain income tax positions are evaluated at least annually by management. The Science Center classifies interest and penalties related to income tax matters as income tax expense in the accompanying financial statements. As of September 30, 2016, the Science Center has identified no uncertain income tax positions and has incurred no amounts for income tax penalties and interest for the year then ended. The Science Center files its Federal Form 990 in the U.S. federal jurisdiction and a charitable registration with the office of the state’s attorney general for the State of Ohio.

Recent Accounting Pronouncements

The FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities and Health Care Entities – Presentation of Financial Statements of Not-for-Profit Entities*. This ASU changes the current reporting requirements for nonprofit organizations and their required disclosures. The changes include: (a) requiring the presentation of only two classes of net assets, entitled “net assets without donor restriction” and “net assets with donor restrictions,” (b) modifying the presentation and disclosures of underwater endowment funds, (c) requiring the use of the placed in service approach to recognize the releases from restriction for gifts utilized to acquire or construct long-lived assets, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes to the financial statements and to summarize the allocation methodologies utilized to allocate the costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity, and (g) modifying other financial statement reporting requirements and disclosures to enhance the usefulness of nonprofit financial statements. This ASU is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. Management is currently evaluating the impact of this ASU on the financial statements; however, at September 30, 2016 there is \$7,264,371 in temporarily restricted net assets that would be released from restriction under this ASU as a result of implementing the placed in service approach of recognizing the release from restrictions for gifts utilized to acquire or construct long-lived assets.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for those goods or services. FASB issued ASU 2015-14 that deferred the effective date for the Science Center until annual periods beginning after December 15, 2018. Earlier adoption is permitted subject to certain limitations. The amendments in this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application. Management is currently evaluating the impact of this ASU on its financial statements.

The Great Lakes Museum of Science, Environment and Technology

Notes to Financial Statements

For the year ended September 30, 2016

Note 1: Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements (continued)

In February 2016, the FASB issued ASU 2016-02, *Leases*. The objective of this ASU is to recognize lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. This ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption of this ASU is permitted. Management is currently evaluating the impact of this ASU on its financial statements.

Subsequent Events

In preparing these financial statements, the Science Center has evaluated events and transactions for potential recognition or disclosure through December 6, 2016, the date the financial statements were available to be issued.

Note 2: Fair Value Measurements

In accordance with the “Fair Value Measurements” topic of the FASB ASC, the Science Center uses a three-level fair value hierarchy that categorizes assets and liabilities measured at fair value based on the observability of the inputs utilized in the valuation. This hierarchy prioritizes the inputs into three broad levels as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly; and Level 3 inputs are unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own valuation assumptions. These inputs reflect management’s judgment about the assumptions that a market participant would use in pricing the asset, and are based on the best available information which has been internally developed.

Financial assets consisted of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 765,421	\$ -	\$ -	\$ 765,421
Mutual funds:				
Fixed-income	2,016,219	-	-	2,016,219
Mid-cap equity	520,252	-	-	520,252
Small-cap equity	403,018	-	-	403,018
Large-cap equity	2,803,261	-	-	2,803,261
International equity	1,137,124	-	-	1,137,124
Emerging markets	288,182	-	-	288,182
Alternatives	684,850	-	-	684,850
	<u>\$ 8,618,327</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,618,327</u>

As of September 30, 2016, marketable securities as presented on the accompanying statement of financial position also included \$17,448 of accrued interest.

The Great Lakes Museum of Science, Environment and Technology

Notes to Financial Statements

For the year ended September 30, 2016

Note 3: Pledges and Grants Receivable

Pledges were discounted to their estimated fair value assuming their respective terms and the discount rate determined as of the date the pledge was received. The discount rate for the individual pledges outstanding as of September 30, 2016 was 3.25%. The pledges and grants receivable are scheduled to be collected as follows:

Payable within one year	\$ 773,121
Payable in one to five years	<u>1,145,000</u>
Total pledges and grants receivable	1,918,121
Less: discounts to fair value	(45,785)
Less: allowance for doubtful accounts	<u>(42,250)</u>
Pledges and grants receivable, net	\$ <u>1,830,086</u>

The Science Center had unconditional promises to give receivable of \$928,396 due from related parties at September 30, 2016. Contribution revenue from related parties for the year ended September 30, 2016 was \$687,530.

At September 30, 2016 the Science Center had one \$600,000 pledge outstanding for future development of exhibits centering on the William G. Mather Steamship (the "Mather"). Discussions continue among management of the Science Center regarding the future of the Mather. These discussions have centered around the continuation of the Science Center having the Mather docked outside its facility and are contingent on the City of Cleveland's future development plans for the harbor area near the Science Center. Collection of the above referenced pledge may be influenced by the ultimate decision regarding the Mather. Additionally, the Science Center has previously received \$400,000 from this donor (original pledge was \$1 million), of which approximately \$82,000 has been spent on projects related to the Mather. As of the audit report date, no decisions have been made regarding the future of the Mather. As of September 30, 2016, management estimates that the \$600,000 pledge receivable remains collectible and that it will not be required to repay any amounts previously collected on the original pledge. These estimates are subject to significant change in the near term as management anticipates a decision regarding the Mather's future at the Science Center to be made within the next year or two.

During November 2014, the Science Center received a two-year conditional grant of \$361,952 per year from Cuyahoga Arts and Culture ("CAC"), a regional arts and cultural district and a political subdivision of the State of Ohio. This grant is conditional provided annual collections from the Cigarette Tax are sufficient to fund the grant and provided that the Science Center remains in compliance with all terms and conditions of the grant. On October 29, 2015, the Science Center received notification that they would receive \$361,952 under the second year of the CAC grant and during the year ended September 30, 2016, the Science Center recognized \$361,952 of revenue relating to this grant. On November 14, 2016, the CAC approved the Science Center to receive \$361,952 for 2017 operations.

The Great Lakes Museum of Science, Environment and Technology

Notes to Financial Statements

For the year ended September 30, 2016

Note 3: Pledges and Grants Receivable (continued)

During 2016, the Science Center received a conditional grant of \$500,000 from Ohio Facilities Construction Commission related to funding for the Science Center's renovation of its DOME Theater. The funds are to be used for the capital facilities construction costs associated with the renovation. This grant is conditional provided the Science Center raise local contributions amounting to not less than 50% of the grant amount and provided that the Science Center remains in compliance with all terms and conditions of the grant. Funding will be provided to the Science Center as costs are incurred for the project. During the year ended September 30, 2016, the Science Center recognized \$289,885 of revenue relating to this grant.

Note 4: Property and Equipment

The following is a summary of property and equipment at September 30, 2016:

Buildings	\$ 47,981,816
Exhibits	17,428,940
Furniture and equipment	3,004,158
Construction in progress	<u>2,249,793</u>
Property and equipment, at cost	70,664,707
Less: accumulated depreciation	<u>(37,810,287)</u>
Property and equipment, net	\$ <u>32,854,420</u>

As of September 30, 2016, construction in progress primarily relates to the Great Lakes exhibit planning and design and the DOME Theater digitization project. The Science Center will reclassify assets from construction in progress and begin to depreciate them upon final completion of each individual project.

As previously noted, discussions continue among management of the Science Center regarding the future of the Mather. These discussions have centered around the continuation of the Science Center having the Mather docked outside its facility and are contingent on the City of Cleveland's future development plans for the harbor area near the Science Center. As of the audit report date, no decisions have been made regarding future of the Mather; however, approximately \$385,000 of the Science Center's construction in progress could require an impairment charge based on the resolution of this issue.

Note 5: Loan Payable

On May 1, 1997, the Science Center entered into a loan agreement with the State of Ohio, which provided for borrowings up to \$7,825,000 for the purpose of the construction of a parking garage adjacent to the Science Center. Principal payments under the original agreement were due as follows: \$4,000,000 on or before May 10, 1999 and beginning June 10, 1999, equal payments to fully amortize the remaining principal balance over 19 years. During 2013, the loan was amended to extend the maturity date to May 2023. Interest on the outstanding borrowings is payable at 3% per annum. The parking garage, the net revenues of the parking garage, and certain leases into which the Science Center has entered collateralize the borrowing under this agreement. The Science Center is subject to certain operational covenants under the terms of the agreement.

The Great Lakes Museum of Science, Environment and Technology

Notes to Financial Statements

For the year ended September 30, 2016

Note 5: Loan Payable (continued)

Required principal payments based on the amended loan agreement for the years ending September 30 are as follows:

2017	\$	131,261
2018		135,253
2019		139,367
2020		143,606
2021		147,974
Thereafter		<u>248,258</u>
	\$	<u>945,719</u>

Note 6: Lines of Credit

The Science Center has a \$2,350,000 secured line of credit from a commercial bank to support operating working capital needs. During the fiscal year ended September 30, 2015, the expiration date of the line was extended to March 31, 2017. Available borrowings are subject to a borrowing base calculation. The agreement is secured by certain investment securities. Interest on the outstanding borrowings is payable monthly, at daily LIBOR plus 1.75% (2.28% at September 30, 2016). The agreement is subject to a commitment fee, payable quarterly, at a rate of 0.05% of the unused borrowings. The outstanding borrowings at September 30, 2016 totaled \$2,300,000.

During 2016, the Science Center also entered into a \$1,000,000 secured line of credit from a commercial bank to support capital projects. The agreement expires on March 31, 2017 and is secured by the capital project (if any). Interest on the outstanding borrowings is payable monthly, at daily LIBOR plus 3.00% (3.53% at September 30, 2016). This line of credit had \$-0- outstanding at September 30, 2016.

Note 7: Leases

The Science Center has an operating lease agreement with the City of Cleveland for the land on which the Science Center is located. The lease term is for a period of 50 years commencing January 1, 1995, with the option to renew for an additional 49 years. Annual rent under this lease is one dollar. Additionally, in 1994, the Science Center entered into an operating lease agreement with the State of Ohio for the submerged land upon which the Science Center is located. The lease term is for a period of 50 years with the option to renew for an additional 49 years upon expiration of the original term. Annual rent for this lease is \$13,208, subject to adjustment based upon current market conditions.

The Great Lakes Museum of Science, Environment and Technology

Notes to Financial Statements

For the year ended September 30, 2016

Note 7: Leases (continued)

The Science Center is obligated under operating leases for office equipment and storage space. The Science Center also leases LED bulbs under a capital lease. Future minimum lease payments under these non-cancelable lease agreements in excess of one year, for the years ending September 30, are as follows:

	<u>Capital</u>	<u>Operating</u>
2017	\$ 6,740	\$ 18,273
2018	-	14,808
2019	-	13,208
2020	-	13,208
2021	-	13,208
Thereafter	<u>-</u>	<u>303,784</u>
Total minimum payments	6,740	\$ <u>376,489</u>
Less: amount representing interest (6.00%)	<u>(131)</u>	
Present value of minimum payments	6,609	
Less: amount due within one year	<u>(6,609)</u>	
Amount due after one year	\$ <u>-</u>	

Rent expense totaled \$679,026 for the year ended September 30, 2016.

During 2009, the Science Center entered into a lease and shared use agreement with the Board of Education of the Cleveland Municipal School District (the "District"). During the year ended September 30, 2014, the lease term was extended for three years to June 30, 2017. Under the terms of the agreement, the Science Center has permitted the District to operate a ninth grade Science, Technology, Engineering, and Mathematics ("STEM") academy at the Science Center. The District is required to pay an \$8,000 monthly fee and to reimburse the Science Center for other operating expenses as defined in the agreement. Subject to a 270-day written notice and termination payment, the District may elect to terminate the agreement.

Note 8: Net Asset Classification of Endowment Funds

The Science Center's endowments consist of individual funds, established for the benefit of the Science Center, which consist of both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowment. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including board-designated funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Great Lakes Museum of Science, Environment and Technology

Notes to Financial Statements

For the year ended September 30, 2016

Note 8: Net Asset Classification of Endowment Funds (continued)

The Board of Directors of the Science Center has interpreted the State Prudent Management of Institutional Fund 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 Science Center classifies as permanently restricted net assets (a) the original value of gifts donated, (b) the original value of subsequent gifts, 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. In accordance with SPMIFA, the Science Center 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 purpose of the Science Center and the donor-restricted endowment fund;
- (3) General economic conditions; and
- (4) The investment policies of the Science Center.

During the year ended September 30, 2016, the Science center successfully petitioned an endowment donor to release \$2 million from the permanently restricted endowment fund and transfer it to unrestricted net assets (board-designated). This release from restriction intends to provide a cushion as the Science Center transitions to a new business model. This release is conditioned upon the Science Center making its best efforts to plan a capital campaign which would restore the \$2 million in funds to the restricted endowment by 2021.

During the year ended September 30, 2016, the Science Center had the following endowment-related activities:

	Donor-Restricted Endowment Funds	Board-Designated Endowment Funds	Total
Investment return:			
Interest and dividends	\$ 189,638	\$ 96,205	\$ 285,843
Net realized and unrealized gain	<u>305,028</u>	<u>214,243</u>	<u>519,271</u>
Total investment return	494,666	310,448	805,114
Net asset reclassification of endowment funds	(2,000,000)	2,000,000	-
Amounts appropriated for expenditure	(345,554)	(1,031,178)	(1,376,732)
Endowment management fees	<u>(24,397)</u>	<u>(16,930)</u>	<u>(41,327)</u>
Total change in endowment funds	\$ <u>(1,875,285)</u>	\$ <u>1,262,340</u>	\$ <u>(612,945)</u>

The Great Lakes Museum of Science, Environment and Technology

Notes to Financial Statements

For the year ended September 30, 2016

Note 8: Net Asset Classification of Endowment Funds (continued)

Endowment Net Asset Composition by Type of Fund
as of September 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 400,794	\$ 4,485,885	\$ 4,886,679
Board-designated endowment funds	<u>3,724,500</u>	<u>-</u>	<u>-</u>	<u>3,724,500</u>
Total funds	<u>\$ 3,724,500</u>	<u>\$ 400,794</u>	<u>\$ 4,485,885</u>	<u>\$ 8,611,179</u>

Changes in Endowment Net Assets
for the year ended September 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,462,160	\$ 276,079	\$ 6,485,885	\$ 9,224,124
Investment return:				
Interest and dividends	96,205	189,638	-	285,843
Net realized and unrealized gain	<u>214,243</u>	<u>305,028</u>	<u>-</u>	<u>519,271</u>
Total investment return	310,448	494,666	-	805,114
Net asset reclassification of endowment funds	2,000,000	-	(2,000,000)	-
Amounts appropriated for expenditure	(1,031,178)	(345,554)	-	(1,376,732)
Endowment management fees	<u>(16,930)</u>	<u>(24,397)</u>	<u>-</u>	<u>(41,327)</u>
Endowment net assets, end of year	<u>\$ 3,724,500</u>	<u>\$ 400,794</u>	<u>\$ 4,485,885</u>	<u>\$ 8,611,179</u>

Return Objectives and Risk Parameters

The Science Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Science Center must hold in perpetuity, as well as board-designated funds.

In general, it is desired that the Science Center portfolio earn at least competitive nominal returns in comparison with their respective benchmarks.

The Great Lakes Museum of Science, Environment and Technology

Notes to Financial Statements

For the year ended September 30, 2016

Note 8: Net Asset Classification of Endowment Funds (continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Science Center relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and generation of annual income (interest and dividends). In recognition of the difficulty in predicting the direction of the markets or future state of the economy, the Science Center's assets are diversified among asset classes, managers/funds, and investment styles. The Board has determined that this asset allocation is approximately 30% allocated to fixed-income, 62% allocated to equities and approximately 8% allocated to other investments with a 5% collar for rebalancing efforts. These proportions may vary in the above outlined ranges and are designed to reflect the long-term expectations for the Science Center. The Board will also review the portfolio on a regular basis (at least annually) to consider the portfolio's asset mix relative to its target and the allowable range around the target.

Spending Policy

In accordance with the objective of the Science Center's endowment policy, the principal portion of the donor-restricted endowment fund shall not be used by, or for the benefit of, the Science Center, except to the extent that the annual withdrawal rate, which is calculated based on 5% of the three-year rolling average market value of the endowment fund, established by the Board may have the effect of withdrawing some principal as part of the total return of the endowment investments for a given period of time. In establishing this policy, the Science Center considered the long-term expected return on its endowment. This policy is consistent with the Science Center's objective to maintain the purchasing power of the endowment assets held in perpetuity, or for an otherwise specified term, as well as to provide additional real growth through new gifts and investment returns. While the annual spending policy from the board-designated endowment funds generally follows the same spending rule as the donor-restricted endowment funds, the Science Center's Board may appropriate greater amounts for expenditure from the board-designated endowment funds. During the year ended September 30, 2016, the Board of Directors of the Science Center appropriated an additional \$900,000 from the board-designated endowment funds.

The Great Lakes Museum of Science, Environment and Technology

Notes to Financial Statements

For the year ended September 30, 2016

Note 9: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30, 2016:

Mather Connector*	\$ 2,424,304
Capital campaign – NASA Glenn Visitor Center*	3,208,869
Capital campaign – Mather	1,000,000
Capital campaign – other	620,346
Mather exhibit planning	876,033
Annual fund – future operations	36,800
Endowment earnings not yet appropriated for expenditure – time restrictions	400,794
Cleveland Creates	60,700
Education programs	208,753
Theater renovation initiative*	1,631,198
Other	<u>78,318</u>
	\$ <u>10,546,115</u>

*Indicates net assets awaiting release from restriction from matching depreciation expense.

Temporarily restricted net assets were released from restriction for the following purposes during the year ended September 30, 2016:

Mather Connector	\$ 170,100
Capital campaign – NASA Glenn Visitor Center	408,092
Annual fund – future operations	51,750
Cleveland Creates	250,700
Education programs	186,273
Other	<u>4,573</u>
	\$ <u>1,071,488</u>

Note 10: Agreements, Commitments and Contingencies

In 1996, the Science Center entered into a Common Area Maintenance Agreement (the “Agreement”) for the North Coast Harbor area with Cleveland-Cuyahoga Port Authority, the City of Cleveland, and the Rock and Roll Hall of Fame and Museum. In October 2002, an amendment to the Agreement was executed which, among other things, added the Cleveland Browns Stadium Company LLC as a participant. This Agreement terminates upon the occurrence of certain events as described in the Agreement. Under this Agreement, the parties involved will provide for the ongoing operation, maintenance, insurance, security, and improvements of the North Coast Harbor area. Costs incurred under this Agreement totaled \$40,683 during the year ended September 30, 2016.

The Great Lakes Museum of Science, Environment and Technology

Notes to Financial Statements

For the year ended September 30, 2016

Note 10: Agreements, Commitments and Contingencies (continued)

The Science Center has entered into service agreement with ABM System Parking (“ABM”) through September 30, 2016. Under this agreement, ABM will manage and operate the parking garage for a management fee equal to 3% of gross revenues, plus reimbursement of operating expenses. The management fee was \$21,033 during the year ended September 30, 2016. Management is in negotiations with ABM to renew the service agreement. The Science Center and ABM are operating under the terms of the old service agreement until a renewed service agreement is executed.

The Science Center has entered into an amended management agreement with Aramark. Under this agreement, Aramark will manage the food service operations for the Science Center through September 30, 2017 for an annual management fee equal to 9.5% of gross revenues generated from all food services (including subcontracted services). The management fee was \$93,768 during the year ended September 30, 2016.

In April 2005, the Science Center entered into an amended license agreement to lease retail space to Event Network through May 18, 2017. In accordance with the terms of the agreement, Event Network will manage the retail store and pay a percentage rent to the Science Center equal to 20% of gross receipts up to \$600,000, 24% of gross receipts between \$600,000 and \$1,000,000, and 26% of gross receipts in excess of \$1,000,000. Additionally, the Science Center is guaranteed a minimum payment of \$100,000, contingent upon the maintenance of certain attendance levels. The Science Center has recognized \$90,001 during the year ended September 30, 2016, which has been included in contract income on the accompanying statement of activities.

The Science Center has entered into a 10-year partnership, through fiscal year 2020, with the National Aeronautics and Space Administration (“NASA”) Glenn Research Center to transfer the designation of the official NASA Visitor Center to the Science Center. Students under the age of 18 may receive free admission four times a year. All Title I students are allowed free admission throughout the year.

Monies received under various government grants and reimbursement contracts are subject to subsequent review and possible adjustment by the grantors or payers.

During the normal course of operations, the Science Center is subject to occasional legal proceedings and claims. Management of the Science Center does not believe that resolution of any current claims will have a material effect on its financial statements.

Note 11: Multi-Employer Pension Plan

The Science Center contributed to a multi-employer defined benefit pension plan (the “Plan”) under the terms of a collective bargaining agreement that covered its projectionist union-represented employees. Contributions to the Plan were based upon the collective bargaining agreement. Effective December 30, 2014, the Plan was terminated through a mass withdrawal of all contributing employers. As a result of this action, no additional employer contributions will be required in the future. However, the Science Center is subject to a pension withdrawal liability in the amount of \$141,490 at September 30, 2016. The liability was calculated by an actuary and is based on federal law and guidelines.

The Great Lakes Museum of Science, Environment and Technology

Notes to Financial Statements

For the year ended September 30, 2016

Note 11: Multi-Employer Pension Plan (continued)

Although the pension withdrawal liability is a legal obligation, the Science Center is currently only required to pay monthly installments of approximately \$561 into perpetuity. This amount is comprised of entirely interest expense; therefore, no reduction will be made to the withdrawal liability principal. While the present value of scheduled payments could change in the future based on actuarially calculated adjustment, changes to other employers' obligations, or settlements reached with the Plan, it is quite possible that the outstanding pension withdrawal liability (i.e., the principal) will never be paid.

Note 12: Defined Contribution Plan

The Science Center has a 403(b) Plan for all of its full-time employees. The provisions of the 403(b) Plan allow the Science Center to provide an employer match. The Science Center may elect to contribute a matching amount equal to a maximum of 50% of an employee's contribution up to 6% of an employee's salary. Employees vest in the matching contributions immediately. There were no matching contributions during the year ended September 30, 2016.

Note 13: Donated Services

The Science Center deploys volunteers in the furtherance of its programs. During the year ended September 30, 2016, 338 volunteers provided 17,867 hours of service to the Science Center. Using a blended hourly rate of \$9 per hour, this resulted in approximately \$160,803 of donated time from the volunteers during the year ended September 30, 2016. These amounts were properly excluded from the accompanying statement of activities as such services were not provided by those possessing specialized skills. Thus, they did not meet the criterion for recognition in the statement of activities as prescribed by accounting principles generally accepted in the United States of America.

Note 14: Functional Expenses

A presentation of operating expenses on a functional basis for the year ended September 30, 2016 is as follows:

Program services:	
Exhibits	\$ 2,675,988
Educational programs	1,448,393
Membership and marketing	1,661,702
DOME Theatre	715,930
Guest services	<u>1,056,656</u>
Total program services	<u>7,558,669</u>
Supporting services:	
Administrative and general	1,227,939
Fundraising	<u>479,847</u>
Total supporting services	<u>1,707,786</u>
Total operating expenses	\$ <u>9,266,455</u>