

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

**Financial Statements
and
Independent Auditors' Report
December 31, 2015 and 2014**



FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

Table of Contents

| | <u>Page</u> |
|---------------------------------------|-------------|
| Independent Auditors' Report..... | 1 |
| Financial Statements | |
| Statements of Financial Position..... | 3 |
| Statements of Activities..... | 4 |
| Statements of Cash Flows..... | 5 |
| Notes to Financial Statements..... | 6 |
| Supplemental Information | |
| Schedules of Functional Expenses..... | 18 |

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Fort Collins Museum of Discovery, Nonprofit Partner
Fort Collins, Colorado

We have audited the accompanying financial statements of Fort Collins Museum of Discovery, Nonprofit Partner (a nonprofit corporation), which are comprised of the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities 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.

AUDITORS' RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider 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.

To the Board of Directors
Fort Collins Museum of Discovery, Nonprofit Partner
Page Two

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 Fort Collins Museum of Discovery, Nonprofit Partner as of December 31, 2015 and 2014, 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.

OTHER MATTERS

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

EKS&H LLLP
EKS&H LLLP

August 25, 2016
Denver, Colorado

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

Statements of Financial Position

| | December 31, | |
|--|--------------|---------------|
| | 2015 | 2014 |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 276,954 | \$ 167,593 |
| Promises to give, current portion | 39,515 | - |
| Inventory, gift shop | 13,689 | 22,679 |
| Prepaid expenses | 18,345 | 52,486 |
| Traveling exhibit deposit | 200,000 | - |
| Total current assets | 548,503 | 242,758 |
| Investments | 2,843,916 | 3,455,692 |
| Restricted beneficial interest in assets held by foundation (endowment) | 927,624 | 931,034 |
| Long-term promises to give, net of discount of \$9,349 (2015) and \$12,602 (2014) | 342,037 | 891,286 |
| Other assets, net | 107,860 | 117,044 |
| Property and equipment, net | 5,113,321 | 5,466,709 |
| Total assets | \$ 9,883,261 | \$ 11,104,523 |
| Liabilities and Net Assets | | |
| Current liabilities | | |
| Accounts payable | \$ 223,577 | \$ 30,887 |
| Accrued expenses | 62,460 | 51,597 |
| Deferred membership revenue | 78,920 | 73,673 |
| Current portion of note payable | - | 250,000 |
| Total current liabilities | 364,957 | 406,157 |
| Net assets | | |
| Unrestricted | 5,400,580 | 5,341,167 |
| Temporarily restricted | 3,404,304 | 4,643,779 |
| Permanently restricted | 713,420 | 713,420 |
| Total net assets | 9,518,304 | 10,698,366 |
| Total liabilities and net assets | \$ 9,883,261 | \$ 11,104,523 |

See notes to financial statements.

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

Statements of Activities

For the Years Ended
December 31,

| | 2015 | | | | 2014 | | | |
|--|---------------------|------------------------|------------------------|---------------------|---------------------|------------------------|------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Support, revenues, and gains | | | | | | | | |
| Contributions | | | | | | | | |
| In-kind support | \$ 23,457 | \$ - | \$ - | \$ 23,457 | \$ 39,214 | \$ - | \$ - | \$ 39,214 |
| Foundations | 186,564 | 74,373 | - | 260,937 | 29,850 | 69,596 | - | 99,446 |
| Corporations | 36,204 | 1,409 | - | 37,613 | 38,600 | 1,409 | - | 40,009 |
| Individuals and other | 151,245 | 237 | - | 151,482 | 99,641 | 241 | 2,000 | 101,882 |
| Government grants | 17,358 | - | - | 17,358 | 20,750 | - | - | 20,750 |
| Admission fees and memberships | 604,280 | - | - | 604,280 | 560,242 | - | - | 560,242 |
| Investment return | 325 | (3,410) | - | (3,085) | 434 | 52,157 | - | 52,591 |
| Program revenue | 123,803 | - | - | 123,803 | 128,252 | - | - | 128,252 |
| Special events revenue, net of expense of \$16,653 (2015) and \$2,969 (2014) | 31,003 | - | - | 31,003 | 24,198 | - | - | 24,198 |
| Net assets released from restrictions | <u>1,312,084</u> | <u>(1,312,084)</u> | <u>-</u> | <u>-</u> | <u>872,426</u> | <u>(872,426)</u> | <u>-</u> | <u>-</u> |
| Total support, revenues, and gains | <u>2,486,323</u> | <u>(1,239,475)</u> | <u>-</u> | <u>1,246,848</u> | <u>1,813,607</u> | <u>(749,023)</u> | <u>2,000</u> | <u>1,066,584</u> |
| Expenses and losses | | | | | | | | |
| Program services | 1,962,961 | - | - | 1,962,961 | 1,605,502 | - | - | 1,605,502 |
| Support services | | | | | | | | |
| Administration and general | 213,428 | - | - | 213,428 | 171,279 | - | - | 171,279 |
| Fundraising | <u>250,521</u> | <u>-</u> | <u>-</u> | <u>250,521</u> | <u>180,099</u> | <u>-</u> | <u>-</u> | <u>180,099</u> |
| Total expenses and losses | <u>2,426,910</u> | <u>-</u> | <u>-</u> | <u>2,426,910</u> | <u>1,956,880</u> | <u>-</u> | <u>-</u> | <u>1,956,880</u> |
| Change in net assets | 59,413 | (1,239,475) | - | (1,180,062) | (143,273) | (749,023) | 2,000 | (890,296) |
| Net assets at beginning of year | <u>5,341,167</u> | <u>4,643,779</u> | <u>713,420</u> | <u>10,698,366</u> | <u>5,484,440</u> | <u>5,392,802</u> | <u>711,420</u> | <u>11,588,662</u> |
| Net assets at end of year | <u>\$ 5,400,580</u> | <u>\$ 3,404,304</u> | <u>\$ 713,420</u> | <u>\$ 9,518,304</u> | <u>\$ 5,341,167</u> | <u>\$ 4,643,779</u> | <u>\$ 713,420</u> | <u>\$10,698,366</u> |

See notes to financial statements.

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

Statements of Cash Flows

| | For the Years Ended December 31, | |
|--|-------------------------------------|--------------|
| | 2015 | 2014 |
| Cash flows from operating activities | | |
| Change in net assets | \$ (1,180,062) | \$ (890,296) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation and amortization expense | 376,450 | 377,535 |
| Loss on disposal of other assets | 7,282 | - |
| Gain on write-off of fixed assets accrued with accounts payable - related party | - | (942) |
| Change on discount on long-term promises to give | (3,253) | (17,801) |
| Realized/unrealized loss (gain) on restricted investments | 21,121 | (39,629) |
| Contributions restricted for the endowment | - | (2,000) |
| Changes in operating assets and liabilities | | |
| Promises to give | 512,987 | 1,086,932 |
| Inventory, gift shop | 8,990 | (2,924) |
| Prepaid expenses | 34,141 | (27,141) |
| Traveling exhibit deposit | (200,000) | - |
| Accounts payable | 192,690 | 3,347 |
| Accrued expenses | 10,863 | (3,127) |
| Deferred membership revenue | 5,247 | 18,205 |
| | 966,518 | 1,392,455 |
| Net cash (used in) provided by operating activities | (213,544) | 502,159 |
| Cash flows from investing activities | | |
| Purchases of investments | (624,842) | (1,135,821) |
| Proceeds from investments | 1,218,907 | 679,726 |
| Purchases of property and equipment | (14,660) | - |
| Purchases of other assets | (6,500) | (8,749) |
| Net cash provided by (used in) investing activities | 572,905 | (464,844) |
| Cash flows from financing activities | | |
| Proceeds from contributions restricted for endowment | - | 2,000 |
| Payments on notes payable | (250,000) | (100,000) |
| Net cash used in financing activities | (250,000) | (98,000) |
| Net increase (decrease) in cash and cash equivalents | 109,361 | (60,685) |
| Cash and cash equivalents at beginning of year | 167,593 | 228,278 |
| Cash and cash equivalents at end of year | \$ 276,954 | \$ 167,593 |

Supplemental disclosure of cash flow information:

Interest paid for the years ended December 31, 2015 and 2014 was \$4,091 and \$11,199, respectively.

Supplemental disclosure of non-cash activity:

During the year ended December 31, 2014, the Museum wrote off fixed assets with a net book value of \$78,096, along with the corresponding accounts payable - related party totaling \$79,038, resulting in a gain of \$942.

See notes to financial statements.

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

The Fort Collins Museum of Discovery, Nonprofit Partner (the "Museum"), a nonprofit corporation, was incorporated in the state of Colorado on March 17, 1989 and is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the "Code"). The Museum and the City of Fort Collins (the "City") entered into a formal partnership on March 6, 2008. In December of 2011, the staff moved into a newly constructed facility, and, on November 10, 2012, the new Fort Collins Museum of Discovery opened its doors. Together with the City, the Museum operates a museum where visitors from the northern Colorado region and surrounding areas can experience interactive exhibits and educational programs focused on science and culture.

Basis of Presentation

The financial statement presentation follows the guidance as set forth in generally accepted accounting principles ("GAAP"). Under this guidance, the Museum is required to report information regarding its financial position and activities according to the following three classes of net assets:

Unrestricted amounts are those currently available at the discretion of the Board of Directors (the "Board") for use in the Museum's operations and those resources invested in property and equipment.

Temporarily restricted amounts are monies restricted by donors specifically for certain time periods, purposes, or capital campaign.

Permanently restricted amounts are assets that must be maintained permanently by the Museum as required by the donor, but the Museum is permitted to use or expend part or all of any income derived from those assets.

Cash and Cash Equivalents

The Museum considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, unless held as part of the long-term investment portfolio. The Museum continually monitors its positions with, and the credit quality of, the financial institutions with which it invests.

Promises to Give

Promises to give consist of contributions relating to the capital campaign. Promises to give that are expected to be collected within one year are recorded at their net realizable value, and promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. Conditional promises to give are not included as support until such time as the conditions are substantially met. All outstanding amounts are deemed collectible; thus, no allowance is considered necessary. The Museum had promises to give from one and two donors totaling 77% and 89% of total promises to give as of December 31, 2015 and 2014, respectively.

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Investments

Investments consist of cash equivalents, certificates of deposit, and marketable securities related to temporarily and permanently restricted net assets. The Museum reports investments in equity securities with readily determinable fair values and all investments in debt securities at their fair values with unrealized gains and losses included in the statements of activities.

Exhibits

The Museum's exhibits are comprised of scientific specimens and exhibits that are held for educational, research, scientific, and curatorial purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying its existence and assessing its condition are performed continuously.

The Museum expenses exhibit costs to exhibits expense as they are incurred. Exhibits in progress are expensed during construction as work is completed. During the years ended December 31, 2015 and 2014, \$758,741 and \$356,195, respectively, was expensed to exhibits expense.

Traveling Exhibit Deposit

The Museum paid a deposit for a traveling exhibit to be open from November 2016 through April 2017. As of December 31, 2015, the Museum had paid total deposits of \$200,000.

Property and Equipment and Other Assets

Property and equipment are recorded at cost. Donated fixed assets are capitalized at fair value at the date of donation. Depreciation is provided on the straight-line method based upon the estimated useful lives of the assets, which range from 3 to 39 years. Other assets are comprised of long-term prepaid rental agreements for content programming within the Museum, which are expensed over the remaining rental period, ranging from 5 to 10 years.

Long-Lived Assets

The Museum reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recovered. The Museum looks primarily to the undiscounted future cash flows in its assessment of whether or not long-lived assets have been impaired. No impairment has been recorded during the years ended December 31, 2015 and 2014.

Deferred Membership Revenue

Deferred membership revenue consists of payments received from Museum patrons who purchase a membership that will provide access to the Museum for a period of time, depending on the membership purchased. The Museum recognizes revenue from memberships ratably over the membership period. As of December 31, 2015 and 2014, the Museum had \$78,920 and \$73,673, respectively, of deferred membership revenue that will be recognized into revenue during subsequent years.

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Contributions

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions are recognized when cash or ownership of donated assets is unconditionally promised to the Museum. Amounts of temporarily restricted contributions are subsequently released to unrestricted net assets when expenses have been incurred in satisfaction of those restrictions.

In-Kind Contributions

In-kind contributions consist of donated professional services, supplies, and equipment.

Donated Services and Materials

The Museum recognizes contribution revenue for certain services received at the fair value of those services provided when those services create or enhance non-financial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Materials are recorded at fair value at the date of donation.

Functional Expenses

Expenses incurred directly for a program service are charged to such service. Fringe benefits are allocated to all services based on a pro-rata basis of total direct salary expenses incurred. Allocations of certain overhead costs are allocated to services on a pro-rata basis of total space occupied by each service.

Advertising

Advertising costs are expensed when incurred. Advertising expense for the years ended December 31, 2015 and 2014 was \$47,964 and \$63,005, respectively, and is included as an administrative expense in the statements of activities and schedules of functional expenses.

Income Taxes

The Museum is exempt from federal income taxes under Section 501(c)(3) of the Code. The Museum is not a private foundation within the meaning of Section 509(a) of the Code.

The Museum applies a more-likely-than-not measurement methodology to reflect the financial statement impact of uncertain tax positions taken or expected to be taken in a tax return. After evaluating the tax positions taken, none are considered to be uncertain; therefore, no amounts have been recognized as of December 31, 2015 and 2014. Income from activities not directly related to the Museum's tax-exempt purpose is subject to taxation as unrelated business taxable income. There was no significant unrelated business taxable income for the years ended December 31, 2015 and 2014.

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

If incurred, interest and penalties associated with tax positions are recorded in the period assessed as administration and general expense. No interest or penalties have been assessed as of December 31, 2015 or 2014.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Museum has evaluated all subsequent events through the auditors' report date, which is the date the financial statements were available for issuance, and the Museum determined that there were no subsequent events requiring recognition or disclosure in the financial statements.

Note 2 - Promises to Give

Unconditional promises to give consist of the following:

| | <u>December 31,</u> | |
|------------------|---------------------|-------------------|
| | <u>2015</u> | <u>2014</u> |
| Capital campaign | \$ 343,053 | \$ 903,888 |
| Other | 47,848 | - |
| | <u>\$ 390,901</u> | <u>\$ 903,888</u> |

Unconditional promises to give are expected to be received as follows:

| | <u>December 31,</u> | |
|--|---------------------|-------------------|
| | <u>2015</u> | <u>2014</u> |
| Receivables due within one year for operating expenses | \$ 39,515 | \$ - |
| Receivables due within one year for capital projects | 231,053 | 671,303 |
| Receivables due after one year | <u>120,333</u> | <u>232,585</u> |
| Total unconditional promises to give | 390,901 | 903,888 |
| Less discounts to net present value | <u>(9,349)</u> | <u>(12,602)</u> |
| Net unconditional promises to give | <u>\$ 381,552</u> | <u>\$ 891,286</u> |

The discount rate used on long-term promises to give that were outstanding as of December 31, 2015 and 2014 ranged from 0.38% to 1.58%, determined at the inception of the underlying promises to give.

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

Notes to Financial Statements

Note 3 - Investments

Investments consist of the following items:

| | <u>December 31,</u> | |
|--|---------------------|---------------------|
| | <u>2015</u> | <u>2014</u> |
| Equity securities in restricted beneficial interest in assets held by foundation | \$ 556,574 | \$ 558,620 |
| Debt securities in restricted beneficial interest in assets held by foundation | <u>371,050</u> | <u>372,414</u> |
| Total investments, at fair value | 927,624 | 931,034 |
| Cash equivalents | 136,562 | 288,496 |
| Certificates of deposit | <u>2,707,354</u> | <u>3,167,196</u> |
| Total investments | <u>\$ 3,771,540</u> | <u>\$ 4,386,726</u> |

Investments are reported as follows in the accompanying statements of financial position:

| | <u>December 31,</u> | |
|---|---------------------|---------------------|
| | <u>2015</u> | <u>2014</u> |
| Investments | \$ 2,843,916 | \$ 3,455,692 |
| Restricted beneficial interest in assets held by foundation | <u>927,624</u> | <u>931,034</u> |
| Total | <u>\$ 3,771,540</u> | <u>\$ 4,386,726</u> |

The following schedule summarizes the investment return:

| | <u>December 31,</u> | |
|---------------------------------|---------------------|------------------|
| | <u>2015</u> | <u>2014</u> |
| Realized/unrealized (loss) gain | \$ (21,121) | \$ 39,629 |
| Interest income | <u>18,036</u> | <u>12,962</u> |
| Total | <u>\$ (3,085)</u> | <u>\$ 52,591</u> |

Restricted Beneficial Interest in Assets Held by Foundation

The Museum has an endowment fund that is held by the Community Foundation of Northern Colorado (the "Foundation"). Under the terms and conditions of the agreement, the Museum makes transfers of permanently restricted endowment funds to the Foundation, and the Foundation provides investment management services. Distributions from the endowment fund, per terms of the agreement, will be paid to the Museum. The Museum's investment in the Foundation, including funds transferred and investment earnings, totaled \$927,624 and \$931,034 at December 31, 2015 and 2014, respectively.

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

Notes to Financial Statements

Note 3 - Investments (continued)

Restricted Beneficial Interest in Assets Held by Foundation (continued)

Funds transferred to the Foundation are not considered to be a contribution from the Museum to the Foundation, but rather are accounted for as a reciprocal transfer. Accordingly, the assets are reflected in the statements of financial position as a restricted beneficial interest in the assets held by the Foundation.

Note 4 - Property and Equipment

The Museum's property and equipment are comprised of the following:

| | <u>December 31,</u> | |
|-------------------------------|---------------------|---------------------|
| | <u>2015</u> | <u>2014</u> |
| Building and improvements | \$ 5,865,916 | \$ 5,865,916 |
| Equipment | 152,143 | 174,729 |
| Furniture and fixtures | <u>298,663</u> | <u>286,702</u> |
| | 6,316,722 | 6,327,347 |
| Less accumulated depreciation | <u>(1,203,401)</u> | <u>(860,638)</u> |
| Total | <u>\$ 5,113,321</u> | <u>\$ 5,466,709</u> |

Depreciation expense for the years ended December 31, 2015 and 2014 was \$368,048 and \$356,657, respectively.

Note 5 - Temporarily and Permanently Restricted Net Assets

The temporarily restricted net assets represent the net proceeds of donations and pledges receivable that have been restricted by the donors to be used only for the following purposes:

| | <u>December 31,</u> | |
|----------------------------|---------------------|---------------------|
| | <u>2015</u> | <u>2014</u> |
| Earnings on endowment fund | \$ 232,890 | \$ 236,300 |
| Capital campaign | <u>3,171,414</u> | <u>4,407,479</u> |
| | <u>\$ 3,404,304</u> | <u>\$ 4,643,779</u> |

The permanently restricted net assets represent the net proceeds of donations and pledges receivable that have been restricted by the donors to be used only for the following purpose:

| | <u>December 31,</u> | |
|----------------|---------------------|-------------------|
| | <u>2015</u> | <u>2014</u> |
| Endowment fund | <u>\$ 713,420</u> | <u>\$ 713,420</u> |

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

Notes to Financial Statements

Note 6 - Restricted Cash and Cash Equivalents and Investments

As of December 31, 2015, the Museum had restricted cash and cash equivalents and investments, which consist of pledge receipts that are to be used in the Museum's endowment and capital projects. They are restricted as follows:

| | <u>Permanent Endowment</u> | <u>Temporarily Restricted</u> | <u>Unrestricted</u> | <u>Total</u> |
|---------------------------|--------------------------------|-----------------------------------|---------------------|--------------|
| Cash and cash equivalents | \$ 18,686 | \$ - | \$ 258,268 | \$ 276,954 |
| Investments | \$ 694,734 | \$ 3,061,251 | \$ 15,555 | \$ 3,771,540 |

As of December 31, 2014, the Museum had restricted cash and cash equivalents and investments, which consist of pledge receipts that are to be used in the Museum's endowment and capital projects. They are restricted as follows:

| | <u>Permanent Endowment</u> | <u>Temporarily Restricted</u> | <u>Unrestricted</u> | <u>Total</u> |
|---------------------------|--------------------------------|-----------------------------------|---------------------|--------------|
| Cash and cash equivalents | \$ 18,686 | \$ - | \$ 148,907 | \$ 167,593 |
| Investments | \$ 694,734 | \$ 3,691,992 | \$ - | \$ 4,386,726 |

Note 7 - Investments in Endowment

The Museum's endowment consists of funds held by the Foundation (Note 3). Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

In 2006, the Uniform Law Commission approved the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"), which governs the investment and management of donor-restricted endowment funds by not-for-profit organizations. In 2008, the state of Colorado enacted UPMIFA, which provides for net asset classification of donor-restricted endowment funds that are subject to UPMIFA as well as additional disclosure requirements for both donor-restricted and Board-designated endowments.

Under this guidance, the portion of an endowment that is perpetual in nature shall be classified as permanently restricted net assets. The remaining portion of accumulations to donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as dictated by the donor or, in absence of donor stipulation, 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 UPMIFA.

During the years ended December 31, 2015 and 2014, the fair value of assets associated with donor-restricted endowment funds exceeded the level that the donors required the Museum to retain as a fund of perpetual duration. Therefore, the excess amounts of \$232,890 and \$236,300 are reported in temporarily restricted net assets as of December 31, 2015 and 2014, respectively. This excess is a result of favorable market fluctuations and an absence of spending of endowment earnings.

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

Notes to Financial Statements

Note 7 - Investments in Endowment (continued)

The Board is responsible for selecting the asset mix and chose the following asset allocation: 40% fixed income and 60% equities.

The spending policy is determined pursuant to the agreement with the Foundation. Distributions from the Foundation are available at 5% of the total fixed balance based on a 16-quarter trailing average. The Foundation determines a percentage each year based on the rolling average of the endowment for the prior three years. For the years ended December 31, 2015 and 2014, the Museum did not elect to take a distribution.

Invested endowment net asset composition by type of fund as of December 31, 2015:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|------------------|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Donor-restricted | <u>\$ -</u> | <u>\$ 232,890</u> | <u>\$ 713,420</u> | <u>\$ 946,310</u> |

Changes in invested endowment net assets for the fiscal year ended December 31, 2015:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Endowment net assets, beginning of year | <u>\$ -</u> | <u>\$ 236,300</u> | <u>\$ 713,420</u> | <u>\$ 949,720</u> |
| Investment return | | | | |
| Investment income | - | 17,711 | - | 17,711 |
| Net depreciation | <u>-</u> | <u>(21,121)</u> | <u>-</u> | <u>(21,121)</u> |
| Total investment return | <u>-</u> | <u>(3,410)</u> | <u>-</u> | <u>(3,410)</u> |
| Contributions | - | - | - | - |
| Appropriation of endowment assets for expenditure | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Endowment net assets, end of year | <u>\$ -</u> | <u>\$ 232,890</u> | <u>\$ 713,420</u> | <u>\$ 946,310</u> |

Invested endowment net asset composition by type of fund as of December 31, 2014:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|------------------|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Donor-restricted | <u>\$ -</u> | <u>\$ 236,300</u> | <u>\$ 713,420</u> | <u>\$ 949,720</u> |

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

Notes to Financial Statements

Note 7 - Investments in Endowment (continued)

Changes in invested endowment net assets for the fiscal year ended December 31, 2014:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|--------------|
| Endowment net assets, beginning of year | \$ - | \$ 184,143 | \$ 711,420 | \$ 895,563 |
| Investment return | | | | |
| Investment income | - | 12,528 | - | 12,528 |
| Net appreciation | - | 39,629 | - | 39,629 |
| Total investment return | - | 52,157 | - | 52,157 |
| Contributions | - | - | 2,000 | 2,000 |
| Appropriation of endowment assets for expenditure | - | - | - | - |
| Endowment net assets, end of year | \$ - | \$ 236,300 | \$ 713,420 | \$ 949,720 |

Note 8 - Operating Agreement

During March 2008, the Museum entered into an operating agreement (the "Agreement") with the City, which owned and operated the Fort Collins Museum ("FCM"). The Museum and the City wished to jointly create a premier educational experience for local residents and visitors by combining the current operations of the FCM and Museum into one institution. In order to facilitate the planning and construction of a new facility for the combined museum, it was decided to co-locate both organizations in one facility, 200 Mathews Street, which was the location of the FCM. The co-location was effective June 2009 through December 2011. During 2012, the new museum facility was substantially completed and was opened for public access, at which time the combined institution, Fort Collins Museum of Discovery, began operating at its new location at 408 Mason Court.

Note 9 - Line-of-Credit

The Museum has a non-revolving \$790,000 line-of-credit with a bank for the purpose of funding exhibit fabrication, which will mature December 31, 2017. As of December 31, 2015, the remaining available credit is \$629,375, and the Museum had no outstanding balance at December 31, 2015 and 2014. Any outstanding balance would be secured by promises to give and would bear interest at 5%.

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

Notes to Financial Statements

Note 10 - Note Payable

Note payable consists of the following:

| | <u>December 31,</u> | |
|---|---------------------|------------------|
| | <u>2015</u> | <u>2014</u> |
| Note payable to a lender paid in full during 2015 | \$ - | \$ 250,000 |
| Less current portion | - | <u>(250,000)</u> |
| Long-term portion of note payable | <u>\$ -</u> | <u>\$ -</u> |

Note 11 - Fair Value Measurement

The Museum values investments based on fair value measurements. Fair value is a market-based measurement, not an entity-specific measurement, and should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, GAAP establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1: Inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access.
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability other than quoted prices, such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.
- Level 3: Inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. For example, a Level 3 fair value measurement may include inputs that are observable (Levels 1 and 2) and unobservable (Level 3). The Museum's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Following is a description of valuation methodologies used for assets measured at fair value on a recurring basis:

Restricted investments in beneficial interest: Value is based upon information determined and reported by the Foundation and is corroborated by management using the Foundation's audited financial statements.

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

Notes to Financial Statements

Note 11 - Fair Value Measurement (continued)

There were no changes made to the valuation techniques used during the period.

The following table sets forth by level, within the fair value hierarchy, the Museum's investment assets measured on a recurring basis at fair value as of December 31, 2015.

| <u>Description</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|----------------|----------------|-------------------|-------------------|
| Restricted beneficial interest in assets held by foundation | \$ - | \$ - | \$ 927,624 | \$ 927,624 |
| Total | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 927,624</u> | <u>\$ 927,624</u> |

The following table sets forth by level, within the fair value hierarchy, the Museum's investment assets measured on a recurring basis at fair value as of December 31, 2014.

| <u>Description</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|----------------|----------------|-------------------|-------------------|
| Restricted beneficial interest in assets held by foundation | \$ - | \$ - | \$ 931,034 | \$ 931,034 |
| Total | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 931,034</u> | <u>\$ 931,034</u> |

Level 3 Changes

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

| | <u>For the Years Ended December 31,</u> | |
|---|---|-------------------|
| | <u>2015</u> | <u>2014</u> |
| Beginning balance | \$ 931,034 | \$ 878,877 |
| Total realized/unrealized (losses) gains included in earnings | (21,121) | 39,629 |
| Other investment income, net | <u>17,711</u> | <u>12,528</u> |
| Ending balance | <u>\$ 927,624</u> | <u>\$ 931,034</u> |

Note 12 - Retirement Plan

The Museum offers a simple individual retirement account ("IRA"). Eligible employees may participate in the IRA immediately, which allows for pre-tax eligible salary deferrals into the IRA. The Museum will contribute up to 3% of the employee's eligible gross salary, depending on the employee's deferral amount. The Museum contributed \$5,598 and \$6,811 to the IRA during the years ended December 31, 2015 and 2014, respectively.

SUPPLEMENTAL INFORMATION

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

Schedules of Functional Expenses

| | December 31, 2015 | | | | December 31, 2014 | | | |
|--------------------------------|---------------------|----------------------------|-------------------|---------------------|---------------------|----------------------------|-------------------|---------------------|
| | Program Services | Support Services | | | Program Services | Support Services | | |
| | | Administration and General | Fundraising | Total | | Administration and General | Fundraising | Total |
| Salaries and benefits | \$ 546,211 | \$ 102,377 | \$ 199,064 | \$ 847,652 | \$ 603,960 | \$ 48,799 | \$ 120,282 | \$ 773,041 |
| Depreciation and amortization | 357,627 | 18,823 | - | 376,450 | 358,658 | 18,877 | - | 377,535 |
| Exhibits | 758,741 | - | - | 758,741 | 356,195 | - | - | 356,195 |
| Insurance | 92,288 | 1,883 | - | 94,171 | 88,127 | 1,725 | - | 89,852 |
| Fees | 81,307 | 672 | 5,596 | 87,575 | 54,744 | 5,138 | 3,540 | 63,422 |
| Advertising | - | 47,964 | - | 47,964 | - | 63,005 | - | 63,005 |
| Professional fees | 3,606 | 26,483 | 6,198 | 36,287 | 30,382 | 16,034 | 10,663 | 57,079 |
| Supplies | 40,192 | 3,282 | 7,749 | 51,223 | 37,392 | 665 | 5,146 | 43,203 |
| Meals and entertainment | 390 | 1,879 | 14,819 | 17,088 | 4,495 | 192 | 30,687 | 35,374 |
| Cost of goods sold (gift shop) | 33,269 | - | - | 33,269 | 27,661 | - | - | 27,661 |
| Postage, printing, and other | 12,308 | 4,469 | 7,817 | 24,594 | 8,206 | 220 | 9,712 | 18,138 |
| Contracted services | 24,130 | - | 8,814 | 32,944 | 17,637 | - | - | 17,637 |
| Maintenance - exhibits | 8,543 | - | - | 8,543 | 14,302 | - | - | 14,302 |
| Interest expense | - | 4,091 | - | 4,091 | - | 11,199 | - | 11,199 |
| Travel | 4,349 | 1,505 | 464 | 6,318 | 3,743 | 5,425 | 69 | 9,237 |
| Total | \$ 1,962,961 | \$ 213,428 | \$ 250,521 | \$ 2,426,910 | \$ 1,605,502 | \$ 171,279 | \$ 180,099 | \$ 1,956,880 |