



FINANCIAL STATEMENTS
December 31, 2017 and 2016

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

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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, 2017 and 2016, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board. 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.

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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is 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 audit 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.

Change in Accounting Principle

As disclosed in Note 12 of the financial statements, Fort Collins Museum of Discovery, Nonprofit Partner (the Museum) has adopted a change in accounting principle for recognition of membership revenue effective January 1, 2015. Accordingly, the Museum has restated its December 31, 2016 and 2015 financial statements to retrospectively apply the cumulative effect of the newly adopted accounting principle in accordance with accounting principles generally accepted in the United States of America. We have audited the adjustments described in Note 12 that were applied to restate the December 31, 2016 and 2015 financial statements, and are not aware of any material modifications that should be made to the adjustments.

A handwritten signature in cursive script that reads "RLR" followed by "LLP" in a smaller font.

May 17, 2018
Fort Collins, Colorado

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

	2017	2016
<hr/>		
Current assets		
Cash and cash equivalents	\$ 270,248	\$ 371,290
Promises to give, net	109,479	335,993
Inventory, gift shop	8,900	10,077
Prepaid expenses	19,579	26,466
Traveling exhibit deposit	-	177,600
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Total current assets	408,206	921,426
Cash and cash equivalents (restricted)	1,807,224	1,919,621
Certificate of deposit (restricted)	-	76,114
Cash and cash equivalents (endowment)	18,686	18,686
Beneficial interest in		
assets held by foundation (endowment)	1,128,208	1,005,756
Long-term promises to give, net	242,645	-
Prepaid content programming, net	69,923	93,614
Property and equipment, net	4,842,223	4,783,775
	<hr/>	<hr/>
Total assets	\$ 8,517,115	\$ 8,818,992
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Current liabilities		
Accounts payable	\$ 59,292	\$ 33,932
Accrued expenses	86,649	85,522
Note payable, current maturities	40,000	-
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Total current liabilities	185,941	119,454
Note payable, less current maturities	160,000	-
	<hr/>	<hr/>
Total liabilities	345,941	119,454
	<hr/>	<hr/>
Net assets		
Unrestricted	4,591,550	5,068,614
Temporarily restricted	2,866,204	2,917,504
Permanently restricted	713,420	713,420
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Total net assets	8,171,174	8,699,538
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Total liabilities and net assets	\$ 8,517,115	\$ 8,818,992
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See accompanying notes to financial statements.

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

**STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017
Support, revenues, and gains				
Contributions				
In-kind support	\$ 45,066	\$ 98,696	\$ -	\$ 143,762
Foundations	119,843	25,220	-	145,063
Corporations	113,388	7,100	-	120,488
Individuals and other	45,862	1,571	-	47,433
Government grants	34,250	-	-	34,250
Admission fees and memberships	858,397	-	-	858,397
Investment return	380	122,452	-	122,832
Program revenue	41,537	-	-	41,537
Gift shops sales, net of cost of good sold of \$31,055	41,283	-	-	41,283
Special events revenue, net of direct benefits to donors of \$25,755	41,333	-	-	41,333
Net assets released from restrictions	306,339	(306,339)	-	-
Total support, revenues, and gains	1,647,678	(51,300)	-	1,596,378
Expenses and losses				
Program services	1,693,034	-	-	1,693,034
Administration and general	195,216	-	-	195,216
Fundraising	236,492	-	-	236,492
Total expenses and losses	2,124,742	-	-	2,124,742
Change in Net Assets	(477,064)	(51,300)	-	(528,364)
Net Assets, Beginning of Year, As Restated (Note 12)	5,068,614	2,917,504	713,420	8,699,538
Net Assets, End of Year	\$ 4,591,550	\$ 2,866,204	\$ 713,420	\$ 8,171,174

See accompanying notes to financial statements.

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

**STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016
Support, revenues, and gains				
Contributions				
In-kind support	\$ 110,953	\$ 20,416	\$ -	\$ 131,369
Foundations	107,483	28,400	-	135,883
Corporations	32,935	105	-	33,040
Individuals and other	54,634	10,171	-	64,805
Government grants	62,513	-	-	62,513
Admission fees and memberships	726,694	-	-	726,694
Investment return	362	78,132	-	78,494
Program revenue	69,535	-	-	69,535
Gift shops sales, net of cost of good sold of \$33,405	27,163	-	-	27,163
Special events revenue, net of direct benefits to donors of \$20,020	27,132	-	-	27,132
Net assets released from restrictions	624,024	(624,024)	-	-
Total support, revenues, and gains	1,843,428	(486,800)	-	1,356,628
Expenses and losses				
Program services	1,852,122	-	-	1,852,122
Administration and general	163,409	-	-	163,409
Fundraising	238,783	-	-	238,783
Total expenses and losses	2,254,314	-	-	2,254,314
Change in Net Assets	(410,886)	(486,800)	-	(897,686)
Net Assets, Beginning of Year, As Restated (Note 12)	5,479,500	3,404,304	713,420	9,597,224
Net Assets, End of Year	\$ 5,068,614	\$ 2,917,504	\$ 713,420	\$ 8,699,538

See accompanying notes to financial statements.

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets		
Adjustments to reconcile change in net assets to net cash provided by operating activities	\$ (528,364)	\$ (897,686)
Depreciation	279,275	359,026
Donated property and equipment	(37,583)	(22,916)
Change on discount on long-term promises to give	(4,245)	(1,750)
Changes in operating assets and liabilities		
Promises to give	(11,886)	47,309
Inventory, gift shop	1,177	3,612
Prepaid expenses	6,887	(8,121)
Traveling exhibit deposit	177,600	22,400
Prepaid content programming	23,691	14,246
Cash and cash equivalents, restricted	112,397	848,521
Accounts payable	25,360	(189,645)
Accrued expenses	1,127	23,062
Net cash provided by operating activities	45,436	198,058
Cash flows from investing activities		
Change in beneficial interest in investments	(122,452)	(78,132)
Reinvested earnings on certificate of deposit	(370)	(340)
Maturity of certificate of deposit	76,484	-
Purchases of property and equipment	(300,140)	(6,564)
Net cash (used) by investing activities	(346,478)	(85,036)
Cash flows from financing activities		
Advances on notes payable	200,000	-
Net cash provided by financing activities	200,000	-
Net change in cash and cash equivalents	(101,042)	113,022
Cash and cash equivalents, beginning of year	371,290	258,268
Cash and cash equivalents, end of year	\$ 270,248	\$ 371,290
Supplemental disclosure of non-cash activity		
In-kind contributions	\$ 143,762	\$ 131,369
Donated property and equipment	\$ (37,583)	\$ (22,916)
In-kind expenses	\$ (106,179)	\$ (108,453)

See accompanying notes to financial statements.

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

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 accounting principles generally accepted in the United States of America ("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 assets restricted by donors specifically for certain time periods, purposes, or exhibit 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. The Museum has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk on cash accounts.

Promises to Give

Promises to give consist of contributions relating to the exhibit 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 donor totaling 73% and 81% of total promises to give as of December 31, 2017 and 2016, respectively. Another donor totaled 23% of promises to give at December 31, 2017 and had no balance outstanding at December 31, 2016.

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

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

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 \$1,128,208 and \$1,005,756 at December 31, 2017 and 2016, respectively.

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.

Fair Value

Fair value is the price that would be received from the sale of an asset or settlement of a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities which are required to be recorded at fair value, the Museum considers the principal or most advantageous market in which a hypothetical sale or transfer would take place and consider assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of non-performance.

The fair value hierarchy is made up of three levels of inputs which may be used to measure fair value: Level 1—observable inputs such as quoted prices for identical instruments in active markets; Level 2—observable inputs such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model derived valuations in which all significant inputs are observable in active markets; and Level 3—unobservable inputs for which there is little or no market data and which require us to develop our own assumptions. The Museum categorizes fair value measurements within the fair value hierarchy based upon the lowest level of the most significant inputs used to determine such fair value measurement.

Prepaid Content Programming

Long-term prepaid usage agreements for content programming within the Museum are expensed over the remaining usage period, ranging from 5 to 10 years.

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, 2017 and 2016, \$440,832 and \$604,023, 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. Exhibit deposits are expensed over the remaining exhibit display period. The Museum had no exhibit deposits as of December 31, 2017 and \$177,600 as of December 31, 2016.

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

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

Property and Equipment

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.

Long-Lived Assets

The Museum is required to test for asset impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset might not be recoverable. The Museum analyzes assets for impairment when indicators of impairment are present. An impairment loss would be measured by comparing the amount by which the carrying value exceeds the fair value of the long-lived assets. The Museum did not recognize an impairment of long-lived assets during the years ending December 31, 2017 and 2016.

Membership Revenue Recognition

As more fully described in Note 12, the Museum changed its accounting policy for recognition of membership revenue during the year ended December 31, 2017. Membership dues are recognized as revenue when the membership period begins.

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, or when restrictions have otherwise been satisfied.

In-Kind Contributions

In-kind contributions consist of donated professional services, supplies, and equipment. 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, 2017 and 2016 was \$88,808 and \$88,043 respectively.

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

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

Income Taxes

The Museum is a not-for-profit corporation and qualifies as a tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is made in these financial statements.

The Museum has adopted the recognition requirements for uncertainty in income taxes as required by ASC 740-10. The standard prescribes a comprehensive model for how an organization should recognize, measure, present and disclose in the financial statements uncertainty in income taxes the organization has taken or expects to take on a tax return. The Museum's income tax filings are subject to audit by various taxing authorities.

In evaluating the Museum's tax provisions and accruals, interpretations and tax planning strategies are considered. The Museum believes their estimates are appropriate based on current facts and circumstances and have not recorded any reserves, or related accruals for interest and penalties for uncertainty in income taxes at December 31, 2017 and 2016.

Presentation of Sales Tax

The Museum conducts business in governmental jurisdictions in which a sales tax is imposed on all of the Museum's retail sales to non-exempt customers within their taxing district. The Museum collects sales tax from customers and remits the entire amount to the taxing authorities. The Museum's accounting policy is to exclude the tax collected and remitted from revenue and cost of goods sold.

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.

Reclassification

Certain reclassifications have been made to conform to current year presentation. These reclassifications have no effect on previously reported results of operations or total net assets.

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.

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

Note 2 - Promises to Give

Unconditional promises to give consist of the following:

	<u>2017</u>	<u>2016</u>
Exhibit campaign	\$ 298,554	\$ 292,552
Other	56,925	51,040
	<u>\$ 355,479</u>	<u>\$ 343,592</u>

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

	<u>2017</u>	<u>2016</u>
Receivables due within one year for operating expenses	\$ 6,926	\$ 51,040
Receivables due within one year for exhibit projects	102,553	292,552
Receivables due after one year	246,000	-
Total unconditional promises to give	<u>355,479</u>	<u>343,592</u>
Less discounts to net present value	(3,355)	(7,599)
Net unconditional promises to give	<u>\$ 352,124</u>	<u>\$ 335,993</u>

The discount rate used on long-term promises to give that were outstanding as of December 31, 2017 and 2016 ranged from 0.76% to 1.58%, determined at the inception of the underlying promises to give.

Note 3 – Beneficial Interest in Investments Held by the Foundation

Beneficial interest in investments held by the Community Foundation of Northern Colorado (the Foundation) consist of the following items:

	<u>2017</u>	<u>2016</u>
Equity securities in restricted beneficial interest in assets held by the Foundation	\$ 676,925	\$ 603,454
Debt securities in restricted beneficial interest in assets held by the Foundation	451,283	402,302
Total investments, at fair value	<u>\$ 1,128,208</u>	<u>\$ 1,005,756</u>

The fair value of the beneficial interest in assets held by the Foundation are determined by using Level 3 inputs of the fair value hierarchy. The fair value of Level 3 beneficial interest in investments held in the Foundation is determined by assuming a hypothetical transaction at the measurement date, as there is currently no market in which beneficial interests are traded and no observable exit price exists for a beneficial interest. The Museum has determined the fair value of the beneficial interest by using the fair value of the assets contributed to the fund, adjusted by the changes in fair value and distribution of the assets held in the fund, as reported to the Museum by the Foundation.

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

**NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

Note 4 - Restricted Cash and Cash Equivalents and Investments

As of December 31, 2017, 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:

	Permanent Endowment	Temporarily Restricted	Unrestricted	Total
Cash and cash equivalents	\$ 18,686	\$ 1,807,224	\$ 270,248	\$ 2,096,158
Beneficial interest in assets held by the Foundation	694,734	433,474	-	1,128,208
	<u>\$ 713,420</u>	<u>\$ 2,240,698</u>	<u>\$ 270,248</u>	<u>\$ 3,224,366</u>

As of December 31, 2016, 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:

	Permanent Endowment	Temporarily Restricted	Unrestricted	Total
Cash and cash equivalents	\$ 18,686	\$ 1,919,621	\$ 371,290	\$ 2,309,597
Beneficial interest in assets held by the Foundation	694,734	311,022	-	1,005,756
Certificate of deposit	-	76,114	-	76,114
	<u>\$ 713,420</u>	<u>\$ 2,306,757</u>	<u>\$ 371,290</u>	<u>\$ 3,391,467</u>

Note 5 - 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, 2017 and 2016, 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 \$433,474 and \$311,022 are reported in temporarily restricted net assets as of December 31, 2017 and 2016, 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

December 31, 2017 and 2016

Note 5 - 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, 2017 and 2016, the Museum did not elect to take a distribution.

Invested endowment net asset composition by type of fund and changes in invested endowment net assets for the fiscal year ended December 31, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 311,022	\$ 713,420	\$ 1,024,442
Investment return				
Investment income	-	18,227	-	18,227
Net appreciation	-	104,225	-	104,225
Total investment return	-	122,452	-	122,452
Endowment net assets, end of year	\$ -	\$ 433,474	\$ 713,420	\$ 1,146,894

Invested endowment net asset composition by type of fund and changes in invested endowment net assets for the fiscal year ended December 31, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 232,890	\$ 713,420	\$ 946,310
Investment return				
Investment income	-	27,763	-	27,763
Net appreciation	-	50,369	-	50,369
Total investment return	-	78,132	-	78,132
Endowment net assets, end of year	\$ -	\$ 311,022	\$ 713,420	\$ 1,024,442

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

Note 6 - Property and Equipment

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

	2017	2016
Building and improvements	\$ 5,366,026	\$ 5,366,026
Equipment	467,434	681,513
Furniture and fixtures	333,315	298,663
	<u>6,166,775</u>	<u>6,346,202</u>
Less accumulated depreciation	(1,324,552)	(1,562,427)
Total property and equipment	<u>\$ 4,842,223</u>	<u>\$ 4,783,775</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$279,275 and \$359,026, respectively.

Note 7 - 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 purpose:

	2017	2016
Earnings on endowment fund	\$ 433,474	\$ 311,022
Exhibit campaign	2,432,730	2,606,482
	<u>\$ 2,866,204</u>	<u>\$ 2,917,504</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:

	2017	2016
Endowment fund	<u>\$ 713,420</u>	<u>\$ 713,420</u>

Note 8 - Operating Agreement and Related Party

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.

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

Note 8 - Operating Agreement and Related Party (continued)

As a result of the Agreement, and the City's right to appoint up to three directors to the Museum's Board of Directors, the City is considered a related party to the Museum. During the years ended December 31, 2017 and 2016, the Museum recognized revenue from the City of \$31,120 and \$45,500, respectively. In addition, the City reimbursed the Museum for the City's portion of insurance premiums paid by the Museum in the amount of \$27,866 and \$30,057 for the years ended December 31, 2017 and 2016, respectively.

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 matured on December 31, 2017. Upon maturity, the Museum did not renew the line-of-credit agreement and the account was closed. As of December 31, 2016, the line of credit had no outstanding balance. The line of credit carried interest at 5% and was secured by promises to give and two bank accounts held at First Western Trust Bank.

Note 10 - 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 \$7,071 and \$6,591 to the IRA during the years ended December 31, 2017 and 2016, respectively.

Note 11. Note Payable

During the year ended December 31, 2017, the Museum entered into a \$200,000 note payable agreement with First Western Trust Bank maturing on December 21, 2022. Beginning January 2018, the Museum is required to make monthly interest-only payments at 4.25% for the term of the agreement. Beginning December 21, 2018, the Museum is required to make annual principal payments of \$40,000 until maturity, at which time all unpaid principal and interest are due. The note is secured by the assignment of the endowment fund at the Community Foundation of Northern Colorado.

Note 12. Change in Accounting Principle and Restatement of Previously Reported Balances

Prior to January 1, 2017, the Museum's accounting policy for the recognition of membership revenue was to recognize revenue ratably over the membership period. Effective January 1, 2017, the Museum adopted a membership revenue recognition accounting policy whereby membership revenues are recognized at the point the membership period has started. Management of the Museum believes the newly adopted revenue recognition policy is preferable to as it is more reflective of the Museum's membership revenue cycle and related operating activities of the Museum.

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

Note 12. Change in Accounting Principle and Restatement of Previously Reported Balances (continued)

In accordance with FASB ASC 250-10-45, *Change In Accounting Principle*, the Museum has restated its December 31, 2015 and 2016 net assets in order to retrospectively apply the cumulative effect of the new accounting principle from all prior periods. The effect of this restatement on net assets is as follows:

	Net Assets
December 31, 2015, previously reported	\$ 9,518,304
Effect of change in accounting principle	78,920
December 31, 2015, as restated	<u>\$ 9,597,224</u>
Change in net assets, previously reported	(938,920)
Effect of change in accounting principle	41,234
December 31, 2016, as restated	<u><u>\$ 8,699,538</u></u>

SUPPLEMENTAL INFORMATION

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2017

	Program Services	Administration and General	Fundraising	Total
Wages and benefits	\$ 785,634	\$ 57,984	\$ 188,331	\$ 1,031,949
Depreciation	263,715	15,560	-	279,275
Professional fees	23,463	46,575	7,665	77,703
Advertising	34,814	53,994	-	88,808
Contracted services	115,619	923	9,288	125,830
Supplies	35,940	1,982	7,991	45,913
Postage, printing and other	4,442	11,030	17,780	33,252
Meals and entertainment	3,401	4,127	1,057	8,585
Insurance	58,848	426	-	59,274
Fees	254,181	1,055	2,032	257,268
Content programming	33,816	-	-	33,816
Travel	4,346	1,560	2,348	8,254
Durable goods (exhibits)	67,370	-	-	67,370
Maintenance - exhibits	7,445	-	-	7,445
	<u>\$ 1,693,034</u>	<u>\$ 195,216</u>	<u>\$ 236,492</u>	<u>\$ 2,124,742</u>

See accompanying independent auditors' report

FORT COLLINS MUSEUM OF DISCOVERY, NONPROFIT PARTNER

SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2016

	Program Services	Administration and General	Fundraising	Total
Wages and benefits	\$ 679,378	\$ 57,036	\$ 184,689	\$ 921,103
Depreciation	340,061	18,965	-	359,026
Professional fees	32,857	38,985	500	72,342
Advertising	52,052	35,991	-	88,043
Contracted services	94,366	-	10,921	105,287
Supplies	33,760	2,754	10,710	47,224
Postage, printing and other	11,478	5,441	14,709	31,628
Meals and entertainment	2,893	1,758	13,346	17,997
Insurance	50,597	-	-	50,597
Fees	189,229	2,362	3,865	195,456
Content programming	20,271	-	-	20,271
Travel	12,048	117	43	12,208
Durable goods (exhibits)	290,339	-	-	290,339
Maintenance - exhibits	42,793	-	-	42,793
	<u>\$ 1,852,122</u>	<u>\$ 163,409</u>	<u>\$ 238,783</u>	<u>\$ 2,254,314</u>

See accompanying independent auditors' report