

Madison Children's Museum, Inc. and Affiliate

Consolidated Financial Report

June 30, 2016

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Madison Children's Museum, Inc. and Affiliate
Madison, Wisconsin

We have audited the accompanying consolidated financial statements of Madison Children's Museum, Inc. and Affiliate, which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, functional expenses 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 consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Madison Children's Museum, Inc. and Affiliate as of June 30, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adjustment to Prior Period Financial Statements

The consolidated financial statements of Madison Children's Museum, Inc. and Affiliate as of June 30, 2015, were audited by other auditors whose report dated September 22, 2015, expressed an unmodified opinion on those statements. As discussed in Note N, the organization has restated its 2015 consolidated statement of cash flows during the current year to report proceeds from the sale of donated investments as an operating activity, in accordance with accounting principles generally accepted in the United States of America. The other auditors reported on the 2015 consolidated financial statements before the restatement.

As part of our audit of the 2016 consolidated financial statements, we also audited the adjustment described in Note N that was applied to restate the 2015 consolidated statement of cash flows. In our opinion, such adjustment is appropriate and has been properly applied. We were not engaged to audit, review, or apply any procedures to the 2015 consolidated financial statements of the organization other than with respect to the adjustment and, accordingly, we do not express an opinion or any other form of assurance on the 2015 consolidated financial statements as a whole.

SVA Certified Public Accountants, S.C.

Madison, Wisconsin

September 8, 2016

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 144,666	\$ 131,643
Investments	1,378	1,503
Pledges receivable	190,775	130,893
Accounts receivable	708	41,523
Accrued interest receivable	23,323	23,323
Inventories	1,143,481	1,021,944
Prepaid expenses	17,454	19,317
	<u>1,521,785</u>	<u>1,370,146</u>
Total current assets	1,521,785	1,370,146
LONG-TERM ASSETS		
Property and equipment, net	13,431,947	13,879,620
Note receivable	4,005,368	3,998,281
Pledges receivable, net	24,948	69,263
Debt issuance costs, net	85,013	121,448
Cash designated and restricted for Kresge Foundation repair fund	272,327	218,771
Cash and investments restricted for endowment purposes	5,995	5,995
	<u>17,825,598</u>	<u>18,293,378</u>
Total long-term assets	17,825,598	18,293,378
TOTAL ASSETS	<u>\$ 19,347,383</u>	<u>\$ 19,663,524</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 36,678	\$ 55,783
Due to American Girl's Fund For Children	570,311	504,118
Accrued expenses	108,020	95,461
Accrued interest payable	30,283	30,283
Security deposits payable	11,000	1,500
Current portion of notes payable	9,210	9,211
Line of credit	64,963	42,000
Deferred revenue	85,331	126,856
	<u>915,796</u>	<u>865,212</u>
Total current liabilities	915,796	865,212
LONG-TERM LIABILITIES		
Notes payable	6,022,219	6,031,428
	<u>6,022,219</u>	<u>6,031,428</u>
TOTAL LIABILITIES	6,938,015	6,896,640
NET ASSETS		
Unrestricted	11,999,923	12,429,537
Temporarily restricted	403,450	331,352
Permanently restricted	5,995	5,995
	<u>12,409,368</u>	<u>12,766,884</u>
Total net assets	12,409,368	12,766,884
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 19,347,383</u>	<u>\$ 19,663,524</u>

The accompanying notes are an integral part of these consolidated financial statements.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended June 30, 2016 and 2015

	2016	2015
UNRESTRICTED NET ASSETS		
Public support, revenue, and gains:		
Donated inventory, services, and materials	\$ 525,645	\$ 501,452
Annual benefit sale	464,940	550,467
Contributions and grants	421,879	836,606
Visitor services	880,924	921,725
Other income	14,077	854
Endowment distributions	223,270	207,261
Membership dues	355,736	360,532
Other events	270,794	269,960
Investment return	284,748	248,546
 Total unrestricted public support, revenue and gains	 3,442,013	 3,897,403
Expenses:		
Program services:		
Exhibit programs	1,177,622	1,160,781
Education	578,913	686,458
Marketing and visitor services	504,412	519,672
 Total program services	 2,260,947	 2,366,911
Supporting activities:		
Administration	720,371	722,429
Fundraising	417,565	418,922
Annual benefit sale	540,646	631,410
 Total supporting expenses	 1,678,582	 1,772,761
 Total expenses	 3,939,529	 4,139,672
 Net assets released from restrictions	 67,902	 1,222,349
 Change in unrestricted net assets	 (429,614)	 980,080
 TEMPORARILY RESTRICTED NET ASSETS		
Contributions and grants	140,000	44,717
Net assets released from restrictions	(67,902)	(1,222,349)
 Change in temporarily restricted net assets	 72,098	 (1,177,632)
 Change in net assets	 (357,516)	 (197,552)
Net assets, beginning	12,766,884	12,964,436
Net assets, ending	\$ 12,409,368	\$ 12,766,884

The accompanying notes are an integral part of these consolidated financial statements.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
Years ended June 30, 2016 and 2015

	Program services				Supporting services				Total expenses
	Exhibit programs	Education	Marketing and visitor services	Total program services	Administration	Fundraising	Annual benefit sale	Total supporting services	
2016									
Expenses:									
Cost of sales	\$ 0	\$ 0	\$ 40,472	\$ 40,472	\$ 0	\$ 0	\$ 394,560	\$ 394,560	\$ 435,032
Depreciation	284,899	10,162	10,162	305,223	142,450	0	0	142,450	447,673
Dues and subscriptions	149	560	775	1,484	7,081	75	47	7,203	8,687
Events, meetings, travel and training	6,595	14,746	2,701	24,042	5,711	15,270	1,547	22,528	46,570
Insurance	0	0	0	0	23,107	0	0	23,107	23,107
Interest and bank charges	235,397	8,396	35,069	278,862	155,687	4,600	10,706	170,993	449,855
Maintenance and repairs	34,621	808	808	36,237	11,326	0	0	11,326	47,563
Occupancy	64,734	2,330	2,309	69,373	32,368	0	79,053	111,421	180,794
Office supplies	7,421	1,153	3,072	11,646	5,804	939	1,250	7,993	19,639
Personnel	403,021	473,135	353,169	1,229,325	256,238	226,577	25,473	508,288	1,737,613
Printing, postage and copying	455	691	3,204	4,350	12,185	34,228	2,132	48,545	52,895
Professional services	80,330	37,202	2,710	120,242	59,338	66,559	6,629	132,526	252,768
Program supplies	51,673	29,458	16,533	97,664	5,592	58,220	19,249	83,061	180,725
Publicity	0	23	17,555	17,578	0	150	0	150	17,728
Technology	8,327	249	15,873	24,449	3,484	10,947	0	14,431	38,880
Total expenses	\$ 1,177,622	\$ 578,913	\$ 504,412	\$ 2,260,947	\$ 720,371	\$ 417,565	\$ 540,646	\$ 1,678,582	\$ 3,939,529

	Program services				Supporting services				Total expenses
	Exhibit programs	Education	Marketing and visitor services	Total program services	Administration	Fundraising	Annual benefit sale	Total supporting services	
2015									
Expenses:									
Cost of sales	\$ 0	\$ 0	\$ 40,365	\$ 40,365	\$ 0	\$ 0	\$ 491,489	\$ 491,489	\$ 531,854
Depreciation	292,013	10,416	10,416	312,845	146,007	0	0	146,007	458,852
Dues and subscriptions	816	619	446	1,881	9,817	7,130	0	16,947	18,828
Events, meetings, travel and training	3,145	27,287	931	31,363	4,306	13,559	1,632	19,497	50,860
Insurance	0	0	0	0	22,161	0	0	22,161	22,161
Interest and bank charges	235,441	10,089	33,521	279,051	155,353	1,039	13,269	169,661	448,712
Maintenance and repairs	33,186	1,184	1,184	35,554	16,593	0	33	16,626	52,180
Occupancy	62,682	2,258	2,236	67,176	31,341	0	82,912	114,253	181,429
Office supplies	4,800	9,877	1,342	16,019	6,090	1,022	477	7,589	23,608
Personnel	380,225	550,012	352,676	1,282,913	258,052	221,738	30,999	510,789	1,793,702
Printing, postage and copying	2,410	178	18,413	21,001	11,764	17,739	1,617	31,120	52,121
Professional services	81,101	42,175	4,233	127,509	52,830	67,957	6,199	126,986	254,495
Program supplies	57,230	32,125	10,736	100,091	4,782	60,295	2,758	67,835	167,926
Publicity	0	0	22,685	22,685	0	7,517	25	7,542	30,227
Technology	7,732	238	20,488	28,458	3,333	20,926	0	24,259	52,717
Total expenses	\$ 1,160,781	\$ 686,458	\$ 519,672	\$ 2,366,911	\$ 722,429	\$ 418,922	\$ 631,410	\$ 1,772,761	\$ 4,139,672

The accompanying notes are an integral part of these consolidated financial statements.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended June 30, 2016 and 2015

	2016	Restated 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (357,516)	\$ (197,552)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	484,108	495,287
Net realized and unrealized gain on investments	(154)	(13,069)
Change in contributed inventory	(121,537)	55,833
Donated investments	(2,464)	(277,183)
Proceeds from sale of donated investments	2,743	290,504
Increase (decrease) in cash due to changes in:		
Pledges receivable	(37,566)	764,826
Accounts receivable	40,815	(42,655)
Prepaid expenses	1,863	14,363
Accounts payable	(19,105)	47,468
Due to American Girl's Fund For Children	66,193	(34,770)
Accrued expenses	12,559	(6,156)
Security deposits payable	9,500	0
Deferred revenue	(41,525)	28,676
	37,914	1,125,572
CASH FLOWS FROM INVESTING ACTIVITIES		
Note receivable made	(7,087)	(1,348,281)
Net change in cash designated and restricted for Kresge Foundation repair fund	(53,556)	(53,673)
	(60,643)	(1,401,954)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	171,109	172,200
Payments on line of credit	(148,146)	(172,200)
Payments on notes payable	(9,210)	(9,211)
Proceeds from contributions restricted for museum relocation	21,999	78,797
	35,752	69,586
Change in cash and cash equivalents	13,023	(206,796)
Cash and cash equivalents:		
Beginning	131,643	338,439
Ending	\$ 144,666	\$ 131,643
SUPPLEMENTAL DISCLOSURE(S) OF CASH FLOW INFORMATION		
Cash payments for interest	\$ 370,457	\$ 339,169
SUPPLEMENTAL SCHEDULE(S) OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Donated investments	\$ 2,464	\$ 277,183

The accompanying notes are an integral part of these consolidated financial statements.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

NOTE A -- Nature of business and significant accounting policies

Nature of business

Madison Children's Museum, Inc. (the Museum), located in Madison, Wisconsin is a non-profit organization dedicated to discovery learning for children and families. Hands-on exhibits and special events allow children to explore culture, science, technology, and art. The Museum stimulates creativity and curiosity through its exhibits and programs, encourages the potential found within all children, and enhances family activities and classroom study. The Museum's affiliate, Madison Children's Museum Foundation, Inc. (Foundation) was organized in 2002 for the benefit of the Museum. The Foundation receives, manages, and disburses funds intended to benefit the Museum in accordance with the terms of the agreement between the two organizations. The Museum and its affiliate are collectively referred to herein as "the organization".

A summary of significant accounting policies follows:

Basis of accounting

The consolidated financial statements of the organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of consolidation

The consolidated financial statements include the accounts of the Museum and Foundation. The Foundation is consolidated since the Museum has both an economic interest in the Foundation and control of the Foundation through a majority voting interest in its governing body. All material intra-entity transactions have been eliminated.

Basis of presentation

Under accounting principles generally accepted in the United States of America (U.S. GAAP), the organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are not restricted by donors. Designations are voluntary board-approved segregations of unrestricted net assets for specific purposes, projects, or investments. The board has designated net assets of \$136,164 and \$109,386 for the Kresge Foundation repair fund as of June 30, 2016 and 2015.

Temporarily restricted net assets have been limited by donor-imposed time restrictions or purpose restrictions.

Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity. Unless restricted by the donor, income earned on these funds is considered unrestricted and may be used at the Foundation's discretion.

Use of estimates

The preparation of financial statements 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.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016

NOTE A -- Nature of business and significant accounting policies (Continued)

Exempt status

The Museum and Foundation are exempt from income taxes under Internal Revenue Code Section 501(c)(3) as public charities and not private foundations. The Foundation is a supporting organization of the Museum. Both entities are also exempt from Wisconsin income tax.

Cash and cash equivalents

For purposes of reporting cash flows, the organization considers all investments purchased with a maturity of three months or less to be cash equivalents, with the exception of cash not available to the organization due to restrictions placed on it.

The organization maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

Investments

Purchased investments are recorded at fair value, and donated investments are recorded as contributions at fair value on the date of receipt. Realized gains and losses on sales of investments are determined on the basis of specific identification of the cost of the security sold.

Pledges receivable

Unconditional pledges are recognized as support or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional pledges are recognized only when the conditions on which they depend are substantially met and the pledges become unconditional.

Accounts receivable

The organization considers all accounts receivable to be fully collectible. Accordingly, no allowance for doubtful accounts has been developed. If amounts become uncollectible they will be charged to operations when that determination is made. Accounts receivable are not interest-bearing. A receivable is considered past due if payments have not been received by the organization after 30 days.

Inventories

Inventories consist of donated items that are sold in the annual benefit sale (see Note M) and items sold at the gift counter of the Museum.

The donated items are recognized as inventory and revenue when they are in a saleable condition. The donated inventory is stated at its estimated selling price and adjusted based on subsequent sales at the annual benefit sale held in July.

The gift counter inventory is stated at lower of cost or market, with cost determined by the average cost method.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

NOTE A -- Nature of business and significant accounting policies (Continued)

Property and equipment

Property and equipment is stated at cost if purchased or fair value on date of receipt if received as a gift or bequest, less accumulated depreciation. Depreciation of property and equipment is computed by the straight-line method based on the following estimated useful lives.

	<u>Years</u>
Building and improvements	3 - 40
Leasehold improvements	7 - 10
Equipment	3 - 7

Maintenance and repairs of property and equipment are charged to operations, and major improvements are capitalized. Upon retirement, sale or other disposition of equipment, the cost and accumulated depreciation are eliminated from the accounts, and any resulting gain or loss is included in operations.

Depreciation expense amounted to \$447,673 and \$458,852 for the years ended June 30, 2016 and 2015, respectively.

Capitalization policy

The organization's policy is to capitalize property and equipment with a unit cost in excess of \$2,500.

Impairment of long-lived assets

The organization reviews long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Note receivable

Note receivable is stated at its outstanding unpaid principal balance. On a periodic basis, the organization evaluates its receivables. Principal and accrued interest is considered past due if payment is not made within 15 days of its due date. If it should become necessary, an allowance for uncollectible accounts would be established. Similarly, if an account would no longer be considered collectible by management, it would be written-off. Interest income on the note is accrued over the term of the note based on the principal amount outstanding. Interest income on the note is recognized in the period earned.

Debt issuance costs

In October 2011, the organization refinanced its Park Bank mortgage using loans provided through the New Markets Tax Credit program. Debt issuance costs totaled \$255,042 and are being amortized on the straight-line method over 84 months, the life of the loans. The use of the straight-line method rather than the effective interest method has no material effect on the consolidated financial statements. Amortized costs included in interest expense totaled \$36,435 for each of the years ended June 30, 2016 and 2015.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

NOTE A -- Nature of business and significant accounting policies (Continued)

Due to American Girl's Fund for Children

Due to American Girl's Fund for Children is recorded at 50% of the ending benefit sale inventory amount due to the fact that the Museum is obligated to pay 50% of sales from the Annual Benefit Sale to the American Girl's Fund for Children (see Note M).

Deferred revenue

Deferred revenue represents fees for facility rental or registrations/ticket sales for events that will take place in the next fiscal year.

Revenue recognition

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

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished, such as the payment of expenses related to the restriction), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the organization reports the support as unrestricted.

Membership dues are recognized as revenue when received by the organization. Other revenue is recognized when earned by the organization.

Interest, dividends, gains and losses on investments are reported as an increase or decrease in unrestricted net assets unless explicitly restricted by donors.

Donated services and materials

Donated services that create or enhance non-financial assets or that require specialized skill, are performed by people with those skills, and would otherwise be purchased, are recognized as contributions at their estimated fair value in the period received. Volunteers also perform a variety of tasks that assist the organization with various programs and activities that are not recognized as contributions in the consolidated financial statements since the recognition criteria were not met. Donated materials received that are not related to the annual benefit sale are recorded at their estimated fair value in the period received.

Sales tax

The State of Wisconsin and Dane County impose a combined sales tax of 5.5% on the organization's sales to nonexempt customers. The organization collects that sales tax from customers and remits the entire amount to the State. The organization's accounting policy is to exclude the tax collected and remitted to the State from revenue and cost of sales.

Expense allocation

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

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016

NOTE A -- Nature of business and significant accounting policies (Continued)

Program services

The organization's significant program services consist of the following:

Exhibit programs

Exhibit programs are a primary means by which the organization accomplishes its tax-exempt mission. Exhibit programs comprise research development of interactive exhibits and the physical design, construction, installation, maintenance, and evaluation of exhibits. The organization actively solicits community input to ensure that information and issues presented are current, factual, and developmentally appropriate. Exhibit programs are integrated with education initiatives and are based on accepted learning theories, employing a broad range of educational methodologies to stimulate curiosity and motivate learning. The organization collaborates with its community to ensure that education initiatives and exhibits meet community needs and provide quality educational resources and experiences for children, their families, teachers, and care givers. Exhibit programs are developed in conjunction with Education and Visitor Services.

Education

Education programs comprise the organization's education programming and visitor/participant experience. Education programs are designed and implemented to advance the organization's tax- exempt purpose, mission, and values. The Education Department works closely with the Exhibit and Marketing/Visitor Services programs to assure integrated, educationally rich, visitor-focused environments and experiences. The Education Department helps the organization reach its institutional goals by facilitating visitor learning and enjoyment within the organization and in community outreach activities.

Marketing and visitor services

The marketing and visitor services program provides the organization's constituencies with convenient ways to access a broad range of museum educational exhibits, programs, and services. The program comprises areas of public relations, media relations, advertising, promotion, outreach, and publications. Rental of the facility for private gatherings helps to extend the reach of the mission to a wide age range, supporting lifelong learning and strengthening social bonds. Programs are designed and implemented to make the museum accessible and attractive to the broadest possible audience.

Advertising

The organization uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense was \$45,783 and \$79,976 for the years ended June 30, 2016 and 2015, respectively.

Subsequent events

These consolidated financial statements have not been updated for subsequent events occurring after September 8, 2016, which is the date these consolidated financial statements were available to be issued. The organization has no responsibility to update these consolidated financial statements for events and circumstances occurring after this date.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016

NOTE A -- Nature of business and significant accounting policies (Continued)

Reclassifications

Some items in the 2015 financial statements have been reclassified to be consistent with the current year's presentation.

NOTE B -- Investments

The following is a summary of the organization's investments as of June 30:

	<u>2016</u>	<u>2015</u>
GNMA mortgage note, 7.5% due June 15, 2022	\$ 102	\$ 146
GNMA mortgage note, 7% due September 15, 2025	<u>1,276</u>	<u>1,357</u>
Total investments	<u>\$ 1,378</u>	<u>\$ 1,503</u>

Investment return has been recorded as unrestricted revenue in the consolidated statements of activities. The following is a summary of the organization's investment income for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Note receivable interest	\$ 284,544	\$ 235,259
Interest	50	218
Net realized and unrealized gains	<u>154</u>	<u>13,069</u>
Investment return	<u>\$ 284,748</u>	<u>\$ 248,546</u>

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016

NOTE C -- Pledges receivable

Pledges receivable at June 30 consisted of the following:

	2016	2015
Pledges - operating	\$ 53,570	\$ 63,251
Pledges - restricted	135,065	87,818
Pledges - capital campaign	35,140	59,889
 Pledges receivable	 \$ 223,775	 \$ 210,958
 Receivable in less than one year	 \$ 190,775	 \$ 130,893
Receivable in one to five years	33,000	80,065
 Pledges receivable	 \$ 223,775	 \$ 210,958
Discount to net present value	(5,000)	(5,000)
Provision for uncollectible pledges receivable	(3,052)	(5,802)
 Pledges receivable - net	 \$ 215,723	 \$ 200,156

Pledges receivable in one year or more are discounted to net present value using a discount rate of 2.5%. Pledges receivable in less than one year are measured at net realizable value which approximates fair value. The organization routinely assesses the financial strength of its contributors and patrons and, as a consequence, believes the majority of its receivables to be fully collectible.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016

NOTE D -- Fair value disclosure

The fair value measurement for the categories of assets that are measured at fair value on a recurring basis are as follows:

	<u>6/30/2016</u>	<u>Fair value measurement using</u>		
		<u>Quoted prices in active markets for identical inputs (level 1)</u>	<u>Significant other observable inputs (level 2)</u>	<u>Significant unobservable inputs (level 3)</u>
<u>Assets</u>				
Long-term pledges receivable, net ¹	\$ 24,948	\$ 0	\$ 24,948	\$ 0
Investments ² :				
GNMA mortgage note, 7.5%	102	0	102	0
GNMA mortgage note, 7%	1,276	0	1,276	0
Total investments	\$ 1,378	\$ 0	\$ 1,378	\$ 0

	<u>6/30/2015</u>	<u>Fair value measurement using</u>		
		<u>Quoted prices in active markets for identical inputs (level 1)</u>	<u>Significant other observable inputs (level 2)</u>	<u>Significant unobservable inputs (level 3)</u>
<u>Assets</u>				
Long-term pledges receivable, net ¹	\$ 69,263	\$ 0	\$ 69,263	\$ 0
Investments ² :				
GNMA mortgage note, 7.5%	146	0	146	0
GNMA mortgage note, 7%	1,357	0	1,357	0
Total investments	\$ 1,503	\$ 0	\$ 1,503	\$ 0

1. The long term portion of pledges receivable is derived from the net present value of the receivables more than one year with the consideration of the discount rate described in Note C.
2. Fair values of GNMA mortgage notes are determined by reference to quoted markets prices for similar investments, yield curves, and other relevant information.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE
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NOTE E -- Property and equipment, net

Property and equipment, net is comprised of the following:

	2016	2015
Building and improvements	\$ 16,056,721	\$ 16,056,721
Leasehold improvements	19,064	19,064
Equipment	214,944	214,944
	16,290,729	16,290,729
Less accumulated depreciation	2,858,782	2,411,109
	\$ 13,431,947	\$ 13,879,620

NOTE F -- Note receivable

The New Markets Tax Credit financing requires the Foundation to issue a note receivable totaling \$2,725,000 to MCM Investment Fund LLC during the term of the A and B notes payable described in Note G. The organization receives interest income at 7% of the outstanding balance over this period. The organization may loan additional funds under this note to MCM Investment Fund LLC prior to October 2018. The note matures in December 2018. The balance at June 30, 2016 and 2015 was \$4,005,368 and \$3,998,281, respectively.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE
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NOTE G -- Notes payable

Notes payable consist of the following:

	2016	2015
JCDC II; provided through the New Markets Tax Credit program (A loan); monthly interest-only payments at 6.05662%; due December 2018; collateralized by a mortgage on the organization's building; no prepayment allowed. In October 2018, it is anticipated that the note receivable outstanding described in Note F will be applied against this note and the balance will be refinanced.	\$ 4,873,869	\$ 4,873,869
JCDC II; provided through the New Markets Tax Credit program (B loan); monthly interest-only payments at 6.05662% through December 2018; monthly payments of \$7,640, including interest at 6.05662%, starting January 2019; due October 2041; collateralized by a mortgage on the organization's building; no prepayment allowed prior to expiration of the New Markets Tax Credit Recapture Period (October 2018). It is anticipated that the organization will purchase the B loan for a nominal amount in October 2018.	1,126,131	1,126,131
City of Madison; original amount of \$38,827 used to finance energy improvements in the building; non-interest bearing; annual principal payments of \$7,765; due July 1, 2017; no collateral provided.	15,531	23,296
City of Madison; original amount of \$21,679 for assessment of property improvements; interest at 2.5%; annual payments of principal of \$1,445 through 2027; no collateral provided.	<u>15,898</u>	<u>17,343</u>
	\$ 6,031,429	\$ 6,040,639
Less current maturities	<u>9,210</u>	<u>9,211</u>
	<u>\$ 6,022,219</u>	<u>\$ 6,031,428</u>

Interest expense incurred on notes payable totaled \$370,457 and \$369,452 during the years ended June 30, 2016 and 2015, respectively.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE
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NOTE G -- Notes payable (Continued)

Repayment of principal on the notes payable as of June 30, 2016, is as follows:

Year ending June 30,

2017	\$ 9,210
2018	9,211
2019	4,887,199
2020	26,320
2021	27,869
Thereafter	<u>1,071,620</u>
	<u>\$ 6,031,429</u>

NOTE H -- Line of credit

A line of credit of \$400,000 is available from Park Bank and carries interest at prime plus 0.75 percentage points, but never less than 4.25% (4.25% as of June 30, 2016). The term of the line of credit expires May 2017 at which time the organization anticipates renewing it for an additional one year term. The line of credit is secured by all business assets of the organization.

NOTE I -- Net assets

Temporarily restricted net assets

Temporarily restricted net assets include assets set aside in accordance with donor restrictions as to time or purpose. Temporarily restricted net assets are available for the following purposes or periods as of June 30:

	<u>2016</u>	<u>2015</u>
Purpose restricted:		
Capital campaign	\$ 27,088	\$ 49,088
Kresge Foundation repair fund	156,000	156,000
Keystone debt prefunding	13,297	18,297
2020 funds	13,495	44,717
Designed to Move Funds	40,000	0
Autism Project	100,000	0
Time restricted:		
Pledges receivable due in subsequent years	<u>53,570</u>	<u>63,250</u>
Temporarily restricted net assets	<u>\$ 403,450</u>	<u>\$ 331,352</u>

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

NOTE I -- Net assets (Continued)

Permanently restricted net assets

Permanently restricted net assets include assets set aside in perpetuity in accordance with donor restrictions. Permanently restricted net assets as of June 30 consist of the following:

	<u>2016</u>	<u>2015</u>
Madison Children's Museum Foundation, Inc. Endowment	<u>\$ 5,995</u>	<u>\$ 5,995</u>

NOTE J -- Contributions and grants

Contributions and grants during the years ended June 30, consisted of the following:

	<u>2016</u>	<u>2015</u>
Individual	\$ 262,858	\$ 605,845
Foundations	170,481	76,820
Corporations	71,337	112,684
Government	<u>57,203</u>	<u>85,974</u>
Contributions and grants	<u>\$ 561,879</u>	<u>\$ 881,323</u>

NOTE K -- Operating lease

The organization leases warehouse space to store donated inventory and as the location for its annual benefit sale. The lease expires October 2017 with two automatic renewal terms through September 2027, provided the Museum has not given prior notice of vacating or is in default under the lease agreement. The lease requires monthly rent payments of \$4,245 (commencing October 2012), subject to annual increases equal to the change in the Consumer Price Index over the previous year. In addition, the lease requires additional rent as reimbursement for the organization's share of the warehouse real estate taxes and operating expenses. Total rent expense, including the additional rent for the organization's share of real estate taxes and operating expenses, was \$79,246 and \$83,155 during the years ended June 30, 2016 and 2015, respectively.

Future minimum lease payments under this lease are as follows:

Year ending June 30,

2017	\$ 57,336
2018	<u>14,764</u>
	<u>\$ 72,100</u>

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE L -- Endowment funds – Madison Community Foundation

The organization has four Endowment Funds (Funds) that are operated as a component part of Madison Community Foundation, numbered 1030590, 1030591, 1030592, and 1030772. Fund 1030590, the Fund for the Future, holds gifts to an endowment that were matched dollar for dollar by a board member, up to \$500,000. Fund 1030772, the Pleasant Rowland Great Performance Fund, is a challenge grant fund that was matched dollar for dollar, up to \$2,000,000. Fund 1030591 holds the original donations toward the Great Performance Fund which were matched as described above. Fund 1030592 holds all gifts to endowment outside of the three funds mentioned.

Annual distributions of up to 4.75% of a rolling twelve-quarter average are available for operations. All other interest and appreciation is reinvested into the Funds. Principal may not be drawn from the Funds except with approval from the Madison Community Foundation's Board of Governors. The Madison Community Foundation has variance power that allows it to modify the donors' stipulations under certain circumstances. Due to these restrictions, the Funds have not been recorded in the organization's consolidated financial statements.

The fair values at June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Fund 1030590	\$ 1,075,608	\$ 1,154,180
Fund 1030772	1,741,470	1,900,351
Fund 1030591	1,592,558	1,730,928
Fund 1030592	<u>46,384</u>	<u>50,662</u>
	<u>\$ 4,456,020</u>	<u>\$ 4,836,121</u>

Endowment distributions received and recognized in the consolidated financial statements during the years ended June 30 consisted of the following:

	<u>2016</u>	<u>2015</u>
Fund 1030590	\$ 50,988	\$ 39,531
Fund 1030772	88,947	86,629
Fund 1030591	80,922	78,600
Fund 1030592	<u>2,413</u>	<u>2,501</u>
	<u>\$ 223,270</u>	<u>\$ 207,261</u>

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE
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NOTE M -- Annual Benefit Sale

The organization has an agreement with American Girl Brands, LLC for the Annual Benefit Sale. Under this agreement, American Girl Brands, LLC will donate damaged, excess, and returned merchandise to the organization for repair and sale. The organization will organize a group of volunteers who will repair and organize the merchandise and implement a large-scale benefit sale. Revenue from the sale, less applicable sales taxes and bank charges, will be divided equally between the American Girl's Fund for Children Foundation and the organization. The organization treats this as an agency transaction. In the event net revenue from the Annual Benefit Sale exceeds \$1.5 million or if the organization's portion of net revenue comprises over 35% of their annual support and revenue, American Girl Brands, LLC shall have the option to reinstate the matching principles for future benefit sales as they had been applied during past sales. Either party can terminate the agreement with written notice. However, upon termination of this agreement, American Girl Brands, LLC shall continue adhering to these terms with the organization for an additional two years. Annual benefit sale revenue also includes income from ticket sales and sales of merchandise donated by other corporations directly to the organization.

The following summarizes the Annual Benefit Sale revenue amount included in the consolidated statements of activities:

	<u>2016</u>	<u>2015</u>
Gross receipts	\$ 852,802	\$ 1,050,187
Less: Sales tax and bank charges	<u>58,485</u>	<u>67,655</u>
Net sales	794,317	982,532
American Girl Fund for Children current year event distribution	<u>(387,747)</u>	<u>(482,810)</u>
Organization's portion of sales revenue	406,570	499,722
Ticket sales for benefit sale	47,504	35,770
Other benefit revenue	<u>10,866</u>	<u>14,975</u>
Annual Benefit Sale revenue	<u>\$ 464,940</u>	<u>\$ 550,467</u>

An amount payable to American Girl's Fund for Children Foundation is reported as Due to American Girl's Fund for Children in the consolidated statements of financial position. The payable of \$570,311 and \$504,118 at June 30, 2016 and 2015, respectively, is an estimated amount that will be payable from the next benefit sale and is based on 50% of the estimated fair value of the donated merchandise held in inventory as of June 30, 2016 and 2015, respectively.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

NOTE N -- Prior period adjustment

The 2015 statement of cash flows was restated to properly classify \$290,504 of proceeds from sale of donated investments as an operating activity. This amount was previously classified as an investing activity. This prior period adjustment had no effect on the other financial statements.

NOTE O -- Conditional grants

As of June 30, 2016, a conditional grant has been promised to the Museum which has not been recorded as a receivable in these consolidated financial statements. According to U.S. GAAP, pledged/promised contributions/grants should not be recognized in the consolidated financial statements until substantially all of the conditions placed on the grant have been met.

<u>Grant</u>	<u>Amount</u>	<u>Condition</u>	<u>Time period when condition expected to be met</u>
Institute of Museum and Library Services	\$ 148,800	Incur expenses to encourage increased physical activity by redesigning stairwells at the Museum	7/1/16 – 10/31/17