

Madison Children's Museum, Inc. and Affiliate

Consolidated Financial Report

June 30, 2017

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Consolidated statements of financial position	3
Consolidated statements of activities	4
Consolidated statements of functional expenses	5
Consolidated statements of cash flows	6
Notes to consolidated financial statements	7



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 statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adjustment to Prior Period Financial Statements

As disclosed in Note N to the consolidated financial statements, management has restated Madison Children's Museum, Inc. and Affiliate's June 30, 2016 consolidated financial statements to reflect the effect of reclassifying board designated unrestricted net assets as temporarily restricted net assets. Our opinion is not modified with respect to this matter.

Effect of Adopting New Accounting Standard

As discussed in Note G, the Financial Accounting Standards Board (FASB) issued a revised accounting standard for the presentation of debt issuance costs. The new standard requires debt issuance costs to be reported as a direct deduction from the face amount of the related debt rather than as a deferred charge in the statement of financial position. Adoption of the new standard requires retrospective application to all periods presented in the consolidated financial statements. Our opinion is not modified with respect to this matter.

SVA Certified Public Accountants, S.C.

Madison, Wisconsin

September 11, 2017

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

	2017	Restated 2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 180,158	\$ 144,666
Investments	0	1,378
Pledges receivable	152,159	190,775
Accounts receivable	20,862	708
Accrued interest receivable	23,654	23,323
Inventories	1,027,523	1,143,481
Prepaid expenses	19,299	17,454
	1,423,655	1,521,785
LONG-TERM ASSETS		
Property and equipment, net	13,250,036	13,431,947
Note receivable	4,054,975	4,005,368
Pledges receivable, net	23,448	24,948
Cash designated and restricted for building system replacements and maintenance	310,570	272,327
Cash and investments restricted for endowment purposes	5,995	5,995
	17,645,024	17,740,585
Total long-term assets	17,645,024	17,740,585
TOTAL ASSETS	\$ 19,068,679	\$ 19,262,370
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 58,293	\$ 36,678
Due to American Girl's Fund For Children	511,541	570,311
Accrued expenses	133,291	108,020
Accrued interest payable	30,283	30,283
Security deposits payable	13,500	11,000
Current maturities of notes payable	9,210	9,210
Line of credit	300,000	64,963
Deferred revenue	87,200	85,331
	1,143,318	915,796
Total current liabilities	1,143,318	915,796
LONG-TERM LIABILITIES		
Notes payable, less current maturities, net	5,964,429	5,937,206
	5,964,429	5,937,206
TOTAL LIABILITIES	7,107,747	6,853,002
NET ASSETS		
Unrestricted	11,362,804	11,863,759
Temporarily restricted	592,133	539,614
Permanently restricted	5,995	5,995
	11,960,932	12,409,368
Total net assets	11,960,932	12,409,368
TOTAL LIABILITIES AND NET ASSETS	\$ 19,068,679	\$ 19,262,370

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, 2017 and 2016

	2017	Restated 2016
UNRESTRICTED NET ASSETS		
Public support, revenue, and gains:		
Donated inventory, services, and materials	\$ 380,142	\$ 525,645
Annual benefit sale	459,372	464,940
Contributions and grants	549,052	421,879
Visitor services	826,669	880,924
Other income	6,289	14,077
Endowment distributions	218,752	223,270
Membership dues	395,407	355,736
Other events	269,781	270,794
Investment return	285,637	284,748
 Total unrestricted public support, revenue and gains	 3,391,101	 3,442,013
Expenses:		
Program services:		
Exhibit programs	1,112,970	1,177,622
Education	636,346	578,913
Marketing and visitor services	550,471	504,412
 Total program services	 2,299,787	 2,260,947
Supporting activities:		
Administration	754,323	720,371
Fundraising	350,170	417,565
Annual benefit sale	549,846	540,646
 Total supporting expenses	 1,654,339	 1,678,582
 Total expenses	 3,954,126	 3,939,529
Reclassification due to donor imposed restrictions	(20,336)	(26,778)
Net assets released from restrictions	82,406	67,902
 Change in unrestricted net assets	 (500,955)	 (456,392)
 TEMPORARILY RESTRICTED NET ASSETS		
Contributions and grants	114,589	140,000
Reclassification due to donor imposed restrictions	20,336	26,778
Net assets released from restrictions	(82,406)	(67,902)
 Change in temporarily restricted net assets	 52,519	 98,876
 Change in net assets	 (448,436)	 (357,516)
Net assets, beginning	12,409,368	12,766,884
Net assets, ending	\$ 11,960,932	\$ 12,409,368

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, 2017 and 2016

	Program services				Supporting services				Total expenses
	Exhibit programs	Education	Marketing and visitor services	Total program services	Administration	Fundraising	Annual benefit sale	Total supporting services	
2017									
Expenses:									
Cost of sales	\$ 0	\$ 0	\$ 7,354	\$ 7,354	\$ 0	\$ 0	\$ 391,542	\$ 391,542	\$ 398,896
Depreciation	282,198	10,066	10,066	302,330	141,099	0	0	141,099	443,429
Dues and subscriptions	394	746	2,127	3,267	6,187	100	0	6,287	9,554
Events, meetings, travel and training	3,573	17,622	583	21,778	4,533	13,508	2,276	20,317	42,095
Insurance	0	0	0	0	22,340	0	0	22,340	22,340
Interest and bank charges	234,730	8,373	36,815	279,918	156,962	1,865	11,108	169,935	449,853
Maintenance and repairs	36,985	862	862	38,709	12,088	0	444	12,532	51,241
Occupancy	59,967	2,229	2,139	64,335	29,984	0	79,537	109,521	173,856
Office supplies	11,188	3,652	1,062	15,902	5,520	627	1,902	8,049	23,951
Personnel	279,524	526,900	413,401	1,219,825	303,352	190,472	38,758	532,582	1,752,407
Printing, postage and copying	1,101	638	13,187	14,926	17,850	7,755	1,545	27,150	42,076
Professional services	133,019	31,670	2,570	167,259	45,274	70,892	4,886	121,052	288,311
Program supplies	60,981	33,526	26,102	120,609	8,053	51,851	17,773	77,677	198,286
Publicity	0	0	17,321	17,321	0	0	75	75	17,396
Technology	9,310	62	16,882	26,254	1,081	13,100	0	14,181	40,435
Total expenses	\$ 1,112,970	\$ 636,346	\$ 550,471	\$ 2,299,787	\$ 754,323	\$ 350,170	\$ 549,846	\$ 1,654,339	\$ 3,954,126

	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

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (448,436)	\$ (357,516)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	479,864	484,108
Net realized and unrealized gain on investments	(87)	(154)
Change in contributed inventory	115,958	(121,537)
Donated investments	0	(2,464)
Proceeds from sale of donated investments	1,465	2,743
Increase (decrease) in cash due to changes in:		
Pledges receivable	29,476	(37,566)
Accounts receivable	(20,154)	40,815
Prepaid expenses	(1,845)	1,863
Accrued interest receivable	(331)	0
Accounts payable	21,615	(19,105)
Due to American Girl's Fund For Children	(58,770)	66,193
Accrued expenses	25,271	12,559
Security deposits payable	2,500	9,500
Deferred revenue	1,869	(41,525)
	148,395	37,914
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in note receivable	(49,607)	(7,087)
Net change in cash restricted for building system replacements	(38,243)	(53,556)
Purchase of property and equipment	(261,518)	0
	(349,368)	(60,643)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	580,125	171,109
Payments on line of credit	(345,088)	(148,146)
Payments on notes payable	(9,212)	(9,210)
Proceeds from contributions restricted for museum relocation	10,640	21,999
	236,465	35,752
Net cash provided by financing activities		
Change in cash and cash equivalents	35,492	13,023
Cash and cash equivalents:		
Beginning	144,666	131,643
Ending	\$ 180,158	\$ 144,666
SUPPLEMENTAL DISCLOSURE(S) OF CASH FLOW INFORMATION		
Cash payments for interest	\$ 370,416	\$ 370,457
SUPPLEMENTAL SCHEDULE(S) OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Donated investments	\$ 0	\$ 2,464

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, 2017

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.

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, 2017

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, 2017

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, improvements, and exhibits	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 \$443,429 and \$447,673 for the years ended June 30, 2017 and 2016, 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, 2017 and 2016.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

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, 2017

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 \$30,428 and \$45,783 for the years ended June 30, 2017 and 2016, respectively.

Subsequent events

These consolidated financial statements have not been updated for subsequent events occurring after September 11, 2017, 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, 2017

NOTE B -- Investments

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

	<u>2017</u>	<u>2016</u>
GNMA mortgage note, 7.5% due June 15, 2022	\$ 0	\$ 102
GNMA mortgage note, 7% due September 15, 2025	<u>0</u>	<u>1,276</u>
Total investments	<u>\$ 0</u>	<u>\$ 1,378</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>2017</u>	<u>2016</u>
Note receivable interest	\$ 285,502	\$ 284,544
Interest	48	50
Net realized and unrealized gains	<u>87</u>	<u>154</u>
Investment return	<u>\$ 285,637</u>	<u>\$ 284,748</u>

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

NOTE C -- Pledges receivable

Pledges receivable at June 30 consisted of the following:

	<u>2017</u>	<u>2016</u>
Pledges - operating	\$ 99,659	\$ 53,570
Pledges - restricted	59,500	135,065
Pledges - capital campaign	<u>24,500</u>	<u>35,140</u>
Pledges receivable	<u>\$ 183,659</u>	<u>\$ 223,775</u>
Receivable in less than one year	\$ 152,159	\$ 190,775
Receivable in one to five years	<u>31,500</u>	<u>33,000</u>
Pledges receivable	\$ 183,659	\$ 223,775
Discount to net present value	(5,000)	(5,000)
Provision for uncollectible pledges receivable	<u>(3,052)</u>	<u>(3,052)</u>
Pledges receivable - net	<u>\$ 175,607</u>	<u>\$ 215,723</u>

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, 2017

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>6/30/2017</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	\$ 23,448	\$ 0	\$ 23,448	\$ 0

	<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
<u>Investments²:</u>				
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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

NOTE E -- Property and equipment, net

Property and equipment, net is comprised of the following:

	<u>2017</u>	<u>2016</u>
Building, improvements, and exhibits	\$ 16,270,804	\$ 16,056,721
Leasehold improvements	19,064	19,064
Equipment	<u>154,138</u>	<u>214,944</u>
	16,444,006	16,290,729
Less accumulated depreciation	<u>3,193,970</u>	<u>2,858,782</u>
	<u>\$ 13,250,036</u>	<u>\$ 13,431,947</u>

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, 2017 and 2016 was \$4,054,975 and \$4,005,368, respectively.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

NOTE G -- Notes payable, net

Notes payable, net consist of the following:

	2017	2016
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. The note was paid in full in August 2017.	7,765	15,531
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>14,452</u>	<u>15,898</u>
	\$ 6,022,217	\$ 6,031,429
Less unamortized debt issuance costs	48,578	85,013
Less current maturities	<u>9,210</u>	<u>9,210</u>
	<u>\$ 5,964,429</u>	<u>\$ 5,937,206</u>

In fiscal year 2017, the organization retrospectively adopted the requirements in FASB Accounting Standards Codification 835-30 to present debt issuance costs as a reduction of the carrying amount of the debt rather than as an asset. Notes payable, less current maturities as of June 30, 2016 was previously reported in the statement of financial position as \$6,022,219 with the associated \$85,013 unamortized debt issuance costs included in assets.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

NOTE G -- Notes payable, net (Continued)

The unamortized debt issuance costs associated with the loans through the New Market Tax Credit Program totaled \$48,578 and \$85,013 as of June 30, 2017 and 2016, respectively.

Interest expense incurred on notes payable totaled \$370,416 and \$370,457 during the years ended June 30, 2017 and 2016, respectively.

Repayment of principal on the notes payable as of June 30, 2017, is as follows:

Year ending June 30,

2018	\$ 9,210
2019	4,887,199
2020	26,320
2021	27,869
2022	29,515
Thereafter	<u>1,042,104</u>
	<u>\$ 6,022,217</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 5.00% (5.00% as of June 30, 2017). The term of the line of credit expires May 2018 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.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

NOTE I -- Net assets

Board designated unrestricted net assets

Included in unrestricted net assets are board designations totaling \$6,900 and \$0 for building system replacements and maintenance.

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>2017</u>	<u>Restated 2016</u>
Purpose restricted:		
Capital campaign	\$ 16,448	\$ 27,088
Building system replacements and maintenance	303,670	292,164
Keystone debt prefunding	10,000	13,297
2020 funds	0	13,495
Designed to Move funds	39,368	40,000
Autism project	93,856	100,000
Wonder Ball event	10,500	0
Teas and Trains event	1,500	0
Century of the Capitol project	37,500	0
Technology education	1,632	0
Time restricted:		
Pledges receivable due in subsequent years	<u>77,659</u>	<u>53,570</u>
Temporarily restricted net assets	<u>\$ 592,133</u>	<u>\$ 539,614</u>

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>2017</u>	<u>2016</u>
Madison Children's Museum Foundation, Inc. Endowment	<u>\$ 5,995</u>	<u>\$ 5,995</u>

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

NOTE J -- Contributions and grants

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

	2017	2016
Individual	\$ 211,310	\$ 262,858
Foundations	264,077	203,579
Corporations	136,482	71,337
Government	51,772	24,105
Contributions and grants	\$ 663,641	\$ 561,879

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 5 year renewal terms through September 2027, provided the Museum has not given prior notice of vacating or is in default under the lease agreement. The Museum has not given prior notice, therefore, the first automatic renewal term commences October 2017. 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 \$78,827 and \$79,246 during the years ended June 30, 2017 and 2016, respectively.

Future minimum lease payments under this lease are as follows:

<u>Year ending June 30,</u>	
2018	\$ 59,056
2019	60,828
2020	62,653
2021	64,532
2022	66,468
	\$ 313,537

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

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, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Fund 1030590	\$ 1,190,984	\$ 1,075,608
Fund 1030772	1,900,750	1,741,470
Fund 1030591	1,738,648	1,592,558
Fund 1030592	<u>50,582</u>	<u>46,384</u>
	<u>\$ 4,880,964</u>	<u>\$ 4,456,020</u>

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

	<u>2017</u>	<u>2016</u>
Fund 1030590	\$ 51,239	\$ 50,988
Fund 1030772	86,493	88,947
Fund 1030591	78,673	80,922
Fund 1030592	<u>2,347</u>	<u>2,413</u>
	<u>\$ 218,752</u>	<u>\$ 223,270</u>

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

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>2017</u>	<u>2016</u>
Gross receipts	\$ 845,647	\$ 852,802
Less: Sales tax and bank charges	<u>57,887</u>	<u>58,485</u>
Net sales	787,760	794,317
American Girl Fund for Children current year event distribution	<u>(386,318)</u>	<u>(387,747)</u>
Organization's portion of sales revenue	401,442	406,570
Ticket sales for benefit sale	46,659	47,504
Other benefit revenue	<u>11,271</u>	<u>10,866</u>
Annual Benefit Sale revenue	<u>\$ 459,372</u>	<u>\$ 464,940</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 \$511,541 and \$570,311 at June 30, 2017 and 2016, 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, 2017 and 2016, respectively.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017

NOTE N -- Prior period adjustment

During fiscal year 2017, management determined that the funds from the Kresge Foundation that were matched by the organization totaling \$136,164 should be reclassified from board designated unrestricted net assets to temporarily restricted net assets. These funds continue to have a purpose restriction and are restricted for building system replacements and maintenance. The adjustment did not affect total net assets or the total change in net assets as previously reported as of June 30, 2016.

The effects of the prior period adjustments on the 2016 consolidated financial statements are summarized as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Change in net assets as previously reported	\$ (429,614)	\$ 72,098	\$ 0	\$ (357,516)
Prior period adjustments: Reclassification due to donor imposed restrictions	<u>(26,778)</u>	<u>26,778</u>	<u>0</u>	<u>0</u>
As restated	<u>\$ (456,392)</u>	<u>\$ 98,876</u>	<u>\$ 0</u>	<u>\$ (357,516)</u>
Net assets, as previously reported	\$ 11,999,923	\$ 403,450	\$ 5,995	\$ 12,409,368
Prior period adjustments	<u>(136,164)</u>	<u>136,164</u>	<u>0</u>	<u>0</u>
Net assets, as restated	<u>\$ 11,863,759</u>	<u>\$ 539,614</u>	<u>\$ 5,995</u>	<u>\$ 12,409,368</u>