

Madison Children's Museum, Inc. and Affiliate

Consolidated Financial Report

June 30, 2023



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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, WI

Opinion

We have audited the accompanying financial statements of Madison Children's Museum, Inc. and Affiliate, which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, 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.

In our opinion, the 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, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Madison Children's Museum, Inc. and Affiliate and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note A to the financial statements, the entity adopted new accounting guidance with respect to leases in 2022, as required by the provisions of FASB Accounting Standards Update 2016-02. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Madison Children's Museum, Inc. and Affiliate's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Madison, WI

1221 John Q Hammons Dr.
Suite 100
Madison, WI 53717

Phone: (608) 831-8181
Fax: (608) 831-4243

Brookfield, WI

18650 W. Corporate Dr.
Suite 200
Brookfield, WI 53045

Phone: (262) 641-6888
Fax: (262) 641-6880

Colorado Springs, CO

1880 Office Club Pointe
Suite 128
Colorado Springs, CO 80920

Phone: (719) 413-5551

Contact Us:

Email: info@SVAaccountants.com
Web: SVAaccountants.com

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Madison Children's Museum, Inc. and Affiliate's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Madison Children's Museum, Inc. and Affiliate's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

SVA Certified Public Accountants, S.C.

Madison, Wisconsin
September 25, 2023

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2023 and 2022

| | 2023 | 2022 |
|---|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 4,311,952 | \$ 2,850,480 |
| Pledges receivable | 338,199 | 459,214 |
| Grants receivable | 94,739 | 326,680 |
| Accounts receivable | 12,060 | 97,686 |
| Inventories | 38,949 | 969,680 |
| Prepaid expenses | 38,057 | 30,678 |
| Total current assets | 4,833,956 | 4,734,418 |
| LONG-TERM ASSETS | | |
| Property and equipment, net | 12,995,375 | 13,225,058 |
| Construction in progress | 0 | 47,423 |
| Pledges receivable, net | 446,750 | 720,687 |
| Cash designated and restricted for building system replacements and maintenance | 163,673 | 184,327 |
| Operating lease right-of-use assets | 33,441 | 0 |
| Finance lease right-of-use assets | 20,055 | 0 |
| Total long-term assets | 13,659,294 | 14,177,495 |
| TOTAL ASSETS | \$ 18,493,250 | \$ 18,911,913 |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 130,395 | \$ 68,852 |
| Due to American Girl's Fund For Children | 303,779 | 415,745 |
| Accrued expenses | 170,864 | 190,511 |
| Accrued interest payable | 4,513 | 8,250 |
| Current maturities of notes payable | 44,555 | 943,521 |
| Line of credit | 0 | 400,000 |
| Contract liabilities | 345,316 | 307,573 |
| Current portion of operating lease obligations | 34,064 | 0 |
| Current portion of finance lease obligation | 3,809 | 0 |
| Total current liabilities | 1,037,295 | 2,334,452 |
| LONG-TERM LIABILITIES | | |
| Notes payable, less current maturities | 1,263,130 | 152,158 |
| Finance lease obligations, less current portion | 16,275 | 0 |
| Total long-term liabilities | 1,279,405 | 152,158 |
| TOTAL LIABILITIES | 2,316,700 | 2,486,610 |
| NET ASSETS | | |
| Without donor restrictions | 15,249,338 | 15,074,939 |
| With donor restrictions | 927,212 | 1,350,364 |
| Total net assets | 16,176,550 | 16,425,303 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 18,493,250 | \$ 18,911,913 |

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, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|--|----------------------|----------------------|
| NET ASSETS WITHOUT DONOR RESTRICTIONS | | |
| Public support, revenue, and gains: | | |
| Donated inventory, services, and materials | \$ 634,187 | \$ 546,216 |
| Annual benefit sale | 1,074,105 | 465,645 |
| Contributions and grants | 1,976,622 | 2,625,513 |
| Visitor services | 766,686 | 483,986 |
| Other income | 21,699 | 22,137 |
| Endowment distributions | 233,322 | 227,683 |
| Membership dues | 501,240 | 382,048 |
| Other events | 1,990 | 82,578 |
| Gain on forgiveness of debt | 0 | 394,786 |
| Investment return | 57,307 | 505 |
| | <u>5,267,158</u> | <u>5,231,097</u> |
| Total public support, revenue and gains without donor restrictions | 5,267,158 | 5,231,097 |
| Expenses: | | |
| Program services: | | |
| Exhibit programs | 1,213,556 | 933,522 |
| Education | 476,922 | 336,485 |
| Marketing and visitor services | 1,256,376 | 808,568 |
| | <u>2,946,854</u> | <u>2,078,575</u> |
| Total program services | 2,946,854 | 2,078,575 |
| Supporting activities: | | |
| Administration | 788,012 | 636,715 |
| Fundraising | 395,801 | 170,413 |
| Annual Benefit Sale | 1,363,478 | 295,403 |
| Capital expansion project | 108,095 | 182,887 |
| | <u>2,655,386</u> | <u>1,285,418</u> |
| Total supporting expenses | 2,655,386 | 1,285,418 |
| Total expenses | 5,602,240 | 3,363,993 |
| Net assets released from restrictions | <u>509,481</u> | <u>428,713</u> |
| Change in net assets without donor restrictions | 174,399 | 2,295,817 |
| NET ASSETS WITH DONOR RESTRICTIONS | | |
| Contributions and grants | 86,329 | 268,358 |
| Net assets released from restrictions | <u>(509,481)</u> | <u>(428,713)</u> |
| Change in net assets with donor restrictions | <u>(423,152)</u> | <u>(160,355)</u> |
| Change in net assets | (248,753) | 2,135,462 |
| Net assets, beginning | <u>16,425,303</u> | <u>14,289,841</u> |
| Net assets, ending | <u>\$ 16,176,550</u> | <u>\$ 16,425,303</u> |

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, 2023 and 2022

| | Program services | | | | Supporting services | | | | | |
|---------------------------------------|---------------------|-------------------|--------------------------------|------------------------|---------------------|-------------------|---------------------|---------------------------|---------------------------|---------------------|
| | Exhibit programs | Education | Marketing and visitor services | Total program services | Administration | Fundraising | Annual benefit sale | Capital expansion project | Total supporting services | Total expenses |
| 2023 | | | | | | | | | | |
| Expenses: | | | | | | | | | | |
| Cost of sales | \$ 0 | \$ 0 | \$ 70,871 | \$ 70,871 | \$ 0 | \$ 0 | \$ 1,138,331 | \$ 0 | \$ 1,138,331 | \$ 1,209,202 |
| Depreciation | 330,597 | 11,792 | 11,792 | 354,181 | 165,299 | 0 | 0 | 0 | 165,299 | 519,480 |
| Dues and subscriptions | 503 | 734 | 963 | 2,200 | 4,938 | 0 | 12 | 0 | 4,950 | 7,150 |
| Events, meetings, travel and training | 13,548 | 10,495 | 10,431 | 34,474 | 15,190 | 12,918 | 5,576 | 30,574 | 64,258 | 98,732 |
| Insurance | 61 | 0 | 0 | 61 | 40,739 | 0 | 0 | 0 | 40,739 | 40,800 |
| Interest and bank charges | 36,059 | 1,336 | 8,586 | 45,981 | 47,919 | 86,198 | 0 | 0 | 134,117 | 180,098 |
| Maintenance and repairs | 34,566 | 1,124 | 1,310 | 37,000 | 15,754 | 0 | 134 | 0 | 15,888 | 52,888 |
| Occupancy | 70,629 | 3,541 | 2,520 | 76,690 | 39,334 | 0 | 51,321 | 0 | 90,655 | 167,345 |
| Office supplies | 7,811 | 2,514 | 5,909 | 16,234 | 5,903 | 699 | 3,321 | 7,079 | 17,002 | 33,236 |
| Personnel | 489,449 | 377,825 | 1,084,425 | 1,951,699 | 286,667 | 232,829 | 73,550 | 0 | 593,046 | 2,544,745 |
| Printing, postage and copying | 70 | 160 | 12,261 | 12,491 | 8,582 | 8,917 | 4,352 | 29 | 21,880 | 34,371 |
| Professional services | 142,720 | 34,601 | 11,947 | 189,268 | 124,161 | 13,332 | 69,208 | 69,059 | 275,760 | 465,028 |
| Program supplies | 79,654 | 31,561 | 5,985 | 117,200 | 21,508 | 8,951 | 12,780 | 1,354 | 44,593 | 161,793 |
| Publicity | 500 | 0 | 8,533 | 9,033 | 7,820 | 9,000 | 0 | 0 | 16,820 | 25,853 |
| Technology | 7,389 | 1,239 | 20,843 | 29,471 | 4,198 | 22,957 | 4,893 | 0 | 32,048 | 61,519 |
| Total expenses | \$ 1,213,556 | \$ 476,922 | \$ 1,256,376 | \$ 2,946,854 | \$ 788,012 | \$ 395,801 | \$ 1,363,478 | \$ 108,095 | \$ 2,655,386 | \$ 5,602,240 |

| | Program services | | | | Supporting services | | | | | |
|---------------------------------------|-------------------|-------------------|--------------------------------|------------------------|---------------------|-------------------|---------------------|---------------------------|---------------------------|---------------------|
| | Exhibit programs | Education | Marketing and visitor services | Total program services | Administration | Fundraising | Annual benefit sale | Capital expansion project | Total supporting services | Total expenses |
| 2022 | | | | | | | | | | |
| Expenses: | | | | | | | | | | |
| Cost of sales | \$ 0 | \$ 0 | \$ 12,784 | \$ 12,784 | \$ 0 | \$ 0 | \$ 146,320 | \$ 0 | \$ 146,320 | \$ 159,104 |
| Depreciation | 314,578 | 11,221 | 11,221 | 337,020 | 157,289 | 0 | 0 | 0 | 157,289 | 494,309 |
| Dues and subscriptions | 2,462 | 475 | 198 | 3,135 | 5,878 | 167 | 150 | 0 | 6,195 | 9,330 |
| Events, meetings, travel and training | 6,268 | 1,214 | 2,562 | 10,044 | 6,835 | 3,584 | 0 | 0 | 10,419 | 20,463 |
| Insurance | 0 | 0 | 0 | 0 | 33,775 | 0 | 0 | 0 | 33,775 | 33,775 |
| Interest and bank charges | 28,483 | 1,016 | 8,693 | 38,192 | 46,760 | 0 | 15,722 | 1 | 62,483 | 100,675 |
| Loss on Asset Disposal | 9,328 | 333 | 332 | 9,993 | 4,664 | 0 | 0 | 0 | 4,664 | 14,657 |
| Maintenance and repairs | 20,459 | 510 | 510 | 21,479 | 7,140 | 0 | 0 | 0 | 7,140 | 28,619 |
| Occupancy | 62,674 | 2,232 | 2,977 | 67,883 | 31,460 | 983 | 52,951 | 0 | 85,394 | 153,277 |
| Office supplies | 19,600 | 1,250 | 4,596 | 25,446 | 15,580 | 3,687 | 2,099 | 0 | 21,366 | 46,812 |
| Personnel | 326,658 | 285,286 | 717,966 | 1,329,910 | 148,165 | 112,111 | 59,567 | 182,886 | 502,729 | 1,832,639 |
| Printing, postage and copying | 182 | 408 | 5,616 | 6,206 | 6,212 | 11,770 | 5,072 | 0 | 23,054 | 29,260 |
| Professional services | 87,061 | 15,885 | 10,510 | 113,456 | 118,994 | 10,000 | 4,417 | 0 | 133,411 | 246,867 |
| Program supplies | 47,454 | 16,491 | 7,418 | 71,363 | 34,346 | 4,895 | 8,371 | 0 | 47,612 | 118,975 |
| Publicity | 0 | 48 | 7,297 | 7,345 | 14,152 | 10,095 | 0 | 0 | 24,247 | 31,592 |
| Technology | 8,315 | 116 | 15,888 | 24,319 | 5,465 | 13,121 | 734 | 0 | 19,320 | 43,639 |
| Total expenses | \$ 933,522 | \$ 336,485 | \$ 808,568 | \$ 2,078,575 | \$ 636,715 | \$ 170,413 | \$ 295,403 | \$ 182,887 | \$ 1,285,418 | \$ 3,363,993 |

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, 2023 and 2022

| | 2023 | 2022 |
|---|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (248,753) | \$ 2,135,462 |
| Adjustments to reconcile net income to net cash | | |
| net cash provided by operating activities: | | |
| Amortization of right-of-use assets | 43,822 | 0 |
| Depreciation and amortization | 519,480 | 494,309 |
| Gain on forgiveness of debt | 0 | (394,786) |
| Loss on disposal of asset | 0 | 14,657 |
| Change in contributed inventory | 930,731 | (601,897) |
| Donated investments | 0 | (101,418) |
| Proceeds from sale of donated investments | 0 | 101,418 |
| Increase (decrease) in cash due to changes in: | | |
| Pledges receivable | 394,952 | 160,774 |
| Grants receivable | 231,941 | (326,680) |
| Accounts receivable | 85,626 | 111,331 |
| Prepaid expenses | (7,379) | (5,167) |
| Accounts payable | 61,543 | 5,107 |
| Due to American Girl's Fund For Children | (111,966) | 235,295 |
| Accrued expenses | (19,647) | 61,609 |
| Accrued interest | (3,737) | 4,125 |
| Contract liabilities | 37,743 | (2,132) |
| Operating lease obligations | (42,860) | 0 |
| Net cash provided by operating activities | 1,871,496 | 1,892,007 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (47,311) | (60,726) |
| Development of property and equipment | (195,063) | (872,430) |
| Payment of construction payables | 0 | (322,434) |
| Net cash used in investing activities | (242,374) | (1,255,590) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on line of credit | (400,000) | 0 |
| Proceeds from notes payable | 400,000 | 0 |
| Payments on notes payable | (187,994) | (34,280) |
| Principal payments on finance lease liabilities | (310) | 0 |
| Net cash used in financing activities | (188,304) | (34,280) |
| Change in cash and cash equivalents, and restricted cash | 1,440,818 | 602,137 |
| Cash and cash equivalents, and restricted cash: | | |
| Beginning | 3,034,807 | 2,432,670 |
| Ending | \$ 4,475,625 | \$ 3,034,807 |
| RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH TO STATEMENT OF FINANCIAL POSITION | | |
| Cash and cash equivalents | \$ 4,311,952 | \$ 2,850,480 |
| Restricted cash for building system replacements | 163,673 | 184,327 |
| Total cash, cash equivalents, and restricted cash | \$ 4,475,625 | \$ 3,034,807 |

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

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

Years ended June 30, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|---|------------------|-------------------|
| SUPPLEMENTAL DISCLOSURE(S) OF CASH FLOW INFORMATION | | |
| Cash payments for interest | <u>\$ 69,751</u> | <u>\$ 61,308</u> |
| SUPPLEMENTAL SCHEDULE(S) OF NONCASH INVESTING AND FINANCING ACTIVITIES | | |
| Donated investments | <u>\$ 0</u> | <u>\$ 101,418</u> |
| Gain on forgiveness of debt | <u>\$ 0</u> | <u>\$ 394,786</u> |

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

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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 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 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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Designations are voluntary board-approved segregations of net assets without donor restrictions for specific purposes, projects, or investments.

Net assets with donor restrictions have been limited by donor-imposed time restrictions, purpose restrictions or are maintained by the Foundation in perpetuity. Unless restricted by the donor, income earned on these funds are considered without restriction 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 consolidated 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 FINANCIAL STATEMENTS

June 30, 2023

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, and all CDs that are not subject to significant early withdrawal penalties to be cash equivalents.

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. Investment return is reported in the consolidated statement of activities and consists of interest income and realized and unrealized gains and losses. There are no material investment expenses.

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 those that contain a measurable performance or other barrier and a right of return and are not recognized until the conditions on which they depend on have been met.

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 N) 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 and stated at its estimated selling price.

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

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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

Property and equipment

Property and equipment are 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 \$519,480 and \$494,309 for the years ended June 30, 2023 and 2022, respectively.

Capitalization policy

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

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.

Due to American Girl's Fund for Children

Due to American Girl's Fund for Children was recorded at 50% of the ending balance of benefit sale inventory as the Museum is obligated to pay 50% of sales from the Annual Benefit Sale to the American Girl's Fund for Children up until March 1, 2022. After March 1, 2022, Due to American Girl's Fund for Children was recorded at 100% of the first \$100,000 gross receipts. After \$450,000 of revenue earned, the Museum is obligated to pay 50% of sales from the Annual Benefit Sale to the American Girl's Fund for Children (see Note N).

Contract liabilities

Contract liabilities represent fees for facility rental or registrations/ticket sales for events that will take place in the next fiscal year and membership dues that will be recognized over the related period.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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

Leases - Lessee

The organization determines if an arrangement is or contains a lease at inception. The organization has entered into operating and finance leases for warehouse space and a copier. Operating and finance leases are included in right-of-use (ROU) assets and lease liabilities in the consolidated statement of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, and ROU assets also include prepaid or accrued rent. Operating lease expense is recognized on a straight-line basis over the lease term.

The organization does not report ROU assets and leases liabilities for its short-term leases (leases with a term of 12 months or less and that do not include an option to purchase the underlying assets that is reasonably certain to be exercised). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term. The organization had no short-term leases during 2022.

For leases of warehouse space, the company has elected to account for the lease and non-lease components as a single lease component. There is variability in future lease payments for the office space as the amount of the non-lease components is dependent on certain factors that are unknown and change from one period to the next. These variable lease payments which are primarily comprised of common area maintenance, utilities, and real estate taxes that are passed on from the lessor in proportion to the space leased, are recognized in operating expenses in the period in which the obligation for those payments was incurred.

The company has also made an accounting policy election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments for its leases.

In determining what percentage of the lease constitutes a major part of the economic life of the underlying asset and defining what percentage of the present value of the sum of lease payments equals or exceed substantially all of the fair value of the underlying asset, the organization has elected to define major part as 75% of all classes of underlying assets and to define substantially all as 90% for all classes of underlying assets.

Revenue recognition – contracts with customers

Annual benefit sale

The annual benefit sale contracts have single performance obligations, as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contract, and therefore, is not distinct. Revenue from the sale is recognized in the period in which the sale is held (point in time). The organization does not have any significant financing components as payment is received at or shortly after the point of sale.

Visitor services

The visitor contracts have single performance obligations, as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contract, and therefore, is not distinct. Revenue from visitor services is recognized in the period in which the customer visited the museum (point in time). The organization does not have any significant financing components as payment is received at or shortly after the point of sale.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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

Membership dues

Membership dues are comprised of an exchange element based on the value of benefits provided, and a contribution element for the difference between the total dues paid and the exchange element. The contribution portion of revenue included in membership dues on the statement of activities is not material to the financial statements. The benefits provided to the members are unlimited admission to the Museum, discounts on products and services sold at the Museum, and guest passes. Revenue from membership dues is recognized over time based on the periods which dues relate. The portion of dues related to redemption of guest passes, which would be recognized at a point in time, is not material to the financial statements. The organization does not have any significant financing components as payment is received at or shortly after the point of sale. Amounts received for membership dues for future years are recorded as a contract liability.

Other events

The organization sells tickets and offers sponsorships for its special events. Ticket sales and sponsorships are nonrefundable and are comprised of an exchange element based on the value of benefits provided to the donors, and a contribution element for the difference between total ticket sales and sponsorships paid and the exchange element. The Museum recognizes the exchange portion of these events in the year the event takes place (point in time), and the contribution portion immediately. The contribution portion of revenue included in other events on the statement of activities is not material to the financial statements.

Revenue recognition – contributions and grants

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any donor restrictions.

Donor-restricted support is reported as an increase in net assets with donor restrictions, 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), net assets with donor restrictions are reclassified to net assets without donor restrictions 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 net assets without donor restrictions.

Revenue recognition – 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 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.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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

Revenue recognition – investment transactions

Investment return is reported as an increase or decrease in net assets without donor restrictions unless explicitly restricted by donors.

Sales tax

The State of Wisconsin (the State) 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.

Recognition of recoveries

Recoveries of payroll expenses through the Employee Retention Tax Credit under the Consolidated Appropriations Act of 2021 (CAA) are recorded as assets when receipt is deemed probable.

Expense allocation

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Each employee of the organization works in a primary program area. Salaries and benefits are allocated on the basis of the department assignments of the employees. Occupancy costs and depreciation are allocated on a square footage basis. Other non-personnel expenses are attributed to individual programs or supporting function. In certain instances, a portion of the expense is identifiable with a specific program, while the remaining amount is allocated to management and general and/or fundraising.

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 Marketing and Visitor Services.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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

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 and 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.

Capital expansion project

The capital expansion project is part of a master plan to renovate and expand the museum. The current year's activity consists primarily of contribution revenue and expenses related to contracted services for fundraising and building/exhibits design.

Advertising

The organization uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense was \$25,853 and \$31,592 for the years ended June 30, 2023 and 2022, respectively.

Adoption of New Accounting Standard - Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance (Accounting Standards Codification [ASC] 842, Leases) to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The organization adopted the standard effective July 1, 2022 and recognized and measured leases existing at July 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended June 30, 2022 are made under prior lease guidance in FASB ASC 840.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

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

The organization elected the available practical expedients to account for its existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, the organization recognized on July 1, 2022 a lease liability of \$76,924, which represents the present value of the remaining operating lease payments of \$78,785, discounted using the organization's risk free rate of 2.85%, and a right-of-use asset of \$76,924, which represents the operating lease liability of \$76,924.

The standard had a material impact on the organization's consolidated statement of financial position, but did not have a material impact on the consolidated statement of activities or statement of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

The organization's policy is to continue to amortize leasehold improvements over the original existing amortization period for all continuing leases in which it is the lessee.

The organization's policy in determining the risk-free rate for existing operating leases at July 1, 2022 is to base it on the original lease term.

Subsequent events

These financial statements have not been updated for subsequent events occurring after September 25, 2023, which is the date these financial statements were available to be issued. The organization has no responsibility to update these financial statements for events and circumstances occurring after this date.

NOTE B -- Investments

The following is a summary of the organization's investment return for the years ended June 30:

| | <u>2023</u> | <u>2022</u> |
|-----------------------------------|------------------|---------------|
| Interest | \$ 57,307 | \$ 505 |
| Net realized and unrealized gains | <u>0</u> | <u>0</u> |
| Investment return | <u>\$ 57,307</u> | <u>\$ 505</u> |

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE C -- Pledges receivable

Pledges receivable at June 30 consisted of the following:

| | <u>2023</u> | <u>2022</u> |
|--|-------------------|---------------------|
| Pledges - operating | \$ 594,849 | \$ 692,916 |
| Pledges - capital campaign | <u>230,400</u> | <u>550,100</u> |
| Pledges receivable | <u>\$ 825,249</u> | <u>\$ 1,243,016</u> |
| Receivable in less than one year | \$ 338,199 | \$ 463,954 |
| Receivable in one to five years | <u>487,050</u> | <u>779,062</u> |
| Pledges receivable | \$ 825,249 | \$ 1,243,016 |
| Discount to net present value | (40,300) | (58,375) |
| Provision for uncollectible pledges receivable | <u>0</u> | <u>(4,740)</u> |
| Pledges receivable - net | <u>\$ 784,949</u> | <u>\$ 1,179,901</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.

Split-interest agreement (Charitable Lead Annuity Trust)

Split-interest agreements are trusts or other arrangements under which donors have designated beneficiaries. The organization is one of twenty beneficiaries of the John H. Lussier Charitable Lead Annuity Trust (CLAT). Under the CLAT, the organization receives fixed annual annuity payments during the term of the trust, 10 years. The final distribution will be made in 2028. The organization was notified it was a beneficiary of the CLAT in 2019. Any changes in the discounted value of the CLAT are adjusted through the remaining unconditional promise to give balance and contribution revenue. The unconditional promise to give, net of the discount to present value, was \$493,612 and \$576,060 as of June 30, 2023 and 2022, respectively.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE D -- Property and equipment, net

Property and equipment, net is comprised of the following:

| | <u>2023</u> | <u>2022</u> |
|--------------------------------------|----------------------|----------------------|
| Building, improvements, and exhibits | \$ 18,800,351 | \$ 18,516,364 |
| Leasehold improvements | 19,064 | 19,064 |
| Equipment | <u>197,935</u> | <u>192,125</u> |
| | 19,017,350 | 18,727,553 |
| Less accumulated depreciation | <u>6,021,975</u> | <u>5,502,495</u> |
| | <u>\$ 12,995,375</u> | <u>\$ 13,225,058</u> |

NOTE E -- Contract liabilities

Contract liabilities as of June 30, consisted of the following:

| | <u>2023</u> | <u>2022</u> | <u>2021</u> |
|---|-------------------|-------------------|-------------------|
| Contract liabilities: | | | |
| Deferred facility rental deposits and AGBS tickets | \$ 14,208 | \$ 3,650 | \$ 12,400 |
| Unused gift cards | 16,620 | 10,230 | 965 |
| Unused admission tickets | 0 | 0 | 706 |
| Deferred membership dues | <u>314,488</u> | <u>293,693</u> | <u>295,634</u> |
| Total | <u>\$ 345,316</u> | <u>\$ 307,573</u> | <u>\$ 309,705</u> |

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE F -- Notes payable

Notes payable consist of the following:

| | 2023 | 2022 |
|---|--------------|------------|
| <p>Park Bank; original amount of \$1,000,000; monthly interest-only payments at 5.5% through original due date of May 15, 2020; renewed in May 2020; monthly interest-only payments at 4.00% through September 2020 then monthly principal and interest payments at 4.00% starting December 2020; due May 15, 2023; collateralized by a mortgage on the organization's building and assignment of rents thereon; prepayment allowed through May 15, 2020 with penalty ranging from 1.00% - 3.00%. refinanced on August 5, 2022, combined with the line of credit.</p> | \$ 0 | \$ 938,453 |
| <p>Park Bank; original amount of \$1,335,613; payments of \$8,719 at 4.8% (effective interest rate of 4.91%); due August 5, 2027; collateralized by a mortgage on the organization's building and assignment of rents thereon; prepayment allowed through August 5, 2027 with penalty ranging from 1.00% - 3.00%.</p> | 1,301,955 | 0 |
| <p>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.</p> | 5,730 | 7,226 |
| <p>SBA; Economic Injury Disaster Loan (EIDL); original amount of \$150,000 to alleviate economic injury caused by disaster occurring due to the COVID-19 pandemic; interest at 2.75%; monthly payments of principal of \$641 beginning 18 months from the date of the note (May 20, 2020); due May 20, 2050; collateralized by inventory, equipment, promissory notes, deposit accounts, general intangibles, etc; loan was fully paid on February 15, 2023.</p> | 0 | 150,000 |
| | 1,307,685 | 1,095,679 |
| Less current maturities | 44,555 | 943,521 |
| | \$ 1,263,130 | \$ 152,158 |

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE F -- Notes payable (Continued)

The organization had a Park Bank Paycheck Protection Program (PPP) loan through the Small Business Administration (SBA) totaling \$394,786 including interest at 1%. No payments were due until the earlier of forgiveness or 10 months after the expiration of the organization's covered period (which can be no later than December 31, 2021). The loan was due February 12, 2026, a portion of the loan can be forgiven and no collateral was required. The loan was forgiven on May 31, 2022.

Interest expense incurred on notes payable totaled \$64,356 and \$39,466 during the years ended June 30, 2023 and 2022, respectively.

Repayment of principal on the notes payable as of June 30, 2023, is as follows:

Year ending June 30,

| | | |
|------|----|------------------|
| 2024 | \$ | 44,555 |
| 2025 | | 46,650 |
| 2026 | | 48,890 |
| 2027 | | 57,168 |
| 2028 | | <u>1,110,422</u> |
| | \$ | <u>1,307,685</u> |

NOTE G -- Line of credit

A line of credit of \$400,000 was available from Park Bank and carries interest at prime plus 0.50 percentage points, but never less than 4.00%. The line of credit expired in August 2022 and was not renewed. Line of credit was refinanced along with the Park Bank loan on August 5, 2022 and outstanding balance was paid in full (see Note F).

NOTE H -- Net assets

Board designated net assets without donor restrictions

Board designations included in net assets without donor restrictions are for the following purposes as of June 30:

| | <u>2023</u> | <u>2022</u> |
|--|------------------|------------------|
| Building system replacements and maintenance | \$ 13,800 | \$ 13,800 |
| Capital expansion project | <u>68,206</u> | <u>68,206</u> |
| Total board designated net assets | <u>\$ 82,006</u> | <u>\$ 82,006</u> |

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE H -- Net assets (Continued)

Net assets with donor restrictions

Net assets with donor restrictions include assets set aside in accordance with donor restrictions. Net assets with donor restrictions are available for the following purposes or periods as of June 30:

| | <u>2023</u> | <u>2022</u> |
|--|-------------------|---------------------|
| Purpose restricted: | | |
| Building system replacements and maintenance | \$ 142,263 | \$ 162,963 |
| Time restricted: | | |
| Pledges receivable due in subsequent years | <u>784,949</u> | <u>1,187,401</u> |
| Net assets with donor restrictions | <u>\$ 927,212</u> | <u>\$ 1,350,364</u> |

NOTE I -- Contributions and grants

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

| | <u>2023</u> | <u>2022</u> |
|--------------------------|---------------------|---------------------|
| Individual | \$ 405,742 | \$ 1,060,204 |
| Foundations | 502,464 | 1,174,046 |
| Corporations | 87,572 | 33,208 |
| Government | <u>1,067,173</u> | <u>626,413</u> |
| Contributions and grants | <u>\$ 2,062,951</u> | <u>\$ 2,893,871</u> |

MADISON CHILDREN’S MUSEUM, INC. AND AFFILIATE
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

NOTE J -- In-kind contributions

The organization received the following in-kind contributions for the years ended June 30:

| | <u>2023</u> | <u>2022</u> |
|-------------------------------------|-------------------|-------------------|
| American Girl Dolls and accessories | \$ 606,695 | \$ 513,486 |
| Advertising services | 16,820 | 24,295 |
| Professional services | 8,050 | 2,915 |
| Goods | <u>2,622</u> | <u>5,520</u> |
| | <u>\$ 634,187</u> | <u>\$ 546,216</u> |

The organization’s policy related to in-kind contributions is to utilize the assets given to carry out the mission of the organization. If an asset is provided that does not allow the organization to utilize it in its normal course of business, the asset will be disposed or the asset will be sold at its fair market value as determined by appraisal or specialist depending on the type of asset.

The museum receives donated American Girl Dolls and American Girl Doll accessories, which are recorded as revenue in the year received based on the estimated fair market value. In-kind donated American Girl Dolls and accessories was \$606,695 and \$513,486 for the years ended June 30, 2023 and 2022, respectively.

The museum received donated professional services from Findorff Construction with an estimated fair market value of \$6,250 and \$2,800 for the years ended June 30, 2023 and 2022, respectively. These services were provided for the capital expansion project. The organization received donated services from volunteers who assisted in the American Girl Doll sale and other services from volunteers that do not require a specialized skill. No amounts have been reflected in the financial statements for these donated services since the value cannot be quantified by management.

The museum received donated goods to be used throughout the museum. The organization has elected to value the goods at the estimated fair market value. In-kind donated goods for the years ended June 30, 2023 and 2022 totaled \$2,622 and \$5,520, respectively.

All in-kind contributions received by the organization for the years ended June 30, 2023 and 2022 were considered without donor restrictions and able to be used by the organization as determined by the board of directors and management.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE K -- Leases

The organization leases warehouse space under an operating lease to store donated inventory and for use as the location for its annual benefit sale. The lease commenced April 2020 with a 3-year initial term. In January 2023, the lease was amended and 1 year was added to the lease term. The lease expires in March 2024. The lease requires monthly rent payments of \$2,344, subject to annual increases of 3% (current monthly rent payments of \$2,561 as of June 30, 2023). In addition, the lease also requires additional rent as reimbursement for the organization's share of the warehouse real estate taxes and operating expenses.

The organization leases a copier under a finance lease with a 5-year initial term and expires May 2028. The lease includes automatic renewals on a month-to-month basis. The exercise of these renewal options is at the sole discretion of the company, and only lease options that the company believes are reasonably certain to exercise are included in the measurement of the lease assets and liabilities.

The components of lease expense are as follows for the year ended June 30, 2023:

| | | |
|-------------------------------------|----|---------------|
| Operating lease cost | \$ | 45,020 |
| Finance lease cost: | | |
| Amortization of right-of-use assets | | 340 |
| Interest on lease liabilities | | <u>62</u> |
| Total finance lease cost | | <u>402</u> |
| Total lease cost | \$ | <u>45,422</u> |

Supplemental statement of cash flows information related to leases as of June 30, 2023, is as follows:

Cash paid for amounts included in the measurement of lease liabilities:

| | | |
|--|----|--------|
| Operating cash flows from operating leases | \$ | 44,397 |
| Operating cash flows from finance leases | | 62 |
| Financing cash flows from finance leases | | 310 |

Noncash financing and investing cash flow:

Right-of-use assets obtained in exchange for lease obligations:

| | | |
|------------------|----|--------|
| Operating leases | \$ | 76,924 |
| Finance leases | | 20,395 |

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE K -- Leases (Continued)

Supplemental consolidated statement of financial position information related to leases as of June 30, 2023, is as follows:

| | |
|---|-------|
| Weighted average remaining lease term (in years): | |
| Operating leases | 0.8 |
| Finance leases | 4.9 |
| Weighted average discount rate: | |
| Operating leases | 2.85% |
| Finance leases | 3.70% |

Future minimum lease payments to be paid under this lease as of June 30, 2023, are as follows:

| Year ending June 30, | Operating Leases | Finance Leases |
|---|---------------------|-------------------|
| 2024 | \$ 34,388 | \$ 4,474 |
| 2025 | 0 | 4,474 |
| 2026 | 0 | 4,474 |
| 2027 | 0 | 4,474 |
| 2028 | 0 | 4,027 |
| Total future minimum lease payments | 34,388 | 21,923 |
| Less amount of lease payments representing interest | (324) | (1,839) |
| Present value of future minimum lease payments (lease liabilities) | \$ 34,064 | \$ 20,084 |

Lease disclosures for the year ended June 30, 2022 following prior lease guidance in FASB ASC 840 are provided below.

The organization leases warehouse space to store donated inventory and for use as the location for its annual benefit sale. The lease expired 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 commenced October 2017. The lease required 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 required additional rent as reimbursement for the organization's share of the warehouse real estate taxes and operating expenses. The lease was terminated in March 2020 and a new lease at a smaller location began in April 2020. The lease requires monthly rent payments of \$2,344 (commencing April 2020), subject to annual increases of 3% (current monthly rent payments of \$2,486 as of June 30, 2022). In addition, the new lease also 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 \$56,967 during the year ended June 30, 2023.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE K -- Leases (Continued)

Future minimum lease payments under these leases are as follows:

Year ending June 30,

2023

\$ 22,378

NOTE L -- Commitments and contingencies

Contracts

The organization had entered into contracts with various firms and a children's museum to provide architectural services and exhibit design development for a capital expansion project. The contracts totaled \$0 and \$1,930,714 as of June 30, 2023 and 2022, respectively. The balance of the uncompleted contracts approximated \$0 and \$254,135 as of June 30, 2023 and 2022, respectively.

Paycheck Protection Program

On February 12, 2021, the organization qualified for and received a loan pursuant to the Paycheck Protection Program (PPP), a program implemented by the U.S. Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender (the "PPP Lender"), for an aggregate principal amount of \$394,786 (the "PPP Loan"). The principal amount of the PPP Loan was subject to forgiveness under the Paycheck Protection Program upon the organization's request to the extent that the PPP Loan proceeds were used to pay expenses permitted by the Paycheck Protection Program, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the organization. The organization applied for forgiveness of the PPP Loan with respect to these covered expenses. To the extent that all or part of the PPP Loan is not forgiven, the organization will be required to pay interest on the PPP Loan at a rate of 1.0% per annum and commencing in December 2021 principal and interest payments will be required through the maturity date in February 2026. The terms of the PPP Loan provide for customary events of default including, among other things, payment defaults, breach of representations and warranties, and insolvency events. The PPP Loan may be accelerated upon the occurrence of an event of default. The organization obtained forgiveness on the PPP loan on May 31, 2022 and recognized the entire amount as a gain on forgiveness of debt in the statements of activities.

The SBA retains the right to review the eligibility of any borrower, regardless of the size of the loan. If the SBA subsequently determines the borrower was ineligible for the PPP loans after forgiveness, the borrower must immediately repay the loans to the lender.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE M -- Endowment funds held at Madison Community Foundation

The organization has four Endowment Funds (Funds) that are operated as a component part of Madison Community Foundation (MCF), 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 twenty-quarter average are available for operations. All other interest and appreciation are reinvested into the Funds. Principal may not be drawn from the Funds except with approval from MCF's Board of Governors. The MCF 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 financial statements.

The fair values as of June 30 were as follows:

| | <u>2023</u> | <u>2022</u> |
|--------------|---------------------|---------------------|
| Fund 1030590 | \$ 1,475,689 | \$ 1,438,532 |
| Fund 1030772 | 2,194,340 | 2,170,396 |
| Fund 1030591 | 2,007,789 | 1,985,876 |
| Fund 1030592 | <u>58,365</u> | <u>57,728</u> |
| | <u>\$ 5,736,183</u> | <u>\$ 5,652,532</u> |

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

| | <u>2023</u> | <u>2022</u> |
|--------------|-------------------|-------------------|
| Fund 1030590 | \$ 58,440 | \$ 56,528 |
| Fund 1030772 | 90,074 | 88,157 |
| Fund 1030591 | 82,412 | 80,653 |
| Fund 1030592 | <u>2,396</u> | <u>2,345</u> |
| | <u>\$ 233,322</u> | <u>\$ 227,683</u> |

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE N -- Annual Benefit Sale

The organization has an agreement with American Girl Brands, LLC in connection with the organization's 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 last benefit sale was held in June 2023.

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

| | <u>2023</u> | <u>2022</u> |
|--|---------------------|-------------------|
| Gross receipts | \$ 1,720,696 | \$ 698,193 |
| Less: Sales tax and bank charges | <u>39,953</u> | <u>13,409</u> |
| Net sales | 1,680,743 | 684,784 |
| American Girl Fund for Children current year event distribution | <u>(689,775)</u> | <u>(242,530)</u> |
| Organization's portion of sales revenue | 990,968 | 442,254 |
| Ticket sales for benefit sale | 78,130 | 18,395 |
| Other benefit revenue | <u>5,007</u> | <u>4,996</u> |
| Annual Benefit Sale revenue | <u>\$ 1,074,105</u> | <u>\$ 465,645</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 statements of financial position. The payable of \$303,779 as of June 30, 2023 reflects the amount due to American Girl's Fund for Children Foundation from the benefit sale held in June 2023. The payable of \$415,745 as of June 30, 2022 reflects an estimated amount that was payable from the benefit sale held in July 2022 and was based on gross revenue and 50% of the estimated fair value of the donated merchandise held in inventory as of June 30, 2022.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2023

NOTE O -- Availability of financial assets and liquidity

The organization has the following financial assets available to meet cash needs for general expenditures within one year of the statement of financial position date:

| | <u>2023</u> | <u>2022</u> |
|---------------------|---------------------|---------------------|
| Cash | \$ 4,333,363 | \$ 2,863,703 |
| Pledges receivable | 338,199 | 459,214 |
| Accounts receivable | <u>1,141</u> | <u>97,686</u> |
| | <u>\$ 4,672,703</u> | <u>\$ 3,420,603</u> |

None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the statement of financial position date. Pledges receivable are subject to implied time restrictions but are expected to be collected within one year. The balance of pledges receivable is restricted by donors for specific purposes or have a time restriction of more than a year and are not available for general expenditures.

The organization structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The organization considers financial assets whose use is limited by board designation for the building system replacements and maintenance to also be available for general expenditures, if needed.

NOTE P -- Employee Retention Tax Credit

Under the CAA, the organization has claimed an Employee Retention Tax Credit in the amount of \$207,983 in 2021. \$0 and \$98,568 is included in the balance of accounts receivable as of June 30, 2023 and 2022, respectively.