

Madison Children's Museum, Inc. and Affiliate

Consolidated Financial Report

June 30, 2019

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Madison Children's Museum, Inc. and Affiliate, which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note A to the consolidated financial statements, in fiscal 2019, the organization adopted new accounting guidance for the presentation of consolidated financial statements of Not-for-Profit entities. Our opinion is not modified with respect to this matter.

SVA Certified Public Accountants, S.C.

Madison, Wisconsin

October 3, 2019

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 15,872	\$ 69,101
Pledges receivable	95,583	115,500
Accounts receivable	10,169	18,283
Accrued interest receivable	0	23,829
Note receivable	0	4,084,975
Inventories	1,412,205	2,537,820
Prepaid expenses	20,726	18,394
	1,554,555	6,867,902
LONG-TERM ASSETS		
Property and equipment, net	12,366,042	12,808,478
Pledges receivable, net	74,115	20,948
Cash designated and restricted for building system replacements and maintenance	256,112	258,301
Cash restricted for capital expansion project	239,480	0
Cash and investments restricted for endowment purposes	5,995	5,995
	12,941,744	13,093,722
TOTAL ASSETS	\$ 14,496,299	\$ 19,961,624
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 113,761	\$ 93,069
Due to American Girl's Fund For Children	703,802	1,267,608
Accrued expenses	143,003	133,955
Accrued interest payable	2,726	30,283
Security deposits payable	12,300	15,750
Current maturities of notes payable	1,001,445	4,887,199
Line of credit	220,000	400,000
Deferred revenue	82,375	92,735
	2,279,412	6,920,599
LONG-TERM LIABILITIES		
Notes payable, less current maturities, net	10,117	1,113,665
	2,289,529	8,034,264
NET ASSETS		
Without donor restrictions	11,612,792	11,514,963
With donor restrictions	593,978	412,397
	12,206,770	11,927,360
TOTAL LIABILITIES AND NET ASSETS	\$ 14,496,299	\$ 19,961,624

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, 2019 and 2018

	2019	2018
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Public support, revenue, and gains:		
Donated inventory, services, and materials	\$ 104,654	\$ 1,226,446
Inventory value adjustment	(113,595)	(11,301)
Annual benefit sale	595,676	493,412
Contributions and grants	873,763	557,448
Visitor services	831,294	828,404
Other income	10,953	8,123
Endowment distributions	207,225	214,582
Membership dues	455,715	417,445
Other events	236,900	262,783
Gain on forgiveness of debt	1,126,131	0
Investment return	114,943	288,585
	4,443,659	4,285,927
 Expenses:		
Program services:		
Exhibit programs	1,056,397	1,392,396
Education	618,684	654,147
Marketing and visitor services	657,920	647,556
	2,333,001	2,694,099
Supporting activities:		
Administration	683,596	802,072
Fundraising	287,255	370,792
Annual benefit sale	691,365	609,351
Capital expansion project	469,307	0
	2,131,523	1,782,215
Total supporting expenses	2,131,523	1,782,215
Total expenses	4,464,524	4,476,314
Net assets released from restrictions	118,694	342,546
Change in net assets without donor restrictions	97,829	152,159
 NET ASSETS WITH DONOR RESTRICTIONS		
Contributions and grants	300,275	156,815
Net assets released from restrictions	(118,694)	(342,546)
Change in net assets with donor restrictions	181,581	(185,731)
 Change in net assets	279,410	(33,572)
Net assets, beginning	11,927,360	11,960,932
Net assets, ending	\$ 12,206,770	\$ 11,927,360

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, 2019 and 2018

	Program services				Supporting services						Total expenses
	Exhibit programs	Education	Marketing and visitor services	Total program services	Administration	Fundraising	Annual benefit sale	Capital expansion project	Total supporting services		
2019											
Expenses:											
Cost of sales	\$ 0	\$ 0	\$ 6,787	\$ 6,787	\$ 0	\$ 0	\$ 505,646	\$ 0	\$ 505,646	\$ 512,433	
Depreciation	289,310	10,320	10,320	309,950	144,655	0	0	0	144,655	454,605	
Dues and subscriptions	660	612	2,016	3,288	8,543	26	200	676	9,445	12,733	
Events, meetings, travel and training	11,783	6,298	638	18,719	2,820	3,237	2,808	1,832	10,697	29,416	
Insurance	0	0	0	0	26,328	0	0	0	26,328	26,328	
Interest and bank charges	110,177	3,930	34,068	148,175	81,381	12,000	16,834	0	110,215	258,390	
Maintenance and repairs	21,450	574	510	22,534	7,150	0	44	0	7,194	29,728	
Occupancy	58,811	2,162	2,097	63,070	29,404	0	88,796	0	118,200	181,270	
Office supplies	12,205	1,323	1,559	15,087	8,619	971	5,888	3,706	19,184	34,271	
Personnel	434,072	545,553	502,075	1,481,700	267,393	145,669	50,513	168,206	631,781	2,113,481	
Printing, postage and copying	253	235	35,046	35,534	13,593	6,415	5,030	95	25,133	60,667	
Professional services	70,281	24,377	7,174	101,832	86,610	52,350	8,935	294,551	442,446	544,278	
Program supplies	43,135	23,207	10,999	77,341	5,156	54,487	6,659	112	66,414	143,755	
Publicity	0	0	25,192	25,192	0	0	0	0	0	25,192	
Technology	4,260	93	19,439	23,792	1,944	12,100	12	129	14,185	37,977	
Total expenses	\$ 1,056,397	\$ 618,684	\$ 657,920	\$ 2,333,001	\$ 683,596	\$ 287,255	\$ 691,365	\$ 469,307	\$ 2,131,523	\$ 4,464,524	
2018											
Expenses:											
Cost of sales	\$ 0	\$ 0	\$ 9,217	\$ 9,217	\$ 0	\$ 0	\$ 431,090	0	\$ 431,090	\$ 440,307	
Depreciation	290,776	10,372	10,372	311,520	145,388	0	0	0	145,388	456,908	
Dues and subscriptions	507	463	608	1,578	3,116	490	0	0	3,606	5,184	
Events, meetings, travel and training	13,762	16,671	1,377	31,810	4,604	8,801	3,229	0	16,634	48,444	
Insurance	0	0	0	0	23,553	0	0	0	23,553	23,553	
Interest and bank charges	234,708	8,372	39,077	282,157	169,364	0	12,851	0	182,215	464,372	
Maintenance and repairs	45,888	1,334	1,231	48,453	16,902	0	72	0	16,974	65,427	
Occupancy	60,889	2,221	2,172	65,282	30,474	0	87,029	0	117,503	182,785	
Office supplies	4,280	2,516	1,219	8,015	5,728	7,277	4,385	0	17,390	25,405	
Personnel	454,952	547,008	477,676	1,479,636	332,517	223,482	47,546	0	603,545	2,083,181	
Printing, postage and copying	490	0	24,609	25,099	15,346	19,308	2,982	0	37,636	62,735	
Professional services	218,875	29,323	5,286	253,484	46,068	64,677	8,188	0	118,933	372,417	
Program supplies	49,136	35,244	9,822	94,202	4,981	34,657	11,979	0	51,617	145,819	
Publicity	0	0	47,246	47,246	0	0	0	0	0	47,246	
Technology	18,133	623	17,644	36,400	4,031	12,100	0	0	16,131	52,531	
Total expenses	\$ 1,392,396	\$ 654,147	\$ 647,556	\$ 2,694,099	\$ 802,072	\$ 370,792	\$ 609,351	\$ 0	\$ 1,782,215	\$ 4,476,314	

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, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 279,410	\$ (33,572)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	466,748	493,343
Net realized and unrealized (gain) loss on investments	0	106
Gain on forgiveness of debt	(1,126,131)	0
Change in contributed inventory	1,125,615	(1,510,297)
Donated investments	0	(10,045)
Proceeds from sale of donated investments	0	9,939
Increase (decrease) in cash due to changes in:		
Pledges receivable	(47,750)	29,159
Accounts receivable	8,114	2,579
Prepaid expenses	(2,332)	905
Accrued interest receivable	23,829	(175)
Accounts payable	20,692	34,776
Due to American Girl's Fund For Children	(563,806)	756,067
Accrued expenses	9,048	664
Accrued interest	(27,557)	0
Security deposits payable	(3,450)	2,250
Deferred revenue	(10,360)	5,535
	152,070	(218,766)
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in note receivable	0	(30,000)
Payments received on note receivable	4,084,975	0
Net change in cash restricted for building system replacements	2,189	52,269
Net change in cash restricted for capital expansion project	(239,480)	0
Purchase of property and equipment	(12,169)	(15,350)
	3,835,515	6,919
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	0	597,000
Payments on line of credit	(180,000)	(497,000)
Proceeds from notes payable	1,000,000	0
Payments on notes payable	(4,875,314)	(9,210)
Proceeds from contributions restricted for museum relocation	14,500	10,000
	(4,040,814)	100,790
Change in cash and cash equivalents	(53,229)	(111,057)
Cash and cash equivalents:		
Beginning	69,101	180,158
Ending	\$ 15,872	\$ 69,101

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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
SUPPLEMENTAL DISCLOSURE(S) OF CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ 208,937</u>	<u>\$ 382,152</u>
SUPPLEMENTAL SCHEDULE(S) OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Donated investments	<u>\$ 0</u>	<u>\$ 10,045</u>
Gain on forgiveness of debt	<u>\$ 1,126,131</u>	<u>\$ 0</u>

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, 2019

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 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 consolidated 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 CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019

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. 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 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 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. 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 value of unsold inventory carried over from the prior year sale is subsequently adjusted based on selling prices in the next sale. This adjustment is reflected in the consolidated statement of activities as an inventory value adjustment.

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 CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019

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 \$454,605 and \$456,908 for the years ended June 30, 2019 and 2018, 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.

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 and is included in investment return on the consolidated statement of activities.

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 were being amortized on the straight-line method over 84 months, the life of the loans, which matured in November 2018. 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 \$12,143 and \$36,435 for the years ended June 30, 2019 and 2018, respectively.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019

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 N).

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 net assets without donor restrictions or net assets with donor restrictions support, 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 consolidated 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.

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

Investment return is reported as an increase or decrease in net assets without donor restrictions 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.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019

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

Expense allocation

The consolidated 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.

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.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019

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

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 contracted services expenses 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 \$25,192 and \$52,859 for the years ended June 30, 2019 and 2018, respectively.

New accounting pronouncement

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The organization has adjusted the presentation of its consolidated financial statements accordingly. The new standards change the following aspects of the organization's consolidated financial statements:

- a. The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- b. The unrestricted net asset class has been renamed net assets without donor restrictions.
- c. The consolidated financial statements include a new disclosure about liquidity and availability of resources (Note P).

Accounting standards updates

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, that introduced a comprehensive, principles-based framework for recognizing revenue. The guidance is intended to provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices and improve disclosure requirements. In August 2015, the FASB issued a deferral of this new guidance and, as such, the new guidance is effective for the organization for the fiscal year ending June 30, 2020. The organization is currently evaluating the effects of this new standard and has not determined the impact on its financial statements at this time.

Reclassifications

Some items in the 2018 consolidated financial statements have been reclassified to be consistent with the current year's presentation.

Subsequent events

These consolidated financial statements have not been updated for subsequent events occurring after October 3, 2019, 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, 2019

NOTE B -- Investments

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

	<u>2019</u>	<u>2018</u>
Note receivable interest	\$ 108,463	\$ 288,211
Interest	6,480	480
Net realized and unrealized gains (losses)	<u>0</u>	<u>(106)</u>
Investment return	<u>\$ 114,943</u>	<u>\$ 288,585</u>

NOTE C -- Pledges receivable

Pledges receivable at June 30 consisted of the following:

	<u>2019</u>	<u>2018</u>
Pledges - operating	\$ 82,250	\$ 92,000
Pledges - restricted	22,250	38,000
Pledges - capital campaign	<u>73,250</u>	<u>14,500</u>
Pledges receivable	<u>\$ 177,750</u>	<u>\$ 144,500</u>
Receivable in less than one year	\$ 95,583	\$ 115,500
Receivable in one to five years	<u>82,167</u>	<u>29,000</u>
Pledges receivable	\$ 177,750	\$ 144,500
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>\$ 169,698</u>	<u>\$ 136,448</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
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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>6/30/2019</u>	Fair value measurement using		
		Quoted prices in active markets for identical inputs (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
<u>Assets</u>				
Long-term pledges receivable, net ¹	\$ 74,115	\$ 0	\$ 74,115	\$ 0

	<u>6/30/2018</u>	Fair value measurement using		
		Quoted prices in active markets for identical inputs (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
<u>Assets</u>				
Long-term pledges receivable, net ¹	\$ 20,948	\$ 0	\$ 20,948	\$ 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.

NOTE E -- Property and equipment, net

Property and equipment, net is comprised of the following:

	<u>2019</u>	<u>2018</u>
Building, improvements, and exhibits	\$ 16,293,075	\$ 16,283,154
Leasehold improvements	19,064	19,064
Equipment	159,386	157,138
	16,471,525	16,459,356
Less accumulated depreciation	4,105,483	3,650,878
	<u>\$ 12,366,042</u>	<u>\$ 12,808,478</u>

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE
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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 received interest income at 7% of the outstanding balance over this period. The organization was allowed to loan additional funds under this note to MCM Investment Fund LLC prior to October 2018. The balance of the note was received in November 2018. The balance at June 30, 2019 and 2018 was \$0 and \$4,084,975, respectively.

NOTE G -- Notes payable, net

Notes payable, net consist of the following:

	2019	2018
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. The note was paid in full in November 2018.	\$ 0	\$ 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; collateralized by a mortgage on the organization's building. The loan was forgiven on November 15, 2018 and the balance was recognized as gain on forgiveness of debt in the statement of activities.	0	1,126,131
The Park Bank; original amount of \$1,000,000; monthly interest-only payments at 5.5%, one principal payment and all accrued interest not paid due May 15, 2020; collateralized by a mortgage on the organization's building and assignment of rents thereon; prepayment allowed.	1,000,000	0
Balance carried forward	1,000,000	6,000,000

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019

NOTE G -- Notes payable, net (Continued)

Balance brought forward	\$ 1,000,000	\$ 6,000,000
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>11,562</u>	<u>13,007</u>
	\$ 1,011,562	\$ 6,013,007
Less unamortized debt issuance costs	0	12,143
Less current maturities	<u>1,001,445</u>	<u>4,887,199</u>
	<u>\$ 10,117</u>	<u>\$ 1,113,665</u>

Interest expense incurred on notes payable totaled \$173,451 and \$368,806 during the years ended June 30, 2019 and 2018, respectively.

Repayment of principal on the notes payable as of June 30, 2019, is as follows:

Year ending June 30,

2020	\$ 1,001,445
2021	1,445
2022	1,445
2023	1,445
2024	1,445
Thereafter	<u>4,337</u>
	<u>\$ 1,011,562</u>

NOTE H -- Line of credit

A line of credit of \$400,000 is available from Park Bank and carries interest at prime plus 0.50 percentage points, but never less than 6.00% (6.00% as of June 30, 2019). The term of the line of credit expires in May 2020 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
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NOTE I -- 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 3):

	<u>2019</u>	<u>2018</u>
Building system replacements and maintenance	\$ 13,800	\$ 0
Capital expansion project	<u>68,206</u>	<u>0</u>
Total board designated net assets	<u>\$ 82,006</u>	<u>\$ 0</u>

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>2019</u>	<u>2018</u>
Purpose restricted:		
Capital campaign	\$ 0	\$ 6,448
Building system replacements and maintenance	242,313	258,301
Keystone debt prefunding	0	5,000
Designed to Move funds	0	6,000
Autism project	0	21,206
Rooftop Refresh project	8,750	0
Capital expansion project	239,223	0
Wonder Ball event	13,500	15,500
Technology education	1,947	1,947
Time restricted:		
Pledges receivable due in subsequent years	82,250	92,000
Investments in perpetuity, which once appropriated, are expendable to support:		
Madison Children's Museum Foundation, Inc. Endowment	<u>5,995</u>	<u>5,995</u>
Net assets with donor restrictions	<u>\$ 593,978</u>	<u>\$ 412,397</u>

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE
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NOTE J -- Contributions and grants

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

	2019	2018
Individual	\$ 753,768	\$ 257,409
Foundations	314,643	183,163
Corporations	81,280	173,690
Government	24,347	100,001
Contributions and grants	\$ 1,174,038	\$ 714,263

NOTE K -- Operating lease

The organization leases warehouse space to store donated inventory and 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 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 (current monthly rent payments of \$4,646 as of June 30, 2019). 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 \$86,093 and \$83,720 during the years ended June 30, 2019 and 2018, respectively.

Future minimum lease payments under this lease are as follows:

Year ending June 30,	
2020	\$ 58,168
2021	59,913
2022	61,711
2023	15,890
	\$ 195,682

NOTE L -- Commitment

During 2019, the organization entered into contracts with an architecture firm and a children's museum to provide architectural services and exhibit design development, respectively, for a capital expansion project. The total amount of the contracts was \$445,500. The balance of the uncompleted contracts approximated \$284,764 and \$0 as of June 30, 2019 and 2018, respectively.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019

NOTE M -- 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 twenty-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, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Fund 1030590	\$ 1,316,950	\$ 1,263,666
Fund 1030772	2,051,262	1,991,780
Fund 1030591	1,876,773	1,822,171
Fund 1030592	<u>54,563</u>	<u>52,985</u>
	<u>\$ 5,299,548</u>	<u>\$ 5,130,602</u>

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

	<u>2019</u>	<u>2018</u>
Fund 1030590	\$ 49,745	\$ 51,239
Fund 1030772	81,205	84,261
Fund 1030591	74,111	76,820
Fund 1030592	<u>2,164</u>	<u>2,262</u>
	<u>\$ 207,225</u>	<u>\$ 214,582</u>

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE
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NOTE N -- 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>2019</u>	<u>2018</u>
Gross receipts	\$ 1,108,158	\$ 929,337
Less: Sales tax and bank charges	<u>73,120</u>	<u>64,078</u>
Net sales	1,035,038	865,259
American Girl Fund for Children current year event distribution	<u>(496,099)</u>	<u>(422,813)</u>
Organization's portion of sales revenue	538,939	442,446
Ticket sales for benefit sale	45,824	41,669
Other benefit revenue	<u>10,913</u>	<u>9,297</u>
Annual Benefit Sale revenue	<u>\$ 595,676</u>	<u>\$ 493,412</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 \$703,802 and \$1,267,608 at June 30, 2019 and 2018, 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, 2019 and 2018, respectively.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019

NOTE O -- Maturing note payable

As disclosed in Note G, the organization has a note payable due in May 2020. As shown in the accompanying consolidated financial statements, the organization does not have sufficient cash or reserves and is not generating enough operating cash flow to repay the note payable when due. Management of the organization has evaluated this condition and plans to refinance the note prior to its maturity, which would alleviate this uncertainty.

NOTE P -- Availability of financial assets and liquidity

The organization has \$85,456 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures consisting of cash of \$24,973, pledges receivable of \$50,417 and accounts receivable of \$10,066. 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. The pledges receivable are subject to implied time restrictions but are expected to be collected within one year. The balance of pledges receivable are 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. In addition, as part of its liquidity management, the organization has access to a \$400,000 available line of credit (see Note H) which is used to manage cash flow volatility throughout the year, of which \$220,000 has been drawn upon as of June 30, 2019.