

Madison Children's Museum, Inc. and Affiliate

Consolidated Financial Report

June 30, 2020

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 financial statements of Madison Children's Museum, Inc. and Affiliate, which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Madison Children's Museum, Inc. and Affiliate as of June 30, 2020 and 2019, 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 financial statements, in fiscal 2020, the organization adopted new accounting standards. Our opinion is not modified with respect to this matter.

SVA Certified Public Accountants, S.C.

Madison, Wisconsin

September 29, 2020

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2020 and 2019

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 237,577	\$ 15,872
Pledges receivable	1,467,635	95,583
Accounts receivable	852	10,169
Inventories	581,622	1,412,205
Prepaid expenses	19,572	20,726
Total current assets	2,307,258	1,554,555
LONG-TERM ASSETS		
Property and equipment, net	11,979,654	12,366,042
Pledges receivable, net	946,360	74,115
Cash designated and restricted for building system replacements and maintenance	185,462	256,112
Cash restricted for capital expansion project	84,834	239,480
Cash and investments restricted for endowment purposes	5,995	5,995
Total long-term assets	13,202,305	12,941,744
TOTAL ASSETS	\$ 15,509,563	\$ 14,496,299
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 19,775	\$ 113,761
Due to American Girl's Fund For Children	287,364	703,802
Accrued expenses	94,869	143,003
Accrued interest payable	2,009	2,726
Security deposits payable	8,600	12,300
Current maturities of notes payable	20,549	1,001,445
Line of credit	400,000	220,000
Deferred revenue	69,142	82,375
Total current liabilities	902,308	2,279,412
LONG-TERM LIABILITIES		
Notes payable, less current maturities, net	1,515,168	10,117
TOTAL LIABILITIES	2,417,476	2,289,529
NET ASSETS		
Without donor restrictions	10,479,109	11,612,792
With donor restrictions	2,612,978	593,978
Total net assets	13,092,087	12,206,770
TOTAL LIABILITIES AND NET ASSETS	\$ 15,509,563	\$ 14,496,299

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, 2020 and 2019

	2020	2019
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Public support, revenue, and gains:		
Donated inventory, services, and materials	\$ 136,628	\$ 104,654
Inventory value adjustment	(39,841)	(113,595)
Annual benefit sale	527,531	595,676
Contributions and grants	879,522	873,763
Visitor services	492,715	831,294
Other income	13,696	10,953
Endowment distributions	210,746	207,225
Membership dues	350,439	455,715
Other events	218,678	236,900
Gain on forgiveness of debt	0	1,126,131
Investment return	5,889	114,943
	2,796,003	4,443,659
 Expenses:		
Program services:		
Exhibit programs	986,699	1,056,397
Education	548,934	618,684
Marketing and visitor services	656,184	657,920
	2,191,817	2,333,001
Supporting activities:		
Administration	612,926	683,596
Fundraising	333,807	287,255
Annual Benefit Sale	644,795	691,365
Capital expansion project	313,657	469,307
	1,905,185	2,131,523
Total expenses	4,097,002	4,464,524
Net assets released from restrictions	167,317	118,694
Change in net assets without donor restrictions	(1,133,682)	97,829
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions and grants	2,186,316	300,275
Net assets released from restrictions	(167,317)	(118,694)
	2,018,999	181,581
Change in net assets	885,317	279,410
Net assets, beginning	12,206,770	11,927,360
Net assets, ending	\$ 13,092,087	\$ 12,206,770

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, 2020 and 2019

	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	
2020										
Expenses:										
Cost of sales	\$ 0	\$ 0	\$ 7,771	\$ 7,771	\$ 0	\$ 0	\$ 436,232	\$ 0	\$ 436,232	\$ 444,003
Depreciation	289,908	10,341	10,341	310,590	147,738	0	0	0	147,738	458,328
Dues and subscriptions	342	201	3,048	3,591	8,262	775	63	0	9,100	12,691
Events, meetings, travel and training	1,681	2,740	731	5,152	603	1,675	1,998	297	4,573	9,725
Insurance	0	0	0	0	26,284	0	0	0	26,284	26,284
Interest and bank charges	34,006	1,213	25,778	60,997	33,265	7,500	15,060	0	55,825	116,822
Maintenance and repairs	41,239	1,072	1,072	43,383	15,031	0	500	0	15,531	58,914
Occupancy	55,330	1,973	1,973	59,276	27,663	0	97,537	0	125,200	184,476
Office supplies	3,380	1,219	4,776	9,375	3,431	1,068	3,431	0	7,930	17,305
Personnel	457,679	496,649	538,107	1,492,435	290,588	176,683	52,693	136,789	656,753	2,149,188
Printing, postage and copying	0	15	16,172	16,187	12,293	10,535	1,214	565	24,607	40,794
Professional services	61,872	10,826	2,374	75,072	41,051	48,050	23,774	170,641	283,516	358,588
Program supplies	36,952	22,574	3,720	63,246	4,929	76,027	12,257	5,365	98,578	161,824
Publicity	0	0	19,742	19,742	0	0	0	0	0	19,742
Technology	4,310	111	20,579	25,000	1,788	11,494	36	0	13,318	38,318
Total expenses	\$ 986,699	\$ 548,934	\$ 656,184	\$ 2,191,817	\$ 612,926	\$ 333,807	\$ 644,795	\$ 313,657	\$ 1,905,185	\$ 4,097,002
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

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, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 885,317	\$ 279,410
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	458,328	454,605
Amortization of debt issuance costs	0	12,143
Net realized and unrealized gain on investments	(25)	0
Gain on forgiveness of debt	0	(1,126,131)
Change in contributed inventory	830,583	1,125,615
Donated investments	(1,627)	0
Proceeds from sale of donated investments	1,652	0
Increase (decrease) in cash due to changes in:		
Pledges receivable	(2,244,297)	(47,750)
Accounts receivable	9,317	8,114
Prepaid expenses	1,154	(2,332)
Accrued interest receivable	0	23,829
Accounts payable	(93,986)	20,692
Due to American Girl's Fund For Children	(416,438)	(563,806)
Accrued expenses	(48,134)	9,048
Accrued interest	(717)	(27,557)
Security deposits payable	(3,700)	(3,450)
Deferred revenue	(13,233)	(10,360)
	(635,806)	152,070
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments received on note receivable	0	4,084,975
Purchase of property and equipment	(71,940)	(12,169)
	(71,940)	4,072,806
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	620,000	0
Payments on line of credit	(440,000)	(180,000)
Proceeds from notes payable	545,600	1,000,000
Payments on notes payable	(21,445)	(4,875,314)
Proceeds from contributions restricted for museum relocation	0	14,500
	704,155	(4,040,814)
Change in cash and cash equivalents, and restricted cash	(3,591)	184,062
Cash and cash equivalents, and restricted cash:		
Beginning	517,459	333,397
Ending	\$ 513,868	\$ 517,459
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH TO STATEMENT OF FINANCIAL POSITION		
Cash and cash equivalents	\$ 237,577	\$ 15,872
Restricted cash for building system replacements	185,462	256,112
Restricted cash for capital expansion project	84,834	239,480
Restricted cash for endowment purposes	5,995	5,995
	\$ 513,868	\$ 517,459

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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
SUPPLEMENTAL DISCLOSURE(S) OF CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ 68,320</u>	<u>\$ 208,937</u>
SUPPLEMENTAL SCHEDULE(S) OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Donated investments	<u>\$ 1,627</u>	<u>\$ 0</u>
Gain on forgiveness of debt	<u>\$ 0</u>	<u>\$ 1,126,131</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, 2020

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, 2020

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 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. 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 statements 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 FINANCIAL STATEMENTS

June 30, 2020

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 \$458,328 and \$454,605 for the years ended June 30, 2020 and 2019, 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. The note was repaid as of June 30, 2019.

Debt issuance costs

In October 2011, the organization refinanced its Park Bank mortgage using loans provided through the New Markets Tax Credit (NMTC) 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 financial statements. Amortized costs included in interest expense totaled \$0 and \$12,143 for the years ended June 30, 2020 and 2019, respectively.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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 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.

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 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 (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.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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

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.

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 FINANCIAL STATEMENTS

June 30, 2020

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 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 \$19,742 and \$25,192 for the years ended June 30, 2020 and 2019, respectively.

New accounting standards adopted

In November 2016, FASB issued Accounting Standards Update (ASU) No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when recording the beginning and ending total amounts shown on the consolidated statements of cash flows.

The entity was required to adopt this new accounting standard during its fiscal year ended June 30, 2020 and retrospectively apply the amendments to all periods presented. As a result, net cash provided by investing activities previously reported increased by \$237,291 for the year ended June 30, 2019 to exclude the change in restricted cash.

In August 2016, FASB issued Accounting Standards Update (ASU) No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which provides guidance on the classification of eight cash flow issues to reduce the existing diversification in practice. Specific cash flow issues addressed in this ASU that could apply to the entity include a) debt prepayment or debt extinguishment costs; b) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; c) proceeds from the settlement of insurance claims; and d) separately identifiable cash flows and application of the predominance principle.

The entity was required to adopt this new accounting standard during its fiscal year ended June 30, 2020 and retrospectively apply the amendments to all periods presented. The adoption of this new standard did not impact the entity's consolidated statements of cash flows.

In June 2018, FASB issued Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received*, which requires an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. After a contribution has been deemed unconditional, an entity would then consider whether the contribution is restricted by a donor-imposed restriction.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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

The entity was required to adopt this new accounting standard during its fiscal year ended June 30, 2020. The adoption of this new standard did not impact the entity's financial statements.

Subsequent events

These financial statements have not been updated for subsequent events occurring after September 29, 2020, 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>2020</u>	<u>2019</u>
Note receivable interest	\$ 0	\$ 108,463
Interest	5,864	6,480
Net realized and unrealized gains (losses)	<u>25</u>	<u>0</u>
Investment return	<u>\$ 5,889</u>	<u>\$ 114,943</u>

NOTE C -- Pledges receivable

Pledges receivable at June 30 consisted of the following:

	<u>2020</u>	<u>2019</u>
Pledges - operating	\$ 894,836	\$ 82,250
Pledges - restricted	201,313	22,250
Pledges - capital campaign	<u>1,345,242</u>	<u>73,250</u>
Pledges receivable	<u>\$ 2,441,391</u>	<u>\$ 177,750</u>
Receivable in less than one year	\$ 1,467,635	\$ 95,583
Receivable in one to five years	<u>973,756</u>	<u>82,167</u>
Pledges receivable	\$ 2,441,391	\$ 177,750
Discount to net present value	(24,344)	(5,000)
Provision for uncollectible pledges receivable	<u>(3,052)</u>	<u>(3,052)</u>
Pledges receivable - net	<u>\$ 2,413,995</u>	<u>\$ 169,698</u>

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE C -- Pledges receivable (Continued)

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 foundation is one of twenty beneficiaries of the John H. Lussier Charitable Lead Annuity Trust (CLAT). Under the CLAT, the foundation receives fixed annual annuity payments during the term of the trust, 10 years. The final distribution will be made in 2028. The foundation was notified it was a beneficiary of the CLAT in 2019 and has recognized \$957,842 in contribution revenue from the trust as of June 30, 2020, net of the discount to present value totaling \$18,097. The amounts to be received in the last year will be prorated based on the final balance held in the trust. Any changes in the discounted value of the CLAT are adjusted through the remaining pledge receivable balance and contribution revenue. Changes in the value of the CLAT will be reported on a separate line in the statements of activities when recognized.

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:

	Fair value measurement using		
6/30/20	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	<u>\$ 946,360</u>	<u>\$ 0</u>	<u>\$ 946,360</u>
	<u>\$ 0</u>		<u>\$ 0</u>

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE D -- Fair value disclosure (Continued)

	<u>6/30/19</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	\$ <u>74,115</u>	\$ <u>0</u>	\$ <u>74,115</u>	\$ <u>0</u>

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>2020</u>	<u>2019</u>
Building, improvements, and exhibits	\$ 16,363,725	\$ 16,293,075
Leasehold improvements	19,064	19,064
Equipment	<u>160,676</u>	<u>159,386</u>
	16,543,465	16,471,525
Less accumulated depreciation	<u>4,563,811</u>	<u>4,105,483</u>
	<u>\$ 11,979,654</u>	<u>\$ 12,366,042</u>

NOTE F -- Note receivable

NMTC 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. The balance of the note was received in November 2018.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE G -- Notes payable, net

Notes payable, net consist of the following:

	2020	2019
<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; 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, afterwards penalty ranges from 1.00% - 3.00%.</p>	980,000	1,000,000
<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>	10,117	11,562
<p>The Park Bank; Paycheck Protection Program (PPP) loan through the Small Business Administration (SBA); original amount of \$395,600 including interest at 1%; 18 equal payments of \$22,263 due April 17, 2022; portion of loan can be forgiven; no collateral required.</p>	395,600	0
<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 12 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.</p>	150,000	0
	1,535,717	1,011,562
Less current maturities	20,549	1,001,445
	\$ 1,515,168	\$ 10,117

Interest expense incurred on notes payable totaled \$53,742 and \$173,451 during the years ended June 30, 2020 and 2019, respectively.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE G -- Notes payable, net (Continued)

Repayment of principal on the notes payable as of June 30, 2020, is as follows:

Year ending June 30,

2021	\$	20,549
2022		431,228
2023		932,161
2024		5,169
2025		5,273
Thereafter		<u>141,337</u>
	\$	<u>1,535,717</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 4.00% (4.00% as of June 30, 2020). The term of the line of credit expires in May 2021. The line of credit is secured by all business assets of the organization and was drawn in full as of June 30, 2020.

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 30:

	<u>2020</u>	<u>2019</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, 2020

NOTE I -- 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>2020</u>	<u>2019</u>
Purpose restricted:		
Building system replacements and maintenance	\$ 171,662	\$ 242,313
Annual Benefit Sale	17,000	0
Roadshow project	25,814	0
Mobile sustainability and environmental education lab project	80,000	0
Freeman Foundation Asian culture exhibit series project	72,000	0
Rooftop Refresh project	0	8,750
Capital expansion project	1,355,883	239,223
Wonder Ball event	6,500	13,500
Technology education	1,947	1,947
Time restricted:		
Pledges receivable due in subsequent years	876,177	82,250
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>\$ 2,612,978</u>	<u>\$ 593,978</u>

NOTE J -- Contributions and grants

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

	<u>2020</u>	<u>2019</u>
Individual	\$ 2,641,827	\$ 753,768
Foundations	259,409	314,643
Corporations	68,289	81,280
Government	<u>96,313</u>	<u>24,347</u>
Contributions and grants	<u>\$ 3,065,838</u>	<u>\$ 1,174,038</u>

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE K -- Operating lease

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 requires monthly rent payments of \$4,245 (commencing October 2012), subject to annual increases equal to the change in the Consumer Price Index over the previous year. In addition, the lease requires additional rent as reimbursement for the organization's share of the warehouse real estate taxes and operating expenses. 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 \$2,344 as of June 30, 2020). 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.

The Museum also entered into a lease agreement beginning June 2020 through August 2020 for space to house the inventory for the 2020 online Annual Benefit Sale. The lease requires a total rent payment of \$15,000.

Total rent expense, including the additional rent for the organization's share of real estate taxes and operating expenses, was \$99,359 and \$86,093 during the years ended June 30, 2020 and 2019, respectively.

Future minimum lease payments under these leases are as follows:

Year ending June 30,

2021	\$	28,336
2022		29,186
2023		<u>22,378</u>
	\$	<u>79,900</u>

NOTE L -- Commitments and contingencies

The organization has 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 \$855,844 and \$445,500 as of June 30, 2020 and 2019, respectively. The balance of the uncompleted contracts approximated \$613,891 and \$284,764 as of June 30, 2020 and 2019, respectively.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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 is 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>2020</u>	<u>2019</u>
Fund 1030590	\$ 1,255,847	\$ 1,316,950
Fund 1030772	1,931,022	2,051,262
Fund 1030591	1,766,831	1,876,773
Fund 1030592	<u>51,362</u>	<u>54,563</u>
	<u>\$ 5,005,062</u>	<u>\$ 5,299,548</u>

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

	<u>2020</u>	<u>2019</u>
Fund 1030590	\$ 51,273	\$ 49,745
Fund 1030772	82,170	81,205
Fund 1030591	75,115	74,111
Fund 1030592	<u>2,188</u>	<u>2,164</u>
	<u>\$ 210,746</u>	<u>\$ 207,225</u>

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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

	<u>2020</u>	<u>2019</u>
Gross receipts	\$ 854,382	\$ 1,108,158
Less: Sales tax and bank charges	<u>64,738</u>	<u>73,120</u>
Net sales	919,120	1,035,038
American Girl Fund for Children current year event distribution	<u>(441,051)</u>	<u>(496,099)</u>
Organization's portion of sales revenue	478,069	538,939
Ticket sales for benefit sale	45,055	45,824
Other benefit revenue	<u>4,407</u>	<u>10,913</u>
Annual Benefit Sale revenue	<u>\$ 527,531</u>	<u>\$ 595,676</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 \$287,364 and \$703,802 at June 30, 2020 and 2019, respectively, reflects 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, 2020 and 2019, respectively.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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>2020</u>	<u>2019</u>
Cash	\$ 254,564	\$ 24,973
Pledges receivable	148,530	50,417
Accounts receivable	<u>984</u>	<u>10,066</u>
	<u>\$ 404,078</u>	<u>\$ 85,456</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. 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 \$400,000 was drawn upon as of June 30, 2020.

NOTE P -- Uncertainty

In March 2020, the World Health Organization (WHO) characterized the coronavirus disease (COVID-19) as a global pandemic. Since that time, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to the organization as of September 29, 2020, management believes that a material impact on the organization's financial position and results of future operations is reasonably possible.

MADISON CHILDREN'S MUSEUM, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE P -- Uncertainty (Continued)

Due to the museum being closed since mid-March 2020, the organization does not have sufficient cash or reserves and is not generating enough operating cash flow to repay current liabilities. This condition creates uncertainty about the organization's ability to continue as a going concern. Since the museum's closure, management has significantly reduced the organization's expenses by eliminating staff positions, lowering the facility's energy and water usage and minimizing all general spending. Management has secured federal funding and has initiated fundraising efforts to increase cash available for operations. Management of the organization has evaluated this condition and believes these efforts will generate sufficient cash flows in order to meet the organization's short-term obligations which would alleviate this uncertainty.

NOTE Q – Subsequent events

On August 6, 2020, the museum was awarded a grant in the amount of \$250,000 by a federal organization to be used for the museum's capital expansion project. On September 7, 2020, the museum was notified by a donor that their restricted \$1,000,000 pledge could be redirected toward reopening costs or general needs of the organization. The timing and amount of the payment(s) of the pledge will likely change but are not yet known.