

THE CHILDREN'S MUSEUM

Financial Statements and Supplementary Information

June 30, 2022 and 2021

THE CHILDREN’S MUSEUM

June 30, 2022 and 2021

CONTENTS

Independent Auditor’s Report.....1

Statements of Financial Position.....3

Statements of Activities and Changes in Net Assets.....4

Statements of Cash Flows6

Statements of Functional Expenses.....7

Notes to Financial Statements.....9

Independent Auditor’s Report on Supplementary Information.....29

Schedule of Changes in Net Assets from Operations excluding Depreciation and Amortization30

Independent Auditor's Report

To the Board of Trustees
The Children's Museum
Boston, Massachusetts

Opinion

We have audited the financial statements of The Children's Museum (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Children's Museum as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Children's Museum's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Children's Museum's ability to continue as a going concern for a reasonable period of time.

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

Edelstein & Company LLP

Boston, Massachusetts
December 12, 2022

THE CHILDREN'S MUSEUM

Statements of Financial Position June 30,

	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,921,421	\$ 9,766,517
Accounts receivable, net	225,441	115,315
Pledges receivable, net	972,292	692,543
Prepaid expenses	39,019	41,600
Total current assets	<u>15,158,173</u>	<u>10,615,975</u>
Pledges receivable, net	190,900	224,757
Marketable securities	15,847,041	19,758,883
Property, exhibits and equipment, net	28,439,008	28,346,145
Other assets	<u>1,195,490</u>	<u>1,144,515</u>
Total assets	<u>\$ 60,830,612</u>	<u>\$ 60,090,275</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 798,033	\$ 302,413
Accrued and other short-term liabilities	1,171,664	819,442
Paycheck Protection Program loan	-	940,500
Bonds payable, net	<u>485,771</u>	<u>485,076</u>
Total current liabilities	<u>2,455,468</u>	<u>2,547,431</u>
Long-term liabilities:		
Derivative instruments	3,815	580,355
Notes payable	365,954	352,557
Deferred revenue	180,000	220,000
Security deposits	285,257	236,507
Bonds payable, net	<u>8,628,182</u>	<u>10,113,952</u>
Total long-term liabilities	<u>9,463,208</u>	<u>11,503,371</u>
Net assets:		
Without donor restrictions:		
Undesignated	9,520,376	5,366,140
Quasi-endowment	2,095,490	2,611,644
Board designated	4,276,582	5,346,962
Property, exhibits and equipment	<u>19,375,558</u>	<u>17,251,894</u>
Total without donor restrictions	<u>35,268,006</u>	<u>30,576,640</u>
With donor restrictions	<u>13,643,930</u>	<u>15,462,833</u>
Total net assets	<u>48,911,936</u>	<u>46,039,473</u>
Total liabilities and net assets	<u>\$ 60,830,612</u>	<u>\$ 60,090,275</u>

THE CHILDREN'S MUSEUM

Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2022 (with Comparative Totals for the Year Ended June 30, 2021)

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Summarized Total
Revenues and other support:				
Admissions	\$ 2,202,358	\$ -	\$ 2,202,358	\$ 413,985
Grants and contributions of financial assets	4,845,636	3,913,189	8,758,825	5,289,006
Grants and contributions of nonfinancial assets	-	-	-	5,000
Forgiveness of Paycheck Protection Program loan	940,500	-	940,500	940,500
Contracts	588,710	-	588,710	613,671
Membership	531,834	-	531,834	553,087
Other earned income	547,713	-	547,713	65,467
Traveling exhibits	-	-	-	25,000
Other income	8,570	-	8,570	74,884
Special events, net	350,858	-	350,858	444,599
Rental income	2,566,485	-	2,566,485	2,434,295
Amounts appropriated for operations pursuant to endowment spending policy	759,830	-	759,830	741,504
Net assets released from restrictions	3,401,715	(3,401,715)	-	-
Total revenues and other support	<u>16,744,209</u>	<u>511,474</u>	<u>17,255,683</u>	<u>11,600,998</u>
Expenses:				
Program services:				
Visitor services	2,244,572	-	2,244,572	1,689,782
Museum programs	2,360,327	-	2,360,327	2,406,571
Exhibits	1,085,387	-	1,085,387	1,236,536
Membership services	203,232	-	203,232	193,848
Supporting services:				
Administration and general	1,125,920	-	1,125,920	1,002,969
Facilities costs	2,485,386	-	2,485,386	2,055,294
Fundraising	641,517	-	641,517	611,076
Marketing	577,154	-	577,154	445,026
Total expenses	<u>10,723,495</u>	<u>-</u>	<u>10,723,495</u>	<u>9,641,102</u>
Change in net assets from operations	<u>6,020,714</u>	<u>511,474</u>	<u>6,532,188</u>	<u>1,959,896</u>
Non-operating revenue, expenses, gains and losses:				
Net investment return	(1,277,263)	(1,874,106)	(3,151,369)	4,255,342
Less amounts appropriated for operations	(303,559)	(456,271)	(759,830)	(741,504)
Change in fair value of derivative financial instruments	576,540	-	576,540	333,073
Interest expense	(325,066)	-	(325,066)	(345,726)
Total non-operating revenue, expenses, gains and losses	<u>(1,329,348)</u>	<u>(2,330,377)</u>	<u>(3,659,725)</u>	<u>3,501,185</u>
Change in net assets	<u>4,691,366</u>	<u>(1,818,903)</u>	<u>2,872,463</u>	<u>5,461,081</u>
Net assets, beginning of year	<u>30,576,640</u>	<u>15,462,833</u>	<u>46,039,473</u>	<u>40,578,392</u>
Net assets, end of year	<u>\$ 35,268,006</u>	<u>\$ 13,643,930</u>	<u>\$ 48,911,936</u>	<u>\$ 46,039,473</u>

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

THE CHILDREN'S MUSEUM

**Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2021**

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support:			
Admissions	\$ 413,985	\$ -	\$ 413,985
Grants and contributions of financial assets	1,900,245	3,388,761	5,289,006
Grants and contributions of nonfinancial assets	5,000	-	5,000
Forgiveness of Paycheck Protection Program loan	940,500	-	940,500
Contracts	613,671	-	613,671
Membership	553,087	-	553,087
Other earned income	65,467	-	65,467
Traveling exhibits	25,000	-	25,000
Other income	74,884	-	74,884
Special events, net	444,599	-	444,599
Rental income	2,434,295	-	2,434,295
Amounts appropriated for operations pursuant to endowment spending policy	741,504	-	741,504
Net assets released from restrictions	1,602,671	(1,602,671)	-
Total revenues and other support	9,814,908	1,786,090	11,600,998
Expenses:			
Program services:			
Visitor services	1,689,782	-	1,689,782
Museum programs	2,406,571	-	2,406,571
Exhibits	1,236,536	-	1,236,536
Membership services	193,848	-	193,848
Supporting services:			
Administration and general	1,002,969	-	1,002,969
Facilities costs	2,055,294	-	2,055,294
Fundraising	611,076	-	611,076
Marketing	445,026	-	445,026
Total expenses	9,641,102	-	9,641,102
Change in net assets from operations	173,806	1,786,090	1,959,896
Non-operating revenue, expenses, gains and losses:			
Net investment return	1,717,376	2,537,966	4,255,342
Less amounts appropriated for operations	(303,917)	(437,587)	(741,504)
Change in fair value of derivative financial instruments	333,073	-	333,073
Interest expense	(345,726)	-	(345,726)
Total non-operating revenue, expenses, gains and losses	1,400,806	2,100,379	3,501,185
Change in net assets	1,574,612	3,886,469	5,461,081
Net assets, beginning of year, as previously reported	29,437,988	11,576,364	41,014,352
Cumulative effect of adoption of new revenue standard	(435,960)	-	(435,960)
Net assets, beginning of year, as adjusted	29,002,028	11,576,364	40,578,392
Net assets, end of year	\$ 30,576,640	\$ 15,462,833	\$ 46,039,473

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

THE CHILDREN'S MUSEUM

Statements of Cash Flows

For the Years Ended June 30,

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 2,872,463	\$ 5,461,081
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Allowance for uncollectible pledges and accounts receivable	919	(6,714)
Depreciation and amortization	1,985,913	1,996,350
Amortization of bond issuance costs	14,925	15,617
Realized investment gains	(1,226,931)	(74,778)
Unrealized investment losses (gains)	4,529,410	(4,179,485)
Change in fair value of derivative financial instruments	(576,540)	(333,073)
Discount for contribution of below market interest debt	13,397	12,907
Contributions restricted for capital improvements	(1,712,500)	-
Forgiveness of Paycheck Protection Program loan	(940,500)	(940,500)
Changes in operating assets and liabilities:		
Accounts receivable	(110,049)	37,774
Pledges receivable, net	(246,888)	(278,306)
Prepaid expenses	2,581	12,255
Other assets	(122,871)	(309,384)
Accounts payable	495,620	(31,039)
Accrued and other short-term liabilities	352,222	(305,948)
Deferred revenue	(40,000)	(40,000)
Security deposits	48,750	(20,580)
Net cash provided by operating activities	<u>5,339,921</u>	<u>1,016,177</u>
Cash flows from investing activities:		
Proceeds from the sale of marketable securities	759,830	741,504
Purchase of marketable securities	(150,468)	(5,197)
Purchase of exhibits, property, equipment and construction in process	(2,006,879)	(616,655)
Net cash (used in) provided by investing activities	<u>(1,397,517)</u>	<u>119,652</u>
Cash flows from financing activities:		
Contributions restricted for capital improvements	1,712,500	-
Proceeds from Paycheck Protection Program loan	-	940,500
Repayment of bonds payable	(1,500,000)	(500,000)
Net cash provided by financing activities	<u>212,500</u>	<u>440,500</u>
Net increase in cash and cash equivalents	4,154,904	1,576,329
Cash and cash equivalents, beginning of year	<u>9,766,517</u>	<u>8,190,188</u>
Cash and cash equivalents, end of year	<u>\$ 13,921,421</u>	<u>\$ 9,766,517</u>
Supplemental financial information:		
Cash paid during the year for interest	<u>\$ 302,495</u>	<u>\$ 316,473</u>

THE CHILDREN'S MUSEUM

Statement of Functional Expenses

For the Year Ended June 30, 2022 (with Comparative Totals for the Year Ended June 30, 2021)

	2022										2021
	Visitor Services	Museum Programs	Exhibits	Membership Services	Total Program Services	Administration and General	Facilities Costs	Fundraising	Marketing	Total	Summarized Total
Compensation and related expenses:											
Salaries and wages	\$ 687,075	\$ 1,141,957	\$ 391,082	\$ 121,110	\$ 2,341,224	\$ 555,723	\$ 185,928	\$ 485,042	\$ 357,709	\$ 3,925,626	\$ 3,611,543
Employee benefits	59,454	99,869	44,208	16,240	219,771	59,623	19,563	32,795	41,139	372,891	437,900
Payroll taxes	54,374	89,327	29,664	9,458	182,823	38,698	13,014	31,804	27,660	293,999	266,303
Total compensation and related expenses	800,903	1,331,153	464,954	146,808	2,743,818	654,044	218,505	549,641	426,508	4,592,516	4,315,746
Depreciation and amortization	372,946	369,604	409,382	31,563	1,183,495	116,374	670,654	15,390	-	1,985,913	1,996,350
Building operating costs	626,761	79,028	82,248	-	788,037	13,209	1,054,460	13,573	-	1,869,279	1,352,601
Professional/contract services	147,594	381,993	41,859	-	571,446	191,220	259,526	17,322	119,954	1,159,468	1,146,146
Repairs and maintenance	63,352	35,015	35,348	-	133,715	-	107,722	1,331	-	242,768	207,371
Insurance	59,617	7,423	14,867	-	81,907	10,421	101,393	1,253	-	194,974	186,419
Other	96,390	9,202	506	23,716	129,814	20,313	9,655	14,028	1,756	175,566	70,764
Materials and supplies	36,281	62,568	24,836	552	124,237	116	9,155	2,493	763	136,764	100,089
Computer software and hardware	19,134	2,250	1,699	-	23,083	73,825	19,867	5,879	9,076	131,730	112,633
Office expense	13,576	31,228	4,736	593	50,133	20,683	19,494	8,813	9,390	108,513	108,570
Equipment and rentals	7,650	25,716	2,895	-	36,261	16,461	12,375	98	-	65,195	30,397
Travel and meetings	368	22,479	1,490	-	24,337	5,570	1,591	10,287	179	41,964	4,397
Advertising	-	96	-	-	96	216	58	109	9,528	10,007	6,581
Training and development	-	2,572	567	-	3,139	3,468	931	212	-	7,750	2,741
Bad debt expense	-	-	-	-	-	-	-	1,088	-	1,088	297
Total expenses presented on the statement of activities and changes in net assets	2,244,572	2,360,327	1,085,387	203,232	5,893,518	1,125,920	2,485,386	641,517	577,154	10,723,495	9,641,102
Items presented separately on the statement of activities and changes in net assets:											
Special event expenses	-	-	-	-	-	-	-	200,537	-	200,537	79,298
Interest expense	-	-	-	-	-	-	325,066	-	-	325,066	345,726
Total expenses	\$ 2,244,572	\$ 2,360,327	\$ 1,085,387	\$ 203,232	\$ 5,893,518	\$ 1,125,920	\$ 2,810,452	\$ 842,054	\$ 577,154	\$ 11,249,098	\$ 10,066,126

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

THE CHILDREN'S MUSEUM

Statement of Functional Expenses For the Year Ended June 30, 2021

	2021									
	Visitor Services	Museum Programs	Exhibits	Membership Services	Total Program Services	Administration and General	Facilities Costs	Fundraising	Marketing	Total
Compensation and related expenses:										
Salaries and wages	\$ 491,817	\$ 1,095,748	\$ 426,341	\$ 119,715	\$ 2,133,621	\$ 497,924	\$ 176,044	\$ 475,174	\$ 328,780	\$ 3,611,543
Employee benefits	45,473	127,844	55,329	15,982	244,628	88,318	28,560	33,078	43,316	437,900
Payroll taxes	38,117	83,268	32,674	8,843	162,902	35,106	12,544	31,594	24,157	266,303
Total compensation and related expenses	575,407	1,306,860	514,344	144,540	2,541,151	621,348	217,148	539,846	396,253	4,315,746
Depreciation and amortization	308,186	410,108	435,628	32,814	1,186,736	117,777	675,101	16,736	-	1,996,350
Building operating costs	456,331	91,863	122,787	-	670,981	220	671,251	10,149	-	1,352,601
Professional/contract services	134,251	450,292	81,518	-	666,061	181,827	248,646	24,245	25,367	1,146,146
Repairs and maintenance	70,540	13,757	17,670	-	101,967	-	103,834	1,570	-	207,371
Insurance	60,430	11,183	13,907	-	85,520	10,601	88,953	1,345	-	186,419
Other	24,412	2,861	292	14,588	42,153	16,684	6,350	4,581	996	70,764
Materials and supplies	14,194	49,541	29,440	19	93,194	88	5,483	317	1,007	100,089
Computer software and hardware	25,728	15,025	1,345	-	42,098	43,277	12,474	4,836	9,948	112,633
Office expense	16,497	35,267	11,214	1,887	64,865	9,578	22,771	6,102	5,254	108,570
Equipment and rentals	2,874	18,634	7,032	-	28,540	-	1,829	28	-	30,397
Travel and meetings	794	292	919	-	2,005	65	1,109	1,218	-	4,397
Advertising	100	270	-	-	370	-	-	10	6,201	6,581
Training and development	38	618	440	-	1,096	1,207	345	93	-	2,741
Bad debt expense	-	-	-	-	-	297	-	-	-	297
Total expenses presented on the statement of activities and changes in net assets	1,689,782	2,406,571	1,236,536	193,848	5,526,737	1,002,969	2,055,294	611,076	445,026	9,641,102
Items presented separately on the statement of activities and changes in net assets:										
Special event expenses	-	-	-	-	-	-	-	79,298	-	79,298
Interest expense	-	-	-	-	-	-	345,726	-	-	345,726
Total expenses	\$ 1,689,782	\$ 2,406,571	\$ 1,236,536	\$ 193,848	\$ 5,526,737	\$ 1,002,969	\$ 2,401,020	\$ 690,374	\$ 445,026	\$ 10,066,126

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

THE CHILDREN'S MUSEUM

Notes to Financial Statements

1. Organization Purpose

The Children's Museum (the "Museum") is a nonprofit corporation founded in 1913 for cultural and educational purposes. Its mission is to "engage children and families in joyful discovery experiences that instill an appreciation of our world, develop foundational skills, and spark a lifelong love of learning". For that purpose, the Museum offers educational exhibits and programs to families, children and other educators.

2. Summary of Significant Accounting Policies

Financial Statement Presentation

In order to ensure the observance of limitations and restrictions placed on the use of resources available to the Museum, the Museum determines the classification of its net assets and its revenues and support, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions.

Accordingly, net assets of the Museum and changes therein are classified and reported as follows:

- (1) Net assets without donor restrictions represent funds whose use is not restricted by donors. Net assets without donor restrictions are further classified as follows:

Undesignated net assets represent resources available for support of the Museum's general operations. *The Quasi-Endowment Fund* represents resources designated by the Board for annual operating support. The funds are distributed according to the Museum's spending policy. *The Board Designated Fund* is composed of resources that have been earmarked for capital and other projects. Disbursement of funds is subject to annual Board approval which is provided as part of the budget approval process.

- (2) Net assets with donor restrictions represent resources restricted by donors and grantors. Some donor restrictions are temporary in nature. Those restrictions will be met by actions of the Museum or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Income on these invested endowment funds are utilized in accordance with the donors' stipulations.

Recently Adopted Accounting Pronouncement

On July 1, 2021, the Museum adopted Financial Accounting Standards Board's Accounting Standards Update No. 2020-07: *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* ("ASU 2020-07"), which improves transparency in the reporting of contributed nonfinancial assets. ASU 2020-07 requires contributed nonfinancial assets to be presented as a separate line item in the statement of activities and changes in net assets, apart from contributions of cash or other financial assets. It also requires a disaggregation of the amount of contributed nonfinancial assets by category that depicts the type of contributed nonfinancial assets, qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period, a description of any donor-imposed restrictions associated with the contributed nonfinancial assets, and the valuation techniques and inputs used to arrive at a fair value measure. ASU 2020-07 was adopted on a retrospective basis and did not result in a change in the judgment or timing associated with the recognition of revenue for the Museum. As such, the adoption of ASU 2020-07 did not result in a cumulative adjustment as of July 1, 2021, and it did not have a material impact on the Museum's financial statements.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurements

The Museum values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

Level 1 - Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to *Level 1* inputs.

Level 2 - Observable inputs other than *Level 1* inputs such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with market data.

Level 3 - Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives lowest priority to *Level 3* inputs.

In determining fair value, the Museum utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

Revenue Recognition

The Museum recognizes revenue from exchange transactions based on the satisfaction of performance obligations. Performance obligations are determined based on the service(s) provided by the Museum. The Museum has multiple revenue sources that are accounted for as exchange transactions. The following explains the performance obligations related to each revenue stream and how those are recognized. For the revenue streams noted below, there are no consideration amounts that are variable. Payments received in advance of the Museum satisfying its performance obligations are recorded as deferred revenue.

Admissions represent visitor fees paid for access to the Museum. Revenue is recognized at a point in time, on the date of visit.

Contracts include various agreements primarily for consulting services, exhibit design and curriculum development. Revenue from contracts is recognized over time as performance obligations outlined in the individual contracts are met. The transaction price for each performance obligation is the amount of consideration to which the Museum expects to be entitled in exchange for transferring the promised deliverables to the customer as outlined in the contract.

The Museum offers memberships of various categories that typically last for a term of one year. The Museum divides fees from these memberships between contributions and exchange transactions and recognizes revenue for the contribution upon sale, and for the exchange portion of the transaction ratably over the term of the membership.

Other earned income consists primarily of facility rentals and event fees, which are recognized as revenue at a point in time, on the date of rental or as the events occur.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Traveling exhibits revenue represents fees for rental of exhibits owned by the Museum, by other museums and organizations. Payments for these exhibits are deferred when received and recognized at a point in time, when the rental occurs.

Special events revenue includes ticket sales and sponsorships received for the annual gala and are recognized when the related gala is held. The revenue is reported net of related expenses on the statements of activities and changes in net assets.

Certain space within the Museum is leased primarily to nonprofit and commercial tenants under operating leases. Rental revenue is recorded as income on a straight-line basis over the lease term, as well as reimbursements of certain operating costs from the tenants.

Other income consists of revenue received outside of the normal course of the Museum's activities, which cannot be classified elsewhere.

The Museum records interest and dividends when earned. Gains or losses are recorded when realized. Unrealized gains or losses are recorded based upon changes in the fair value of securities held.

Grants and Contributions

Grants and contributions are recorded as support without donor restrictions or with donor restrictions on the statements of activities and changes in net assets, depending on the existence and/or nature of any donor-imposed restrictions. Grants and contributions that are classified as with donor restrictions are reclassified to net assets without donor restrictions through release of net assets upon satisfaction of the purpose restriction or expiration of the time restriction.

Grants and contributions are recognized as revenue in the period in which the donor's commitment is made, if unconditional. Conditional grants and contributions are recognized when performance and/or control barriers are met by the Museum.

The Museum receives various types of in-kind support in the form of contributed services and other assets, which are classified as grants and contributions of nonfinancial assets on the statements of activities and changes in net assets. Contributed services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, as provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of marketable securities and other tangible assets, such as property, equipment, are recognized at fair value when received.

Additionally, the Museum receives contributed time by volunteers which does not meet the criteria described above. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of checking and savings accounts and a time deposit account with an original maturity of less than three months at a bank.

The Museum maintains deposits at banks in excess of federally insured limits.

Marketable Securities

Marketable securities consist of shares held in traditional institutional funds and are carried at estimated fair values using the net asset value per share of the investments, as a practical expedient, as reported by the investment manager. The Museum reviews and evaluates the net asset values reported by the investment manager and believes the amounts reported represent a reasonable estimate of fair value.

Property, Exhibits and Equipment

Expenditures for property, exhibits and equipment are stated at cost, net of accumulated depreciation. Expenditures for maintenance, repairs, and renewals are charged to expense when incurred, whereas additions in excess of \$10,000 are capitalized. The Museum capitalizes the costs of constructing exhibits. Depreciation is recorded to allocate the cost of these assets over their estimated useful lives using the straight-line method. Estimated useful lives are as follows:

Equipment and furniture	Three to ten years
Exhibits	Three to ten years
Capital improvements and major renovations	Five to twenty years
Building	Thirty years

Construction in process is comprised of expenditures that are anticipated to have significant future benefit and are stated at cost. Cost includes contracting and construction, and architectural design services. Exhibits in-process includes expenditures for staff directly involved with exhibit development, consultants, materials used in building exhibits, and design services. Upon completion of construction, the project cost is reclassified to a property and equipment account and depreciated.

Management periodically evaluates its property, exhibits and equipment assets for indications that the value has been impaired. Based on this assessment, management believes that impairment in value has not occurred.

Museum Collection

In conformity with the practice followed by many museums, the value of property donated for the Museum collection is not reflected on the statements of financial position. The collection is deemed inexhaustible. The collection is maintained for education and research and furtherance of the Museum's goals rather than financial gain. The collection is protected, kept unencumbered and is subject to an organizational policy that encourages permanent possession. The Museum's collections policy requires that proceeds from the sale of collection items be used for the acquisition or direct care of collection items. Direct care includes, but is not limited to, the following: contract conservation and consultant costs, the physical repair or upgrading of the storage areas housing collections including rehousing materials and supplies, and the technological assets needed to care for and maintain the collection.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Functional Expenses

The Museum allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support service are recorded directly according to their natural expenditure classification. The financial statements report certain categories of expenses that are attributed to both program and support services. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Facility costs not directly attributable to a function, including building maintenance, utilities and other occupancy costs are allocated among functions based on square footage. General and administrative costs not directly attributable to a function are allocated among functions based on time and effort. These costs include salaries, benefits, payroll taxes and professional/contract services, among others. The combined allocation of general and administrative and facility costs are consistently applied and in accordance with, if not less than, a negotiated indirect cost rate approved by the federal government.

Use of Estimates and Subsequent Events

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Museum's management has evaluated the effect which subsequent events may have on these financial statements. Management's evaluation was completed on December 12, 2022, the date these financial statements became available to be issued. Except for the events disclosed in Notes 10 and 15, no events have occurred subsequent to the statement of financial position date and through the date of evaluation that meet the criteria required for disclosure or accrual.

Income Taxes

The Museum operates as a publicly supported tax-exempt organization pursuant to Section 501(c)(3) of the Internal Revenue Code and, accordingly, is exempt from federal income taxes on related income pursuant to Section 509(a)(2) of the Code. The Museum is also exempt from Massachusetts income tax under Massachusetts General Law Chapter 180.

3. Accounts Receivable

Accounts receivable are stated at the amount management expects to collect on outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and a corresponding reserve based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance and a credit to the receivable. As of June 30, 2022 and 2021, the allowance for uncollectible amounts was \$1,269 and \$1,346, respectively.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

4. Pledges Receivable

Pledges as of June 30, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Receivable in less than one year:		
Corporations	\$ -	\$ 3,813
Foundations	192,680	17,680
Government	757,047	608,381
Individuals	<u>30,180</u>	<u>67,873</u>
	979,907	697,747
Less - allowance for uncollectible pledges	<u>(7,615)</u>	<u>(5,204)</u>
Net pledges receivable in less than one year	<u><u>\$ 972,292</u></u>	<u><u>\$ 692,543</u></u>
Receivable in one to five years:		
Foundations	\$ -	\$ 17,680
Individuals	<u>-</u>	<u>17,680</u>
	-	35,360
Less - discount to net present value	-	(88)
Less - allowance for uncollectible pledges	<u>-</u>	<u>(1,415)</u>
Net pledges receivable in one to five years	-	33,857
Interest in Charitable Remainder Trust	<u>190,900</u>	<u>190,900</u>
Net pledges receivable, non-current portion	<u><u>\$ 190,900</u></u>	<u><u>\$ 224,757</u></u>

Pledges expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in more than one year are recorded at the net present value of estimated future cash flows.

The present value of estimated future cash flows was measured utilizing a discount rate of 0.25% for the year ended June 30, 2021, an estimate of the risk free rate of return.

The Museum has been named the beneficiary of an irrevocable charitable remainder trust. Upon the death of the beneficiary, the Museum will receive a share of the remaining trust property. The Museum's interest in the remainder of the trust is adjusted annually based upon the trust's market value, actuarial tables and discounting at prevailing market rates. An adjustment to the charitable remainder trust was not recorded in 2022 or 2021 because it was not material.

At June 30, 2022, the Museum had conditional federal and other grants of \$706,243 which will not be recognized as assets in the statements of financial position until such time as the Museum meets the conditions of the grants.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

5. Endowment

The Museum's endowment consists of donor-restricted endowment funds established for a variety of purposes and Board designated funds that bear no donor restrictions. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Museum has interpreted the *Uniform Prudent Management of Institutional Funds Act of 2006* ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as donor restricted net assets held in perpetuity (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as net assets held in perpetuity is classified as net assets with donor restrictions until appropriated and expended. Accordingly, the income earned and appreciation/depreciation of the perpetual endowment has been classified as net assets with donor restrictions subject to endowment spending policy and appropriation.

In accordance with UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

Activity in the Museum's endowment funds for the years ended June 30, 2022 and 2021 was:

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Balance at beginning of year	\$ 7,958,606	\$ 11,800,277	\$ 19,758,883
Contributions	-	5,069	5,069
Net investment return	(1,282,975)	(1,874,106)	(3,157,081)
Amounts appropriated for operations per spending policy	(303,559)	(456,271)	(759,830)
Balance at end of year	<u>\$ 6,372,072</u>	<u>\$ 9,474,969</u>	<u>\$ 15,847,041</u>

THE CHILDREN'S MUSEUM

Notes to Financial Statements

5. Endowment (continued)

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Balance at beginning of year	\$ 6,546,226	\$ 9,694,701	\$ 16,240,927
Contributions	-	5,197	5,197
Net investment return	1,716,297	2,537,966	4,254,263
Amounts appropriated for operations per spending policy	(303,917)	(437,587)	(741,504)
Balance at end of year	<u>\$ 7,958,606</u>	<u>\$ 11,800,277</u>	<u>\$ 19,758,883</u>

Endowment net asset composition by type of fund at June 30, 2022 and 2021 was:

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Quasi-endowment Fund	\$ 2,095,490	\$ -	\$ 2,095,490
Board designated Fund	4,276,582	-	4,276,582
Donor-restricted endowment funds:			
Original donor-restricted gift amount required to be maintained in perpetuity by donor	-	4,402,574	4,402,574
Accumulated investment gains	-	5,072,395	5,072,395
Total	<u>\$ 6,372,072</u>	<u>\$ 9,474,969</u>	<u>\$ 15,847,041</u>

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Quasi-endowment Fund	\$ 2,611,644	\$ -	\$ 2,611,644
Board designated Fund	5,346,962	-	5,346,962
Donor-restricted endowment funds:			
Original donor-restricted gift amount required to be maintained in perpetuity by donor	-	4,397,505	4,397,505
Accumulated investment gains	-	7,402,772	7,402,772
Total	<u>\$ 7,958,606</u>	<u>\$ 11,800,277</u>	<u>\$ 19,758,883</u>

THE CHILDREN'S MUSEUM

Notes to Financial Statements

5. Endowment (continued)

Return Objectives and Risk Parameters

The Museum has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding programs supported by its endowment while seeking to maintain the purchase power of endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the endowment assets, to provide the necessary capital to fund the spending policy, and to cover the costs of managing the endowment investments. The long-term target rate of return is the Consumer Price Index plus 5% on an annual basis. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Investment Objectives

To achieve its long-term rate of return objectives, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The Museum targets a diversified asset allocation to achieve its long-term objectives with prudent risk constraints.

Endowment Spending Allocation Policy and Relationship of Spending Policy to Investment Objectives

Under the Museum's endowment spending policy, four-and-a-half percent of the average of the fair value of each of the previous twelve quarters is appropriated to support the current operations. For the years ended June 30, 2022 and 2021, the amounts drawn down from the endowment per the Museum's spending policy were \$759,830 and \$741,504, respectively. Amounts appropriated for current operations include the spending policy net of investment management and custody fees. Income earned in excess of the spending amount is reinvested and any shortfall of investment income under this spending amount is funded from previous year's unspent income if applicable. In establishing this policy, the Museum considered the expected long-term rate-of-return on its endowment. Accordingly, over the long-term, the Museum's objective is for the current spending policy to allow its endowment to grow at the rate of inflation or greater, consistent with its intention to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts.

6. Marketable Securities

Marketable securities at June 30, 2022 and 2021 consisted of the following:

	2022		2021	
	Fair Value	Cost (Average)	Fair Value	Cost (Average)
TIFF Multi-Asset Fund	\$ 8,078,628	\$ 8,805,533	\$ 10,267,516	\$ 8,011,319
The TIFF Centerstone Fund, L.P.	7,768,413	6,424,331	9,491,367	6,600,977
	<u>\$ 15,847,041</u>	<u>\$ 15,229,864</u>	<u>\$ 19,758,883</u>	<u>\$ 14,612,296</u>

THE CHILDREN'S MUSEUM

Notes to Financial Statements

6. Marketable Securities (continued)

The TIFF Multi-Asset Fund (“MAF”) incurs annual management and other fees which were approximately 0.68% and 2.19% of the Fund’s net asset value during the years ended June 30, 2022 and 2021, respectively. The TIFF Centerstone Fund, L.P. (“TCF”) charges annual management fees which are approximately 0.35% of the capital account of each limited partner. In conjunction with an agreement between the Museum and TIFF, on January 1, 2019 the Museum moved \$5 million in assets from MAF to TCF and paid a 0.50% exit fee. As part of this agreement, TIFF agreed to amortize the total amount of the fee over 5 years against the 0.35% annual management fee paid to TCF. The management fee will be reduced each year by approximately \$5,025, provided that the management fee for any year will not be reduced by more than 25% of the management fee payable prior to such reduction. In the event that the 25% limit is reached, any excess reduction amount will be carried forward to future quarters.

In addition, MAF charged entry fees on purchases and exit fees on redemptions at the rate of .35% through November 2021, with the exception of drawdowns for the spending policy up to 6% of the fund value. As of December 1, 2021, the MAF entry and exit fees were eliminated. TCF does not charge purchase or exit fees. The redemption frequency of MAF is daily and there is no redemption notice period. TCF allows redemptions at the end of each quarter with 75 days’ prior written notice. As of June 30, 2022 and 2021, there were no unfunded commitments.

7. Property, Exhibits and Equipment

Property, exhibits and equipment consisted of the following at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Property and land	\$ 50,055,126	\$ 49,401,353
Equipment and furniture	2,393,855	2,351,899
Exhibits	8,372,315	9,754,243
Construction in process:		
Building additions and renovations	471,939	369,796
Exhibits	<u>1,390,993</u>	<u>572,925</u>
	62,684,228	62,450,216
Less - accumulated depreciation	<u>(34,245,220)</u>	<u>(34,104,071)</u>
	<u>\$ 28,439,008</u>	<u>\$ 28,346,145</u>

Depreciation expense during the years ended June 30, 2022 and 2021 was \$1,914,016 and \$1,936,255, respectively, which is included in depreciation and amortization expense on the statements of functional expenses. During the years ended June 30, 2022 and 2021, the Museum disposed of certain fully depreciated property, exhibits and equipment with an original cost of \$1,772,867 and \$2,619,251, respectively.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

8. Other Assets

Other assets consisted of the following at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Deferred leasing costs, net of accumulated amortization of \$459,807 and \$387,910 at June 30, 2022 and 2021, respectively	\$ 420,272	\$ 437,689
Rent receivable	775,218	706,826
	<u>\$ 1,195,490</u>	<u>\$ 1,144,515</u>

Amortization of the deferred leasing costs during the years ended June 30, 2022 and 2021 was \$71,897 and \$60,095, respectively, which is included in depreciation and amortization expense on the statements of functional expenses.

Amortization expense of the deferred leasing costs for each of the following five years and thereafter is as follows:

<u>Years ending June 30,</u>	<u>Amount</u>
2023	\$ 76,057
2024	69,070
2025	67,761
2026	63,428
2027	54,283
Thereafter	89,673

9. Paycheck Protection Program Loans

On April 23, 2020, the Museum entered into a Paycheck Protection Program (“PPP”) loan agreement for \$940,500, granted by the Small Business Administration (“SBA”) under the Coronavirus Aid, Relief, and Economic Security Act. The funds from the loan were received on April 27, 2020. The loan and accrued interest were forgiven in full by the SBA on February 25, 2021.

On January 27, 2021, the Museum entered into a second PPP loan agreement for \$940,500, granted by the SBA under the Economic Aid Act. The funds from the loan were received on February 2, 2021. The loan and accrued interest were forgiven in full by the SBA on February 24, 2022.

The principal amount of both PPP loans are reported as forgiveness of Paycheck Protection Program loan on the statements of activities and changes and net assets for each of the years ended June 30, 2022 and 2021. The amounts reported do not include the interest which accrued on the loans as management deemed the amounts to be immaterial to the financial statements.

THE CHILDREN’S MUSEUM

Notes to Financial Statements

10. Bonds Payable

On September 26, 2006, the Museum issued \$30 million in Variable Rate Demand Revenue Bonds through the Massachusetts Development Finance Agency (“MDFA”). Bond proceeds were used, in part, to refinance The Children’s Museum Issue Series 2001 bond issuance which had an outstanding balance of \$6,905,000 at the time of the refinancing. Bond proceeds also provided the financing associated with a renovation and construction project which was completed in 2007.

On July 2, 2012, and consistent with the provisions provided for in the original MDFA bond agreement (the “Agreement”), Citizens Bank (the “Bank”) purchased the Museum’s outstanding bond obligations of \$18 million for a ten-year period ending on July 2, 2022. Under the terms of the purchase, the Museum is obligated to pay variable interest at a rate based on adjusted LIBOR and is subject to certain restrictive covenants including attaining certain liquidity and debt service covenants and additional indebtedness. In addition, the Museum entered into swap agreements (see Note 11) that provide for fixed interest rate payments on a significant portion of its outstanding debt.

The bonds mature on April 1, 2036 as provided for in the original bond issuance through MDFA. Interest on the bonds is payable monthly and the principal is payable each April 1. During the years ended June 30, 2022 and 2021, the sum of the interest on the bonds and the amortization of the bond issuance costs was \$315,510 and \$330,732, respectively, of which \$14,925 and \$15,617 was amortization of the bond issuance costs.

Under the terms of the agreement, the Museum is subject to certain restrictive covenants involving attaining certain liquidity ratios, minimum unrestricted earnings, additional indebtedness, and the use of assets financed by the bonds. The Museum was in compliance with all debt covenant requirements at June 30, 2022.

On July 1, 2022, the Museum entered into the Third Amendment to Loan and Trust Agreement with the Bank and MDFA, which extended the term of the transaction from July 2, 2022 to July 1, 2032; revised the interest rate to 79% of the sum of the daily simple Secured Overnight Financing Rate (SOFR), plus 1.99%; and reissued the bonds in the amount of \$9,250,000.

The bond issue requires future principal repayments in accordance with the following schedule:

<u>Years ending June 30,</u>	<u>Amount</u>
2023	\$ 500,000
2024	500,000
2025	500,000
2026	500,000
2027	500,000
Thereafter	6,750,000

THE CHILDREN'S MUSEUM

Notes to Financial Statements

10. Bonds Payable (continued)

Amortization expense of the bond issuance costs for each of the following five years and thereafter is as follows:

<u>Years ending June 30,</u>	<u>Amount</u>
2023	\$ 14,229
2024	13,535
2025	12,841
2026	12,147
2027	11,453
Thereafter	71,842

11. Derivative Instruments

During the year ended June 30, 2022, the Museum was a party to three interest rate swap agreements with the Bank. The swap agreements were designated as a cash flow hedge of the floating-rate debt. The effect of the swaps is to convert floating-rate interest expense to fixed-rate interest expense. The first agreement had been entered into on July 2, 2012, and terminated on July 2, 2022, at a fixed rate of 1.4225%. The second agreement had been entered into on April 27, 2016 and was intended as a hedge on the bonds for the period from July 1, 2022 through July 1, 2027. Instead, the Museum and the Bank entered into a third swap agreement that incorporated the second agreement and blended and extended its terms. This swap agreement was signed May 4, 2022, for the period from July 1, 2022 through July 1, 2032, at a rate of 2.15%. The fair value of the swap contracts was a liability of \$3,815 and \$580,355 at June 30, 2022 and 2021, respectively.

The estimated fair value of the interest rate swap agreements was computed by using the net present value of the difference between fixed and floating future cash flows estimated through the use of various forward interest rate yield curves. The change in fair value of the interest rate swaps is reflected in the statements of activities and changes in net assets.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

12. Fair Value Disclosures

The valuation of the Museum's assets and liabilities within the fair value hierarchy, as described in Note 2, consisted of the following at June 30, 2022 and 2021, respectively:

	2022		
	Level 1	Level 2	Level 3
Liabilities:			
Interest rate swap	<u>\$ -</u>	<u>\$ 3,815</u>	<u>\$ -</u>
	2021		
	Level 1	Level 2	Level 3
Liabilities:			
Interest rate swap	<u>\$ -</u>	<u>\$ 580,355</u>	<u>\$ -</u>

As described in Note 2, the Museum estimates the fair value of its marketable securities using the net asset value per share of the investments.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

13. Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for a specified purpose:		
Exhibits	\$ 899,423	\$ 883,980
Capital improvements	1,309,211	427,918
Community engagement	181,627	339,785
Discounted admissions and programming	287,537	162,855
Program development	872,998	1,136,373
Educational programs	141,270	106,105
Early childhood	285,995	414,640
	<u>3,978,061</u>	<u>3,471,656</u>
Subject to the passage of time:		
Beneficial interest in charitable trust held by others	190,900	190,900
	<u>190,900</u>	<u>190,900</u>
Endowments:		
Accumulated investment gains subject to the Museum's endowment spending policy:		
Educational programs	1,800,746	2,773,659
Cultural programs	1,714,604	2,305,104
Early childhood education/programs	658,369	1,012,039
Collections	465,328	685,706
Discounted admissions and programming	220,418	323,974
General use	212,930	302,290
	<u>5,072,395</u>	<u>7,402,772</u>
Net assets restricted in perpetuity:		
Educational programs	2,149,095	2,149,095
Cultural programs	682,715	682,715
Early childhood education/programs	786,602	786,602
Collections	433,684	428,615
Discounted admissions and programming	200,000	200,000
General use	150,478	150,478
	<u>4,402,574</u>	<u>4,397,505</u>
	<u>\$ 13,643,930</u>	<u>\$ 15,462,833</u>

THE CHILDREN'S MUSEUM

Notes to Financial Statements

13. Net Assets with Donor Restrictions (continued)

Net assets released from restrictions for the years ending June 30, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Satisfaction of purpose restrictions:		
Exhibits	\$ 658,068	\$ 129,587
Capital improvements	388,708	376,977
Community engagement	179,759	429,348
Discounted admissions and programming	348,672	242,585
Program development	263,374	68,492
Educational programs	174,400	196,081
Early childhood	388,734	59,601
Debt reduction	1,000,000	-
Operations	-	50,000
	<u>3,401,715</u>	<u>1,552,671</u>
Satisfaction of time restrictions	-	50,000
	<u>\$ 3,401,715</u>	<u>\$ 1,602,671</u>

14. Note Payable

In May 2007, the Museum borrowed \$900,000 from the City of Boston, the proceeds of which were used to finance the building renovations. The loan bears interest at 1% and has a term of fifty years, at which time the outstanding balance and accrued interest will be due and payable. Interest has been imputed at the risk-free rate of 3.8% at the time the loan was made. The dollar value of the difference between the stated rate of 1% and the imputed rate of 3.8% was recorded as a contribution during the year end June 30, 2007. The associated interest expense is recorded over the term of the loan, and was \$13,397 and \$12,907 during the years ended June 30, 2022 and 2021, respectively. Notes payable, net of below market interest discount were \$365,954 and \$352,557 at June 30, 2022 and 2021, respectively.

15. Line-of-Credit

The Museum has a line-of-credit with its bank permitting advances up to \$1,000,000. Advances bear interest at the LIBOR rate plus 2.75%. In July 2022, the Museum entered into a modification agreement with the bank which extends the line-of-credit agreement through July 1, 2024 and revises the interest rate to the daily Bloomberg Short-Term Bank Yield Index (BSBY) rate plus 2.75%. There were no outstanding balances on the line-of-credit at June 30, 2022 and 2021, or during the years then ended.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

16. Special Events

Special event revenue and expenses for the years ending June 30, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Ticket sales	\$ 56,890	\$ 22,449
Contributions	494,505	496,448
In-kind contributions	-	5,000
Total revenue	<u>551,395</u>	<u>523,897</u>
Less - special event expenses	<u>(200,537)</u>	<u>(79,298)</u>
	<u>\$ 350,858</u>	<u>\$ 444,599</u>

17. Availability and Liquidity

The Museum's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position date at June 30, 2022 and 2021, were comprised of the following:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 8,787,286	\$ 5,338,370
Accounts receivable	216,025	45,586
Pledges receivable	570,392	451,897
Endowment spending policy distributions	340,751	321,154
	<u>\$ 9,914,454</u>	<u>\$ 6,157,007</u>

The Museum's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments (Board designated and Quasi-endowment funds). Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The Museum's Quasi-endowment of \$2,095,490 and \$2,611,644 at June 30, 2022 and 2021, respectively, is subject to an annual spending policy of four-and-a-half percent of the average fair value of each of the previous twelve quarters. Although the Museum does not intend to spend from this Quasi-endowment, these amounts could be made available if necessary.

The Museum's Board designated endowment of \$4,276,582 and \$5,346,962 at June 30, 2022 and 2021, respectively, is subject to an annual spending policy of four-and-a-half percent of the average fair value of each of the previous twelve quarters. Although the Museum does not intend to spend from this Board Designated Endowment (other than amounts appropriated for capital and other projects as part of the Board's annual budget approval), these amounts could be made available, if necessary.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

17. Availability and Liquidity (continued)

The Museum has a tenant cash account (not included in the above cash and cash equivalents total) with a balance of \$1,557,974 and \$1,230,994 at June 30, 2022 and 2021, respectively, which is used to fund expenses related to tenant activities and to make all debt service payments. Although the Museum does not intend to use these funds for operating activities, these funds (other than those required for debt service) could be made available, if necessary.

As part of the Museum's liquidity management plan, the Museum invests cash in excess of daily requirements in short-term investments. Additionally, the Museum maintains a \$1,000,000 line-of-credit, as discussed in more detail in Note 15. As of June 30, 2022 and 2021, \$1,000,000 remained available on the Museum's line-of-credit.

18. Retirement Plan

The Museum participates in a contributory retirement plan and makes contributions to the plan for the benefit of all eligible employees. The Museum's contributions were \$112,712 and \$96,319 for the years ended June 30, 2022 and 2021, respectively.

19. Advertising Costs

The Museum expenses the costs of advertising when the advertisement takes place. Advertising expenses for the years ended June 30, 2022 and 2021 were \$10,007 and \$6,581, respectively.

20. Rental Income

The Museum leases a portion of its space to outside tenants. Minimum future base rentals to be received on these leases are:

<u>Years ending June 30,</u>	<u>Amount</u>
2023	\$ 2,193,817
2024	1,580,056
2025	1,534,046
2026	1,488,393
2027	1,308,775
Thereafter	2,096,280

21. Lease

In 2000, the Museum entered into a twenty-year non-cancellable lease for exhibit production and storage space, which expired during the year ended June 30, 2020 and was not renewed. The Museum continued to occupy the space for a period of time as a tenant-at-will during the year ended June 30, 2021 prior to vacating the space. The lease required the Museum to pay base rental payments, real estate taxes and insurance. Rent expense was \$52,262 for the year ended June 30, 2021, and is included in building operating costs on the statement of functional expenses.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

22. Contributed Nonfinancial Assets

The Museum received the following contributed nonfinancial assets during the years ended June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Consulting Services	<u>\$ -</u>	<u>\$ 5,000</u>

Consulting services were provided for the Museum's special event during the year ended June 30, 2021. There were no donor restrictions on the contribution. The services were valued using the estimated fair value of current rates for similar services.

23. Adoption of New Revenue Recognition Standard

The Museum adopted ASU 2014-09 using the modified retrospective method applied to contracts not completed as of July 1, 2020. The Museum recorded an adjustment to reduce opening net assets without donor restrictions by \$435,960 as of July 1, 2020. The impact of the cumulative effect adjustment on the statement of financial position upon adoption was as follows:

	<u>As of June 30, 2020</u>	<u>Cumulative Effect Adjustment</u>	<u>As of July 1, 2020</u>
Accrued and other short-term liabilities	\$ 689,430	\$ 435,960	\$ 1,125,390
Net assets without donor restrictions	29,437,988	(435,960)	29,002,028
Total net assets	41,014,352	(435,960)	40,578,392

The impact of adoption on the Museum's financial statements as of and for the year ended June 30, 2021 was as follows:

	<u>Statement of Financial Position as of June 30, 2021</u>		
	<u>As Reported</u>	<u>Balances without Adoption of ASU 2014-09</u>	<u>Effect of Adoption Increase (Decrease)</u>
Accrued and other short-term liabilities	\$ 819,442	\$ 635,121	\$ 184,321
Net assets without donor restrictions	30,576,640	30,325,001	251,639
Total net assets	46,039,473	45,787,834	251,639

THE CHILDREN'S MUSEUM

Notes to Financial Statements

23. Adoption of New Revenue Recognition Standard (continued)

	Statement of Activities for the year ended June 30, 2021		
	As Reported	Balances without Adoption of ASU 2014-09	Effect of Adoption Increase (Decrease)
Gifts, contributions and grants	\$ 5,294,006	\$ 5,185,806	\$ 108,200
Membership	553,087	409,648	143,439
Total revenues and other support	11,600,998	11,349,359	251,639
Change in net assets	5,461,081	5,209,442	251,639

Adoption of the new revenue standard had no impact to cash from or used in operating, financing or investing on the statements of cash flows. Additionally, other exchange revenue falling under ASU 2014-09, such as admissions, contracts, other earned income, and traveling exhibits were not materially impacted by the adoption of the accounting pronouncement.

Deferred revenue on exchange transactions included in accrued and other short-term liabilities at June 30, 2022 and 2021 was \$726,009 and \$490,956, respectively.

24. Park Agreements

On March 15, 2018, the Museum entered into two agreements with the City of Boston (the "City") related to the construction and operation of a park designed for public use and dedicated to the memory of Martin Richard, (the "Park"). The City, in collaboration with the Martin W. Richard Charitable Foundation, Inc., (the "Foundation"), has established a public park on land partially owned by the City and partially owned by the Museum. The Park has an elevated portion that is supported by a concrete garage built on the Museum's property, primarily for the benefit of the Museum. The Memorandum of Understanding and the Reciprocal Easement Agreement detail the obligations for the construction of the garage, and the rights, easements and obligations benefitting and burdening the Museum property and the City property in order to permit the construction, operation and use of the Park. The Park is operated and maintained by the City and the Foundation. In the event that the City property ceases to be used for a public park, provisions are in place that ensure that the Museum's garage building is protected and can continue to operate independently of the City property, including access easements, in perpetuity.

Independent Auditor's Report on Supplementary Information

To the Board of Trustees
The Children's Museum
Boston, Massachusetts

We have audited the financial statements of The Children's Museum (a nonprofit organization) as of and for the years ended June 30, 2022 and 2021, and have issued our report thereon dated December 12, 2022, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole.

The schedule of changes in net assets from operations excluding depreciation and amortization for the year ended June 30, 2022 with comparative totals for the year ended June 30, 2021, is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Edelstein & Company LLP

Boston, Massachusetts
December 12, 2022

THE CHILDREN'S MUSEUM

Schedule of Changes in Net Assets from Operations excluding Depreciation and Amortization For the Year Ended June 30, 2022 (with Comparative Totals for the Year Ended June 30, 2021)

	2022			2021 Summarized Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenues and other support:				
Admissions	\$ 2,202,358	\$ -	\$ 2,202,358	\$ 413,985
Grants and contributions of financial assets	4,845,636	3,913,189	8,758,825	5,289,006
Grants and contributions of nonfinancial assets	-	-	-	5,000
Forgiveness of Paycheck Protection Program loan	940,500	-	940,500	940,500
Contracts	588,710	-	588,710	613,671
Membership	531,834	-	531,834	553,087
Other earned income	547,713	-	547,713	65,467
Traveling exhibits	-	-	-	25,000
Other income	8,570	-	8,570	74,884
Special events, net	350,858	-	350,858	444,599
Rental income	2,566,485	-	2,566,485	2,434,295
Amounts appropriated for operations pursuant to endowment spending policy	759,830	-	759,830	741,504
Net assets released from restrictions	3,401,715	(3,401,715)	-	-
Total revenues and other support	16,744,209	511,474	17,255,683	11,600,998
Expenses:				
Program Services:				
Visitor services	1,871,626	-	1,871,626	1,381,596
Museum programs	1,990,723	-	1,990,723	1,996,463
Exhibits	676,005	-	676,005	800,908
Membership services	171,669	-	171,669	161,034
Supporting Services:				
Administration and general	1,009,546	-	1,009,546	885,192
Facilities costs	1,814,732	-	1,814,732	1,380,193
Fundraising	626,127	-	626,127	594,340
Marketing	577,154	-	577,154	445,026
Total expenses	8,737,582	-	8,737,582	7,644,752
Change in net assets from operations excluding depreciation and amortization	\$ 8,006,627	\$ 511,474	\$ 8,518,101	\$ 3,956,246