

THE CHILDREN'S MUSEUM

Financial Statements and Supplementary Information

June 30, 2023 and 2022

THE CHILDREN’S MUSEUM

June 30, 2023 and 2022

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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, 2023 and 2022, 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, 2023 and 2022, 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 18, 2023

THE CHILDREN'S MUSEUM

Statements of Financial Position June 30,

	2023	2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 14,459,161	\$ 13,921,421
Accounts receivable, net	109,966	225,441
Pledges receivable, net	302,392	972,292
Prepaid expenses	56,797	39,019
Total current assets	<u>14,928,316</u>	<u>15,158,173</u>
Pledges receivable, net	190,900	190,900
Derivative instruments	354,400	-
Marketable securities	16,894,371	15,847,041
Property, exhibits and equipment, net	27,808,256	28,439,008
Other assets	<u>1,280,197</u>	<u>1,195,490</u>
Total assets	<u>\$ 61,456,440</u>	<u>\$ 60,830,612</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 617,863	\$ 798,033
Accrued and other short-term liabilities	1,254,987	1,171,664
Bonds payable, net	486,465	485,771
Total current liabilities	<u>2,359,315</u>	<u>2,455,468</u>
Long-term liabilities:		
Derivative instruments	-	3,815
Note payable	379,860	365,954
Deferred revenue	140,000	180,000
Security deposits	277,250	285,257
Bonds payable, net	8,141,717	8,628,182
Total long-term liabilities	<u>8,938,827</u>	<u>9,463,208</u>
Net assets:		
Without donor restrictions:		
Undesignated	10,369,352	9,520,376
Quasi-endowment	2,233,806	2,095,490
Board designated	4,559,398	4,276,582
Property, exhibits and equipment	19,663,387	19,375,558
Total without donor restrictions	<u>36,825,943</u>	<u>35,268,006</u>
With donor restrictions	<u>13,332,355</u>	<u>13,643,930</u>
Total net assets	<u>50,158,298</u>	<u>48,911,936</u>
Total liabilities and net assets	<u>\$ 61,456,440</u>	<u>\$ 60,830,612</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, 2023 (with Comparative Totals for the Year Ended June 30, 2022)

	2023			2022
	Without Donor Restrictions	With Donor Restrictions	Total	Summarized Total
Revenues and other support:				
Admissions	\$ 3,330,095	\$ -	\$ 3,330,095	\$ 2,202,358
Grants and contributions of financial assets	1,961,308	1,442,288	3,403,596	8,758,825
Grants and contributions of nonfinancial assets	4,500	-	4,500	-
Forgiveness of Paycheck Protection Program loan	-	-	-	940,500
Contracts	280,327	-	280,327	588,710
Membership	933,271	-	933,271	531,834
Other earned income	589,484	-	589,484	547,713
Other income	21,240	-	21,240	8,570
Special events, net	343,122	-	343,122	350,858
Rental income	2,511,182	-	2,511,182	2,566,485
Amounts appropriated for operations pursuant to endowment spending policy	801,689	-	801,689	759,830
Net assets released from restrictions	2,380,061	(2,380,061)	-	-
Total revenues and other support	<u>13,156,279</u>	<u>(937,773)</u>	<u>12,218,506</u>	<u>17,255,683</u>
Expenses:				
Program services:				
Visitor services	2,701,082	-	2,701,082	2,244,572
Museum programs	2,643,858	-	2,643,858	2,360,327
Exhibits	1,106,437	-	1,106,437	1,085,387
Membership services	280,105	-	280,105	203,232
Supporting services:				
Administration and general	1,218,815	-	1,218,815	1,125,920
Facilities costs	2,772,670	-	2,772,670	2,485,386
Fundraising	771,061	-	771,061	641,517
Marketing	632,918	-	632,918	577,154
Total expenses	<u>12,126,946</u>	<u>-</u>	<u>12,126,946</u>	<u>10,723,495</u>
Change in net assets from operations	<u>1,029,333</u>	<u>(937,773)</u>	<u>91,560</u>	<u>6,532,188</u>
Non-operating revenue, expenses, gains and losses:				
Net investment return	948,259	1,105,531	2,053,790	(3,151,369)
Less amounts appropriated for operations	(322,356)	(479,333)	(801,689)	(759,830)
Change in fair value of derivative financial instruments	358,215	-	358,215	576,540
Interest expense	(455,514)	-	(455,514)	(325,066)
Total non-operating revenue, expenses, gains and losses	<u>528,604</u>	<u>626,198</u>	<u>1,154,802</u>	<u>(3,659,725)</u>
Change in net assets	<u>1,557,937</u>	<u>(311,575)</u>	<u>1,246,362</u>	<u>2,872,463</u>
Net assets, beginning of year	<u>35,268,006</u>	<u>13,643,930</u>	<u>48,911,936</u>	<u>46,039,473</u>
Net assets, end of year	<u>\$ 36,825,943</u>	<u>\$ 13,332,355</u>	<u>\$ 50,158,298</u>	<u>\$ 48,911,936</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, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and other support:			
Admissions	\$ 2,202,358	\$ -	\$ 2,202,358
Grants and contributions of financial assets	4,845,636	3,913,189	8,758,825
Forgiveness of Paycheck Protection Program loan	940,500	-	940,500
Contracts	588,710	-	588,710
Membership	531,834	-	531,834
Other earned income	547,713	-	547,713
Other income	8,570	-	8,570
Special events, net	350,858	-	350,858
Rental income	2,566,485	-	2,566,485
Amounts appropriated for operations pursuant to endowment spending policy	759,830	-	759,830
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>
Expenses:			
Program services:			
Visitor services	2,244,572	-	2,244,572
Museum programs	2,360,327	-	2,360,327
Exhibits	1,085,387	-	1,085,387
Membership services	203,232	-	203,232
Supporting services:			
Administration and general	1,125,920	-	1,125,920
Facilities costs	2,485,386	-	2,485,386
Fundraising	641,517	-	641,517
Marketing	577,154	-	577,154
Total expenses	<u>10,723,495</u>	<u>-</u>	<u>10,723,495</u>
Change in net assets from operations	<u>6,020,714</u>	<u>511,474</u>	<u>6,532,188</u>
Non-operating revenue, expenses, gains and losses:			
Net investment return	(1,277,263)	(1,874,106)	(3,151,369)
Less amounts appropriated for operations	(303,559)	(456,271)	(759,830)
Change in fair value of derivative financial instruments	576,540	-	576,540
Interest expense	(325,066)	-	(325,066)
Total non-operating revenue, expenses, gains and losses	<u>(1,329,348)</u>	<u>(2,330,377)</u>	<u>(3,659,725)</u>
Change in net assets	<u>4,691,366</u>	<u>(1,818,903)</u>	<u>2,872,463</u>
Net assets, beginning of year	<u>30,576,640</u>	<u>15,462,833</u>	<u>46,039,473</u>
Net assets, end of year	<u>\$ 35,268,006</u>	<u>\$ 13,643,930</u>	<u>\$ 48,911,936</u>

THE CHILDREN'S MUSEUM

Statements of Cash Flows

For the Years Ended June 30,

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 1,246,362	\$ 2,872,463
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Allowance for uncollectible pledges and accounts receivable	572	919
Depreciation and amortization	2,099,984	1,985,913
Amortization of bond issuance costs	14,229	14,925
Realized investment gains	(705,226)	(1,226,931)
Unrealized investment (gains) losses	(1,084,141)	4,529,410
Change in fair value of derivative financial instruments	(358,215)	(576,540)
Discount for contribution of below market interest debt	13,906	13,397
Contributions restricted for capital improvements	(222,500)	(1,712,500)
Forgiveness of Paycheck Protection Program loan	-	(940,500)
Changes in operating assets and liabilities:		
Accounts receivable	115,818	(110,049)
Pledges receivable	668,985	(246,888)
Prepaid expenses	(17,778)	2,581
Other assets	(165,207)	(122,871)
Accounts payable	91,855	45,256
Accrued and other short-term liabilities	83,323	352,222
Deferred revenue	(40,000)	(40,000)
Security deposits	(8,007)	48,750
Net cash provided by operating activities	<u>1,733,960</u>	<u>4,889,557</u>
Cash flows from investing activities:		
Proceeds from the sale of marketable securities	801,689	759,830
Purchase of marketable securities	(59,652)	(150,468)
Purchase of exhibits, property, equipment and construction in process	(1,660,757)	(1,556,515)
Net cash used in investing activities	<u>(918,720)</u>	<u>(947,153)</u>
Cash flows from financing activities:		
Contributions restricted for capital improvements	222,500	1,712,500
Repayment of bonds payable	(500,000)	(1,500,000)
Net cash (used in) provided by financing activities	<u>(277,500)</u>	<u>212,500</u>
Net increase in cash and cash equivalents	537,740	4,154,904
Cash and cash equivalents, beginning of year	<u>13,921,421</u>	<u>9,766,517</u>
Cash and cash equivalents, end of year	<u>\$ 14,459,161</u>	<u>\$ 13,921,421</u>
Supplemental financial information:		
Cash paid during the year for interest	<u>\$ 409,848</u>	<u>\$ 302,495</u>
Purchase of exhibits, property, equipment and construction in process included in accounts payable	<u>\$ 178,339</u>	<u>\$ 450,364</u>

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, 2023 (with Comparative Totals for the Year Ended June 30, 2022)

	2023										2022
	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	\$ 777,191	\$ 1,214,657	\$ 321,629	\$ 177,481	\$ 2,490,958	\$ 579,572	\$ 206,585	\$ 593,051	\$ 354,251	\$ 4,224,417	\$ 3,925,626
Employee benefits	47,827	114,053	39,194	17,692	218,766	59,442	22,316	42,446	42,474	385,444	372,891
Payroll taxes	61,599	93,696	25,056	13,490	193,841	39,514	14,341	39,372	26,940	314,008	293,999
Total compensation and related expenses	886,617	1,422,406	385,879	208,663	2,903,565	678,528	243,242	674,869	423,665	4,923,869	4,592,516
Depreciation and amortization	404,513	372,437	466,124	39,022	1,282,096	117,011	685,642	15,235	-	2,099,984	1,985,913
Building operating costs	737,965	107,724	86,234	-	931,923	10,380	1,113,014	16,196	150	2,071,663	1,869,279
Professional/contract services	267,759	435,188	54,507	-	757,454	206,041	400,220	6,790	136,346	1,506,851	1,159,468
Repairs and maintenance	92,668	44,229	28,199	-	165,096	-	136,810	1,864	-	303,770	242,768
Other	123,762	10,781	1,371	29,776	165,690	31,393	11,810	23,195	1,836	233,924	175,566
Insurance	69,284	9,894	16,252	-	95,430	9,963	105,092	1,432	-	211,917	194,974
Computer software and hardware	30,165	8,690	7,355	-	46,210	103,848	27,664	4,467	12,831	195,020	131,730
Materials and supplies	42,633	69,719	35,459	-	147,811	1,372	7,721	3,246	264	160,414	136,764
Office expense	23,642	35,538	9,771	2,558	71,509	31,370	23,038	12,684	14,840	153,441	108,513
Travel and meetings	3,434	85,610	3,384	86	92,514	13,275	5,067	8,032	123	119,011	41,964
Equipment and rentals	18,563	35,320	11,583	-	65,466	11,519	12,130	1,909	-	91,024	65,195
Advertising	-	55	-	-	55	-	-	-	42,863	42,918	10,007
Training and development	77	6,267	319	-	6,663	4,115	1,220	570	-	12,568	7,750
Bad debt expense	-	-	-	-	-	-	-	572	-	572	1,088
Total expenses presented on the statement of activities and changes in net assets	2,701,082	2,643,858	1,106,437	280,105	6,731,482	1,218,815	2,772,670	771,061	632,918	12,126,946	10,723,495
Items presented separately on the statement of activities and changes in net assets:											
Special event expenses	-	-	-	-	-	-	-	273,881	-	273,881	200,537
Interest expense	-	-	-	-	-	-	455,514	-	-	455,514	325,066
Total expenses	\$ 2,701,082	\$ 2,643,858	\$ 1,106,437	\$ 280,105	\$ 6,731,482	\$ 1,218,815	\$ 3,228,184	\$ 1,044,942	\$ 632,918	\$ 12,856,341	\$ 11,249,098

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, 2022

	2022									
	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	\$ 687,075	\$ 1,141,957	\$ 391,082	\$ 121,110	\$ 2,341,224	\$ 555,723	\$ 185,928	\$ 485,042	\$ 357,709	\$ 3,925,626
Employee benefits	59,454	99,869	44,208	16,240	219,771	59,623	19,563	32,795	41,139	372,891
Payroll taxes	54,374	89,327	29,664	9,458	182,823	38,698	13,014	31,804	27,660	293,999
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
Depreciation and amortization	372,946	369,604	409,382	31,563	1,183,495	116,374	670,654	15,390	-	1,985,913
Building operating costs	626,761	79,028	82,248	-	788,037	13,209	1,054,460	13,573	-	1,869,279
Professional/contract services	147,594	381,993	41,859	-	571,446	191,220	259,526	17,322	119,954	1,159,468
Repairs and maintenance	63,352	35,015	35,348	-	133,715	-	107,722	1,331	-	242,768
Other	96,390	9,202	506	23,716	129,814	20,313	9,655	14,028	1,756	175,566
Insurance	59,617	7,423	14,867	-	81,907	10,421	101,393	1,253	-	194,974
Computer software and hardware	19,134	2,250	1,699	-	23,083	73,825	19,867	5,879	9,076	131,730
Materials and supplies	36,281	62,568	24,836	552	124,237	116	9,155	2,493	763	136,764
Office expense	13,576	31,228	4,736	593	50,133	20,683	19,494	8,813	9,390	108,513
Travel and meetings	368	22,479	1,490	-	24,337	5,570	1,591	10,287	179	41,964
Equipment and rentals	7,650	25,716	2,895	-	36,261	16,461	12,375	98	-	65,195
Advertising	-	96	-	-	96	216	58	109	9,528	10,007
Training and development	-	2,572	567	-	3,139	3,468	931	212	-	7,750
Bad debt expense	-	-	-	-	-	-	-	1,088	-	1,088
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
Items presented separately on the statement of activities and changes in net assets:										
Special event expenses	-	-	-	-	-	-	-	200,537	-	200,537
Interest expense	-	-	-	-	-	-	325,066	-	-	325,066
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

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.

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.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurements (continued)

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.

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.

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.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

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.

Leases

Certain space within the Museum is leased primarily to nonprofit and commercial tenants under operating leases. Rental income is recorded on a straight-line basis over the lease term. Leases may include variable payments such as reimbursements of utilities, maintenance, and property taxes from the tenants, which are recorded as revenue each month based on actual amounts and reported as rental income on the statements of activities and changes in net assets. Lease terms may include renewal or extension options which may be exercised if certain conditions exist. At June 30, 2023 and 2022, there were no options to extend that were reasonably certain to be exercised.

Cash and Cash Equivalents

Cash and cash equivalents consist of checking, savings and money market 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. In order to minimize this risk, the Museum invests its free cash in an insured deposit sweep account, which provides for full FDIC coverage.

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.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

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.

Impairment of Long-Lived Assets

Long-lived assets, such as property, exhibits and equipment, are tested for recoverability whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. The Museum assesses factors such as significant trends, and utilization of services, or carrying costs in deciding whether to perform an impairment review. Based on these qualitative factors, the Museum believed an impairment review was not necessary during the years ended June 30, 2023 and 2022.

Museum Collection

In conformity with the practice followed by many museums, the value of property purchased or 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. Significant accounting estimates include the estimated collectability of receivables, the estimated fair value of the derivative instruments, interest in the charitable remainder trust and marketable securities reported at net asset value, and the allocation of overhead to its various programs and supporting services.

The Museum's management has evaluated the effect which subsequent events may have on these financial statements. Management's evaluation was completed on December 18, 2023, the date these financial statements became available to be issued. 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.

Recently Adopted Accounting Pronouncement

On July 1, 2022 the Museum, as a lessor, adopted Financial Accounting Standards Board's Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). The adoption of Topic 842 did not result in a change in accounting for leases, and as a result there was no adjustment to the Museum's net assets as of July 1, 2022, and no impact on the statement of activities and changes in net assets or cash flows for the year ended June 30, 2023.

Reclassifications

Certain amounts in the 2022 financial statements have been reclassified to conform to the 2023 presentation. Net assets and changes in net assets are unchanged due to these reclassifications.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

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, 2023 and 2022, the allowance for uncollectible amounts was \$926 and \$1,269, respectively.

4. Pledges Receivable

Pledges as of June 30, 2023 and 2022 consisted of the following:

	<u>2023</u>	<u>2022</u>
Receivable in less than one year:		
Corporations	\$ 125,000	\$ -
Foundations	150,000	192,680
Government	34,353	757,047
Individuals	-	30,180
	<u>309,353</u>	<u>979,907</u>
Less - allowance for uncollectible pledges	<u>(6,961)</u>	<u>(7,615)</u>
Net pledges receivable in less than one year	<u>\$ 302,392</u>	<u>\$ 972,292</u>
Interest in Charitable Remainder Trust	<u>190,900</u>	<u>190,900</u>
Net pledges receivable, non-current portion	<u>\$ 190,900</u>	<u>\$ 190,900</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 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 2023 or 2022 because it was not material.

At June 30, 2023, the Museum had conditional federal grants of \$132,776 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* ("UPMIFA") as enacted in Massachusetts as requiring the preservation of the purchasing power of the original gift amount of 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, 2023 and 2022 was:

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Balance at beginning of year	\$ 6,372,072	\$ 9,474,969	\$ 15,847,041
Contributions	-	-	-
Net investment return	743,488	1,105,531	1,849,019
Amounts appropriated for operations per spending policy	(322,356)	(479,333)	(801,689)
Balance at end of year	<u>\$ 6,793,204</u>	<u>\$ 10,101,167</u>	<u>\$ 16,894,371</u>

THE CHILDREN'S MUSEUM

Notes to Financial Statements

5. Endowment (continued)

	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>

Endowment net asset composition by type of fund at June 30, 2023 and 2022 was:

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Quasi-endowment Fund	\$ 2,233,806	\$ -	\$ 2,233,806
Board designated Fund	4,559,398	-	4,559,398
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	-	5,698,593	5,698,593
Total	<u>\$ 6,793,204</u>	<u>\$ 10,101,167</u>	<u>\$ 16,894,371</u>

	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>

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 Museum's intent is to spend only the accumulated investment gains associated with the donor restricted endowment funds which exceed the purchasing power of such assets. The estimated amount required to maintain purchasing power of the donor restricted endowment net assets, which is included in accumulated investment gains above, was \$1,724,117 and \$1,553,107 at June 30, 2023 and 2022, respectively. 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, 2023 and 2022, the amounts drawn down from the endowment per the Museum's spending policy were \$801,689 and \$759,830, 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.

Donor Restricted Endowment Funds with Deficits

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the value of the original donor gift amounts. The Museum reduces income allocated for spending from funds with deficits. There were no such deficits as of June 30, 2023 or 2022.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

6. Marketable Securities

Marketable securities at June 30, 2023 and 2022 consisted of the following:

	2023		2022	
	Fair Value	Cost (Average)	Fair Value	Cost (Average)
TIFF Multi-Asset Fund	\$ 8,474,016	\$ 9,124,035	\$ 8,078,628	\$ 8,805,533
The TIFF Centerstone Fund, L.P.	8,420,355	6,069,018	7,768,413	6,424,331
	<u>\$ 16,894,371</u>	<u>\$ 15,193,053</u>	<u>\$ 15,847,041</u>	<u>\$ 15,229,864</u>

The TIFF Multi-Asset Fund (“MAF”) incurs annual management and other fees which were approximately 0.97% and 0.68% of the Fund’s net asset value during the years ended June 30, 2023 and 2022, respectively. The TIFF Centerstone Fund, L.P. (“TCF”) charges annual management fees which are .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 .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, 2023 and 2022, there were no unfunded commitments.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

7. Property, Exhibits and Equipment

Property, exhibits and equipment consisted of the following at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Property and land	\$ 50,759,859	\$ 50,055,126
Equipment and furniture	2,380,175	2,393,855
Exhibits	10,647,216	8,372,315
Construction in process:		
Building additions and renovations	121,631	471,939
Exhibits	<u>94,297</u>	<u>1,390,993</u>
	64,003,178	62,684,228
Less - accumulated depreciation	<u>(36,194,922)</u>	<u>(34,245,220)</u>
	<u>\$ 27,808,256</u>	<u>\$ 28,439,008</u>

Depreciation expense during the years ended June 30, 2023 and 2022 was \$2,019,484 and \$1,914,016, respectively, which is included in depreciation and amortization expense on the statements of functional expenses. During the years ended June 30, 2023 and 2022, the Museum disposed of certain fully depreciated property, exhibits and equipment with an original cost of \$69,782 and \$1,772,867, respectively.

8. Other Assets

Other assets consisted of the following at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Deferred leasing costs, net of accumulated amortization of \$540,307 and \$459,807 at June 30, 2023 and 2022, respectively	\$ 508,772	\$ 420,272
Rent receivable	<u>771,425</u>	<u>775,218</u>
	<u>\$ 1,280,197</u>	<u>\$ 1,195,490</u>

Amortization of the deferred leasing costs during the years ended June 30, 2023 and 2022 was \$80,500 and \$71,897, respectively. which is included in depreciation and amortization expense on the statements of functional expenses.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

8. Other Assets (continued)

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>
2024	\$ 85,757
2025	86,315
2026	81,982
2027	72,837
2028	56,470
Thereafter	125,411

9. Paycheck Protection Program Loan

On January 27, 2021, the Museum entered into a Paycheck Protection Program (“PPP”) loan agreement for \$940,500, granted by the Small Business Administration (“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 the PPP loan is reported as forgiveness of Paycheck Protection Program loan on the statement of activities and changes and net assets for the year ended June 30, 2022. The amount reported does not include the interest which accrued on the loan as management deemed the amount to be immaterial to the 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 was obligated to pay variable interest at a rate based on adjusted LIBOR. 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.

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 CHILDREN'S MUSEUM

Notes to Financial Statements

10. Bonds Payable (continued)

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, 2023 and 2022, the sum of the interest on the bonds and the amortization of the bond issuance costs was \$441,607 and \$315,510, respectively, of which \$14,229 and \$14,925 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, 2023.

Bonds payable consisted of the following at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Bonds payable	\$ 8,750,000	\$ 9,250,000
Less-unamortized bond issuance costs	(121,818)	(136,047)
Total bonds payable	<u>8,628,182</u>	<u>9,113,953</u>
Less - current portion of bonds payable, net	(486,465)	(485,771)
Non-current portion of bonds payable	<u>\$ 8,141,717</u>	<u>\$ 8,628,182</u>

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

<u>Years ending June 30,</u>	<u>Amount</u>
2024	\$ 500,000
2025	500,000
2026	500,000
2027	500,000
2028	500,000
Thereafter	6,250,000

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>
2024	\$ 13,535
2025	12,841
2026	12,147
2027	11,453
2028	10,759
Thereafter	61,083

11. Derivative Instruments

During the year ended June 30, 2022, the Museum was a party to three interest rate swap agreements with Citizens 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 Citizens 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 an asset of \$354,400 and liability of \$3,815 at June 30, 2023 and 2022, 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, 2023 and 2022, respectively:

	2023		
	Level 1	Level 2	Level 3
Assets:			
Interest rate swap	\$ -	354,400	\$ -
	<u> </u>	<u> </u>	<u> </u>
	2022		
	Level 1	Level 2	Level 3
	<u> </u>	<u> </u>	<u> </u>
Liabilities:			
Interest rate swap	\$ -	\$ 3,815	\$ -
	<u> </u>	<u> </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, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Subject to expenditure for a specified purpose:		
Exhibits	\$ 283,424	\$ 899,423
Capital improvements	1,064,725	1,309,211
Community engagement	327,428	181,627
Discounted admissions and programming	268,284	287,537
Program development	791,142	872,998
Educational programs	189,173	141,270
Early childhood	116,112	285,995
	<u>3,040,288</u>	<u>3,978,061</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	2,061,461	1,800,746
Cultural programs	1,872,843	1,714,604
Early childhood education/programs	754,061	658,369
Collections	525,123	465,328
Discounted admissions and programming	248,168	220,418
General use	236,937	212,930
	<u>5,698,593</u>	<u>5,072,395</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	433,684
Discounted admissions and programming	200,000	200,000
General use	150,478	150,478
	<u>4,402,574</u>	<u>4,402,574</u>
	<u>\$ 13,332,355</u>	<u>\$ 13,643,930</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, 2023 and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
Satisfaction of purpose restrictions:		
Exhibits	\$ 829,326	\$ 658,068
Capital improvements	244,487	388,708
Community engagement	184,573	179,759
Discounted admissions and programming	378,187	348,672
Program development	198,738	263,374
Educational programs	364,867	174,400
Early childhood	179,883	388,734
Debt reduction	-	1,000,000
	<u>\$ 2,380,061</u>	<u>\$ 3,401,715</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 \$13,906 and \$13,397 during the years ended June 30, 2023 and 2022, respectively. Note payable, net of below market interest discount was \$379,860 and \$365,954 at June 30, 2023 and 2022, respectively.

15. Line of Credit

The Museum has a line of credit with its bank permitting advances up to \$1,000,000. Advances bore interest at the LIBOR rate plus 2.75% through June 30, 2022. In July 2022, the Museum entered into a modification agreement with the bank which extended the line-of-credit agreement through July 1, 2024 and revised 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, 2023 and 2022, or during the years then ended.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

16. Special Events

Special events revenue and expenses for the years ending June 30, 2023 and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
Ticket sales	\$ 102,516	\$ 56,890
Contributions	512,759	494,505
In-kind contributions	1,728	-
Total revenue	<u>617,003</u>	<u>551,395</u>
Less - special event expenses	<u>(273,881)</u>	<u>(200,537)</u>
	<u>\$ 343,122</u>	<u>\$ 350,858</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, 2023 and 2022, were comprised of the following:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 11,143,587	\$ 8,787,286
Accounts receivable	46,908	216,025
Pledges receivable	34,267	570,392
Endowment spending policy distributions	341,785	340,751
	<u>\$ 11,566,547</u>	<u>\$ 9,914,454</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 \$2,233,806 and \$2,095,490 at June 30, 2023 and 2022, 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 \$4,559,398 and \$4,276,582 at June 30, 2023 and 2022, 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 \$543,411 and \$1,557,974 at June 30, 2023 and 2022, respectively, which is used to fund expenses related to tenant activities and to make all debt service payments. In addition, the Museum's tenant receivables of \$50,144 and \$9,416 at June 30, 2023 and 2022, respectively are not included in the above accounts receivables total. Although the Museum does not intend to use these assets for operating activities, these assets (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, 2023 and 2022, \$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 \$106,890 and \$112,712 for the years ended June 30, 2023 and 2022, respectively.

19. Advertising Costs

The Museum expenses the costs of advertising when the advertisement takes place. Advertising expenses for the years ended June 30, 2023 and 2022 were \$42,918 and \$10,007, 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>
2024	\$ 2,110,260
2025	2,159,550
2026	2,130,989
2027	2,071,532
2028	1,729,316
Thereafter	4,874,166

THE CHILDREN'S MUSEUM

Notes to Financial Statements

21. Contributed Nonfinancial Assets

The Museum received the following contributed nonfinancial assets during the years ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Materials and supplies	<u>\$ 4,500</u>	<u>\$ -</u>

Materials and supplies were provided to be used in programming for holiday season events for the Museum's visitors during the year ended June 30, 2023. There were no donor restrictions on the contribution. The services were valued using the estimated fair value of the items donated.

22. Deferred Revenue on Exchange Transactions

The opening and closing balances of the Museum's deferred revenue on exchange transactions are as follows:

	<u>2023</u>		
	<u>Current</u>	<u>Long-term</u>	<u>Total</u>
Balance at beginning of year	\$ 726,009	\$ 180,000	\$ 906,009
Net change	<u>101,027</u>	<u>(40,000)</u>	<u>61,027</u>
Balance at end of year	<u>\$ 827,036</u>	<u>\$ 140,000</u>	<u>\$ 967,036</u>

	<u>2022</u>		
	<u>Current</u>	<u>Long-term</u>	<u>Total</u>
Balance at beginning of year	\$ 490,956	\$ 220,000	\$ 710,956
Net change	<u>235,053</u>	<u>(40,000)</u>	<u>195,053</u>
Balance at end of year	<u>\$ 726,009</u>	<u>\$ 180,000</u>	<u>\$ 906,009</u>

The current amount is included in accrued and other short-term liabilities, and the long-term portion is reported as deferred revenue on the statements of financial position.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

23. 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, 2023 and 2022, and have issued our report thereon dated December 18, 2023, 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, 2023 with comparative totals for the year ended June 30, 2022, 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 18, 2023

THE CHILDREN'S MUSEUM

Schedule of Changes in Net Assets from Operations excluding Depreciation and Amortization For the Year Ended June 30, 2023 (with Comparative Totals for the Year Ended June 30, 2022)

	2023			2022 Summarized Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenues and other support:				
Admissions	\$ 3,330,095	\$ -	\$ 3,330,095	\$ 2,202,358
Grants and contributions of financial assets	1,961,308	1,442,288	3,403,596	8,758,825
Grants and contributions of nonfinancial assets	4,500	-	4,500	-
Forgiveness of Paycheck Protection Program loan	-	-	-	940,500
Contracts	280,327	-	280,327	588,710
Membership	933,271	-	933,271	531,834
Other earned income	589,484	-	589,484	547,713
Traveling exhibits	-	-	-	-
Other income	21,240	-	21,240	8,570
Special events, net	343,122	-	343,122	350,858
Rental income	2,511,182	-	2,511,182	2,566,485
Amounts appropriated for operations pursuant to endowment spending policy	801,689	-	801,689	759,830
Net assets released from restrictions	2,380,061	(2,380,061)	-	-
Total revenues and other support	13,156,279	(937,773)	12,218,506	17,255,683
Expenses:				
Program services:				
Visitor services	2,296,569	-	2,296,569	1,871,626
Museum programs	2,271,421	-	2,271,421	1,990,723
Exhibits	640,313	-	640,313	676,005
Membership services	241,083	-	241,083	171,669
Supporting services:				
Administration and general	1,101,804	-	1,101,804	1,009,546
Facilities costs	2,087,028	-	2,087,028	1,814,732
Fundraising	755,826	-	755,826	626,127
Marketing	632,918	-	632,918	577,154
Total expenses	10,026,962	-	10,026,962	8,737,582
Change in net assets from operations excluding depreciation and amortization	\$ 3,129,317	\$ (937,773)	\$ 2,191,544	\$ 8,518,101