



Consolidated Financial Statements
June 30, 2023 and 2022

Minnesota Children's Museum and Affiliate

Minnesota Children's Museum and Affiliate

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June 30, 2023 and 2022

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Independent Auditor's Report

To the Board of Directors
Minnesota Children's Museum and Affiliate
St. Paul, Minnesota

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements (financial statements) of Minnesota Children's Museum and Affiliate (the Museum), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the 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 of the Audit of the Financial Statements section of our report. We are required to be independent of the 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.

Restatement of Cash Flow Classification

A restatement of the cash flow for the endowment contributions is shown in Note 16 of the financial statements. The cash collected on endowment funds were previously included within cash flows from operating activities and should have been included within cash flows from financing activities as collections of contributions restricted to endowment. Accordingly, amounts reported for endowment contributions have been restated in the 2023 financial statements now presented, and an adjustment has been made to the cash flow statement, cash from operating activities, and cash from financing activities as of June 30, 2022. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

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

Eide Bailly LLP

Minneapolis, Minnesota
November 8, 2023

Minnesota Children's Museum and Affiliate

Consolidated Statements of Financial Position

June 30, 2023 and 2022

| | 2023 | 2022 |
|--------------------------------------------------------|---------------|---------------|
| Assets | | |
| Cash and cash equivalents | \$ 4,341,754 | \$ 3,527,175 |
| Cash restricted for capital campaign and loan reserves | - | 187,492 |
| Grants and promises to give, net | 1,260,261 | 2,028,006 |
| Accounts receivable | 98,331 | 69,540 |
| Prepaid expenses | 123,712 | 164,588 |
| Operating investments | 2,335,141 | 995,753 |
| Endowment investments | 7,743,253 | 5,719,652 |
| Leveraged loan receivable | - | 6,827,800 |
| Land, building, exhibits, and equipment, net | 25,504,944 | 26,855,677 |
| Total assets | \$ 41,407,396 | \$ 46,375,683 |
| Liabilities and Net Assets | | |
| Accounts payable | \$ 210,571 | \$ 189,457 |
| Contractors payable | 101,851 | 89,435 |
| Accrued compensation | 543,252 | 545,264 |
| Deferred revenue | 1,958,222 | 1,703,371 |
| Note payable and other debt | | |
| Notes payable | 115,955 | 115,955 |
| New market tax credit loans | - | 9,420,000 |
| Total liabilities | 2,929,851 | 12,063,482 |
| Net Assets | | |
| Without donor restrictions | | |
| Undesignated | 28,987,428 | 27,405,669 |
| Board-designated fixed asset reserve | 800,000 | - |
| Board-designated quasi-endowment | 3,625,396 | 2,966,456 |
| | 33,412,824 | 30,372,125 |
| With donor restrictions | | |
| Purpose and time restricted | 944,108 | 1,174,755 |
| Accumulated earnings/(losses) | 205,610 | (55,949) |
| Perpetual in nature | 3,915,003 | 2,821,270 |
| | 5,064,721 | 3,940,076 |
| Total net assets | 38,477,545 | 34,312,201 |
| Total liabilities and net assets | \$ 41,407,396 | \$ 46,375,683 |

Minnesota Children's Museum and Affiliate
Consolidated Statements of Activities
Year Ended June 30, 2023

| | Without Donor Restrictions | | | Total |
|------------------------------------------------------------------------------------------------|----------------------------------------------------------------|-----------------------------------|----------------------------|----------------------|
| | Undesignated and Board-Designated Fixed Asset Reserve | Board- Designated Endowment | With Donor Restrictions | |
| Revenue, Support, and Gains | | | | |
| Museum admissions | \$ 1,873,771 | \$ - | \$ - | \$ 1,873,771 |
| Memberships | 1,357,174 | - | - | 1,357,174 |
| Exhibit rentals and sales | 1,303,836 | - | - | 1,303,836 |
| Net investment return | 159,579 | 342,492 | 397,232 | 899,303 |
| Other revenue | 542,497 | - | - | 542,497 |
| Grants and contributions | 653,201 | 454,775 | 1,485,433 | 2,593,409 |
| Government grants | 1,673,659 | - | - | 1,673,659 |
| Gross special events revenue | 323,620 | - | - | 323,620 |
| Less cost of direct benefit to donors | (65,434) | - | - | (65,434) |
| Net special events revenue | 258,186 | - | - | 258,186 |
| Debt forgiveness, net | 2,592,200 | - | - | 2,592,200 |
| In-kind contributions | 42,286 | - | - | 42,286 |
| Net assets released from restrictions pursuant to endowment spending-rate distribution formula | 274,000 | (138,327) | (135,673) | - |
| Net assets released from restrictions - other | 622,347 | - | (622,347) | - |
| Total revenue, support, and gains | 11,352,736 | 658,940 | 1,124,645 | 13,136,321 |
| Expenses and Losses | | | | |
| Program service expense | 7,021,695 | - | - | 7,021,695 |
| Supporting services expenses | 1,949,282 | - | - | 1,949,282 |
| Total expenses and losses | 8,970,977 | - | - | 8,970,977 |
| Change in Net Assets | 2,381,759 | 658,940 | 1,124,645 | 4,165,344 |
| Net Assets, Beginning of Year | 27,405,669 | 2,966,456 | 3,940,076 | 34,312,201 |
| Net Assets, End of Year | <u>\$ 29,787,428</u> | <u>\$ 3,625,396</u> | <u>\$ 5,064,721</u> | <u>\$ 38,477,545</u> |

Minnesota Children's Museum and Affiliate
Consolidated Statements of Activities
Year Ended June 30, 2022

| | Without Donor Restrictions | | With Donor Restrictions | Total |
|-----------------------------------------------------------------------------------------------|----------------------------|----------------------|----------------------------|----------------------|
| | Undesignated | Board- Designated | | |
| Revenue, Support, and Gains | | | | |
| Museum admissions | \$ 1,323,141 | \$ - | \$ - | \$ 1,323,141 |
| Memberships | 998,973 | - | - | 998,973 |
| Exhibit rentals and sales | 666,948 | - | - | 666,948 |
| Net investment return (loss) | 66,538 | (458,545) | (451,266) | (843,273) |
| Other revenue | 283,986 | - | - | 283,986 |
| Grants and contributions | 1,848,518 | 406,790 | 2,211,182 | 4,466,490 |
| Government grants | 824,444 | - | - | 824,444 |
| Gross special events revenue | 269,595 | - | - | 269,595 |
| Less cost of direct benefit to donors | (63,431) | - | - | (63,431) |
| Net special events revenue | 206,164 | - | - | 206,164 |
| Employee Retention Credits Paycheck Protection Program (PPP) loan forgiveness | 992,900 | - | - | 992,900 |
| In-kind contributions | 8,477 | - | - | 8,477 |
| Net assets released from restriction pursuant to endowment spending-rate distribution formula | 230,000 | (133,714) | (96,286) | - |
| Net assets released from restrictions - other | 424,712 | - | (424,712) | - |
| Total revenue, support, and gains | 8,484,739 | (185,469) | 1,238,918 | 9,538,188 |
| Expenses and Losses | | | | |
| Program service expense | 6,156,375 | - | - | 6,156,375 |
| Supporting services expenses | 1,950,176 | - | - | 1,950,176 |
| Total expenses and losses | 8,106,551 | - | - | 8,106,551 |
| Change in Net Assets | 378,188 | (185,469) | 1,238,918 | 1,431,637 |
| Net Assets, Beginning of Year | 27,027,481 | 3,151,925 | 2,701,158 | 32,880,564 |
| Net Assets, End of Year | \$ 27,405,669 | \$ 2,966,456 | \$ 3,940,076 | \$ 34,312,201 |

Minnesota Children's Museum and Affiliate

Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022

| | 2023 | 2022 (Restated) |
|--------------------------------------------------------------------------------------------|---------------------|---------------------|
| Operating Activities | | |
| Change in net assets | \$ 4,165,344 | \$ 1,431,637 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation and amortization | 1,765,758 | 1,636,204 |
| Realized and unrealized gain on operating investments | (56,866) | (4,275) |
| Endowment net investment (loss) return | (739,724) | 909,811 |
| Gain on disposal of property and equipment | - | - |
| Capital campaign discount amortization and write-off of uncollectible pledges receivable | - | - |
| PPP loan forgiveness income | - | (992,900) |
| Gain on debt forgiveness, net | (2,592,200) | - |
| Contributions restricted to endowment | (1,093,733) | (1,040,381) |
| Changes in operating assets and liabilities | | |
| Grants and promises to give, net | 767,745 | (767,552) |
| Accounts receivable | (28,791) | (43,328) |
| Prepaid expenses | 40,876 | (14,795) |
| Accounts payable | 21,114 | 144,177 |
| Contractors payable | 12,416 | 45,025 |
| Accrued compensation | (2,012) | (33,542) |
| Deferred revenue | 254,851 | 850,388 |
| Net Cash from Operating Activities | 2,514,778 | 2,120,469 |
| Investing Activities | | |
| Purchases of property and equipment | (415,025) | (952,895) |
| Purchase of operating investments | (1,282,522) | (991,478) |
| Purchase of endowment investments | (6,503,777) | (1,616,056) |
| Proceeds from sale of endowment investments | 5,219,900 | 411,010 |
| Net Cash used for Investing Activities | (2,981,424) | (3,149,419) |
| Financing Activities | | |
| Principal payments on long-term debt | - | - |
| Proceeds from issuance of debt | - | - |
| Collections of contributions restricted to endowment | 1,093,733 | 1,040,381 |
| Net Cash from Financing Activities | 1,093,733 | 1,040,381 |
| Net Change in Cash, Cash Equivalents, and Restricted Cash | 627,087 | 11,431 |
| Cash, Cash Equivalents, and Restricted Cash, Beginning of Year | 3,714,667 | 3,703,236 |
| Cash, Cash Equivalents, and Restricted Cash, End of Year | \$ 4,341,754 | \$ 3,714,667 |

Minnesota Children's Museum and Affiliate
Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022

| | <u>2023</u> | <u>2022</u> (Restated) |
|-------------------------------------------------------------------------------------------------|---------------------|---------------------------|
| Cash and Cash Equivalents | \$ 4,341,754 | \$ 3,527,175 |
| Cash Restricted for Capital Campaign and Loan Reserves | <u>-</u> | <u>187,492</u> |
| Total cash, cash equivalents, and restricted cash | <u>\$ 4,341,754</u> | <u>\$ 3,714,667</u> |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash paid for interest | <u>\$ 66,917</u> | <u>\$ 149,979</u> |
| Supplemental Disclosure of Noncash Financing Activity | | |
| Principal payments on New Market Tax Credit note payable through settlement of notes receivable | <u>\$ 6,827,800</u> | <u>\$ -</u> |

Minnesota Children's Museum and Affiliate
Consolidated Statements of Functional Expenses
Year Ended June 30, 2023

| | Program Services | | | Administration | Fundraising | Total Expenses |
|-------------------------------------------------------------------------------|-------------------------|-----------------------------------------|------------------------|---------------------|-------------------|---------------------|
| | Experience and Outreach | Traveling Exhibit Production and Design | Total Program Services | | | |
| Salaries and Wages | \$ 2,668,664 | \$ 363,147 | \$ 3,031,811 | \$ 615,591 | \$ 413,362 | \$ 4,060,764 |
| Payroll Taxes | 206,375 | 27,362 | 233,737 | 48,776 | 30,857 | 313,370 |
| Employee Benefits | 290,494 | 44,728 | 335,222 | 44,677 | 39,637 | 419,536 |
| Accounting and Finance Service Fees | 3,850 | - | 3,850 | 43,875 | - | 47,725 |
| Professional Fees and Contracted Services | 123,239 | 300 | 123,539 | 54,033 | 45,013 | 222,585 |
| Other Professional Fees and Contracted Services | 169,466 | 20,474 | 189,940 | 29,324 | 18,429 | 237,693 |
| Maintenance/Equipment/Rent | 327,981 | - | 327,981 | 77,489 | 26,068 | 431,538 |
| Information Technology | 47,322 | 6,568 | 53,890 | 27,416 | 731 | 82,037 |
| Travel | 774 | 84,128 | 84,902 | 1,319 | 722 | 86,943 |
| Training/Meetings | 24,813 | 944 | 25,757 | 8,485 | 79,100 | 113,342 |
| Supplies | 198,784 | 33,926 | 232,710 | 4,040 | 46,901 | 283,651 |
| Postage and Shipping | 36,833 | 62,450 | 99,283 | 1,757 | 14,999 | 116,039 |
| Utilities | 228,395 | - | 228,395 | 38,072 | 398 | 266,865 |
| Printing, Photography and Graphics | 79,344 | 2,643 | 81,987 | 1,567 | 6,569 | 90,123 |
| Promotion and Advertising | 163,566 | 14,742 | 178,308 | 19,902 | 3,248 | 201,458 |
| Insurance | 1,353 | - | 1,353 | 94,912 | - | 96,265 |
| Fees/Permits/License | 89,830 | 48,701 | 138,531 | 26,643 | 7,760 | 172,934 |
| Exhibit Rental/Construction | 3,800 | - | 3,800 | - | - | 3,800 |
| Legal | 3,278 | - | 3,278 | 8,195 | 1,261 | 12,734 |
| Other Expenses | - | 6,946 | 6,946 | - | 4,305 | 11,251 |
| Depreciation and amortization | 1,312,679 | 323,796 | 1,636,475 | 129,283 | - | 1,765,758 |
| | <u>5,980,840</u> | <u>1,040,855</u> | <u>7,021,695</u> | <u>1,275,356</u> | <u>739,360</u> | <u>9,036,411</u> |
| Less Expenses Included with Revenues on the Statement of Activities | | | | | | |
| Cost of direct benefit to donors | - | - | - | - | (65,434) | (65,434) |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(65,434)</u> | <u>(65,434)</u> |
| Total expenses included in the expense section on the statement of activities | <u>\$ 5,980,840</u> | <u>\$ 1,040,855</u> | <u>\$ 7,021,695</u> | <u>\$ 1,275,356</u> | <u>\$ 673,926</u> | <u>\$ 8,970,977</u> |

See Notes to Consolidated Financial Statements

Minnesota Children's Museum and Affiliate
Consolidated Statements of Functional Expenses
Year Ended June 30, 2022

| | Program Services | | | Administration | Fundraising | Total Expenses |
|-------------------------------------------------------------------------------|-------------------------|-----------------------------------------|------------------------|---------------------|-------------------|---------------------|
| | Experience and Outreach | Traveling Exhibit Production and Design | Total Program Services | | | |
| Salaries and Wages | \$ 2,274,391 | \$ 332,493 | \$ 2,606,884 | \$ 661,360 | \$ 331,189 | \$ 3,599,433 |
| Payroll Taxes | 173,174 | 24,608 | 197,782 | 43,179 | 24,624 | 265,585 |
| Employee Benefits | 248,252 | 56,686 | 304,938 | 47,637 | 34,019 | 386,594 |
| Accounting and Finance Services Fees | 6,405 | - | 6,405 | 38,195 | - | 44,600 |
| Professional Fees and Contracted Services | 116,725 | 5,080 | 121,805 | 50,284 | 55,432 | 227,521 |
| Other Professional Fees and Contracted Services | 105,486 | 1,692 | 107,178 | 13,748 | 9,362 | 130,288 |
| Maintenance/Equipment/Rent | 281,371 | 1,750 | 283,121 | 73,974 | 30,063 | 387,158 |
| Information Technology | 43,184 | 4,548 | 47,732 | 19,904 | 643 | 68,279 |
| Travel | 4,944 | 50,701 | 55,645 | 489 | 52 | 56,186 |
| Training/Meetings | 40,981 | 2,159 | 43,140 | 9,284 | 85,755 | 138,179 |
| Supplies | 99,541 | 29,628 | 129,169 | 2,309 | 2,097 | 133,575 |
| Postage and Shipping | 19,390 | 32,574 | 51,964 | 1,604 | 5,593 | 59,161 |
| Utilities | 217,095 | - | 217,095 | 34,904 | 1,203 | 253,202 |
| Printing, Photography, and Graphics | 45,284 | 2,069 | 47,353 | 902 | 6,759 | 55,014 |
| Promotion and Advertising | 90,043 | 14,033 | 104,076 | 11,156 | 1,648 | 116,880 |
| Insurance | 1,688 | - | 1,688 | 87,569 | - | 89,257 |
| Fees/Permits/License | 202,740 | 36,826 | 239,566 | 28,149 | 6,770 | 274,485 |
| Legal | 868 | 1,395 | 2,263 | 551 | 33 | 2,847 |
| Other Expenses | (6,699) | 80,000 | 73,301 | 101,129 | 71,104 | 245,534 |
| Depreciation and amortization | 1,292,479 | 222,791 | 1,515,270 | 120,934 | - | 1,636,204 |
| | <u>5,257,342</u> | <u>899,033</u> | <u>6,156,375</u> | <u>1,347,261</u> | <u>666,346</u> | <u>8,169,982</u> |
| Less Expenses Included with Revenues on the Statement of Activities | | | | | | |
| Cost of direct benefit to donors | - | - | - | - | (63,431) | (63,431) |
| Total expenses included in the expense section on the statement of activities | <u>\$ 5,257,342</u> | <u>\$ 899,033</u> | <u>\$ 6,156,375</u> | <u>\$ 1,347,261</u> | <u>\$ 602,915</u> | <u>\$ 8,106,551</u> |

See Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies**Organizational Purpose**

At the Minnesota Children's Museum (the Museum), the mission is sparking children's learning through play. The Museum's vision for the community is: Kids play more. Adults do, too. All families thrive as a happier, healthier, and more innovative community through the radiant power of play.

The Museum serves the community as a welcoming space for all families to engage in playful learning. Core to the Museum's mission is providing open-ended play experiences that not only delight children, but also help instill a lifelong love of learning by nurturing real-world skills children need. The Museum encourages parents to support their children's playful learning to maximize skill development in the critical early childhood years. The Museum remains committed to ensuring that all families have access to the Museum through the Play for All access program and efforts to improve the Museum's impact with families facing adversities through community partnerships. Through this work, the Museum envisions a community that grows more inclusive as families play together and learn from each other.

The Museum operates 11 galleries developed with the latest research in playful learning. The Museum is the leading producer of traveling exhibits for the children's museum industry, reaching hundreds of thousands of individuals annually. The Museum's current portfolio consists of 12 active exhibits, which are rented to children's museums, science museums, and other family-serving entities across North America. The Museum's traveling exhibit program leverages the Museum's core strength of producing engaging exhibits that foster children's learning.

The Museum's programs are categorized as follows:

Experience and Outreach – Includes all aspects of championing the power of play in the Museum's community and providing a high-quality visitor experience at the Museum. This includes admissions, memberships, field trips and other group events, special programming, safety, operations, evaluation, community partnerships, access programs, parent resources, and other work to support and encourage playful learning in the Museum and beyond.

Traveling Exhibit Production and Design – Includes exhibit maintenance for active exhibits on tour throughout North America, along with the design and production of new exhibits to build the Museum's portfolio of traveling exhibits.

In September 2015, the Museum established MCM Holdings as a nonprofit corporation to hold and manage its existing facility in downtown St. Paul. This transaction was carried out to assist with the facilitation of a new market tax credit structure in conjunction with the expansion and complete renovation of the facility as more fully described in Note 8. The facility continues to be used for the exclusive use and benefit of the Museum and the Museum is the sole voting member of MCM Holdings. As such, MCM Holdings is consolidated into the financial statements of the Museum. In 2023, MCM Holdings New Market Tax Credit ended and subsequently MCM Holdings was dissolved and as of June 30, 2023, became part of the Museum.

Principles of Consolidation

The financial statements as of and for the years ended June 30, 2023 and 2022, include the accounts of the Museum and MCM Holdings. The consolidated organizations are herein referred to as the Museum. All significant intercompany accounts and transactions have been eliminated.

Cash, Cash Equivalents and Restricted Cash

The Museum considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash restricted for the Museum's capital campaign and loan reserves is reported in other assets and is not reported as part of cash and cash equivalents.

Grants and Promises to Give

Grants and promises to give that are expected to be collected within one year are recorded at their net realizable value. Grants and promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. The discounts on those amounts are computed using an imputed interest rate applicable to the year in which the promise to give is expected to be received. Amortization of the discount is included in contribution revenue. Grants and promises to give in more than one year are discounted at 1.8%. Conditional promises to give are not included as support until such time as the conditions are substantially met.

An allowance for uncollectible grants and promises to give is provided based upon management's judgment, including factors such as prior collection history, type of contribution, and nature of fundraising activity. There was an allowance for uncollectible grants and promises to give as of June 30, 2023 and 2022, of approximately \$16,105, and \$51,225, respectively.

Accounts Receivable

Accounts receivable are stated at unpaid balances, less any allowance for doubtful accounts. Management provides for probable uncollectible amounts through a provision for bad debt expense based on its assessment of the current status of individual accounts, third-party contracts, and other circumstances which may affect the ability of clients to meet their obligations. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance, and credit to accounts receivable. Management considers all receivables to be fully collectible at year end and accordingly, an allowance for doubtful accounts has not been recorded.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Investments are exposed to various risks such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term, and that such changes could materially affect the amounts reported in the statement of financial position.

Land, Building and Improvements, Equipment, Furniture and Fixtures, and Exhibits

The Museum capitalizes land, buildings, equipment, furniture and fixtures, and exhibits when the cost per item is in excess of \$1,000. Donated fixed assets are capitalized at their fair market value or appraised value. Costs of current repairs and minor replacements are charged to expense as incurred. The Museum provides for depreciation of buildings, equipment, furniture and fixtures, and exhibits on a straight-line basis over the estimated useful lives of the assets as follows, or in the case of capitalized leased assets, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities:

| | |
|---------------------------|--------------|
| Land | 40 years |
| Building and improvements | 3 - 40 years |
| Equipment | 3 - 5 years |
| Furniture and fixtures | 5 - 15 years |
| Exhibits | 3 - 15 years |

The carrying values of property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended June 30, 2023 and 2022.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a Board-designated endowment and fixed asset reserve.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Museum reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Revenue and Revenue Recognition

The Museum recognizes revenue from museum admissions at the point in time its performance obligations related to services are provided. Membership dues, which are nonrefundable, are comprised of an exchange element based on the benefits received, and a contribution element for the difference. The Museum recognizes the exchange portion of membership dues over the membership period, and the contribution portion immediately. The Museum records special events revenue equal to the cost of direct benefits to donors, and contribution income for the difference.

The Museum recognized exhibit rental as performance obligations are satisfied. Performance obligations are determined based on the nature of the exhibit rental services provided by the Museum. Revenue for performance obligations satisfied over time is recognized over the agreed upon rental period. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided. The Museum determines the transaction price based on contracted rates. Payments for exhibit rental are recorded as deferred revenue in the accompanying statements of financial position until the performance obligations are met.

The Museum recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been met. As of June 30, 2023 and 2022, the Museum had conditional promises to give of \$0 and \$753,251, respectively.

Donated Services and In-Kind Contributions

Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received (Note 12).

Advertising Costs

Advertising costs are expensed as incurred and approximated \$202,000 and \$117,000 during the years ended June 30, 2023 and 2022, respectively.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include utilities and depreciation, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, maintenance, information technology, insurance, and other expenses, which are allocated on the basis of estimates of time and effort. All other expenses are allocated based on actual expenses incurred.

Tax Exempt Status

Minnesota Children's Museum and MCM Holdings are organized as Minnesota nonprofit corporations and have been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as organizations described in Section 501(c)(3), qualify for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and (viii), respectively, and have been determined not to be private foundations under Sections 509(a)(1) and (3), respectively. Each entity is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entities are subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. Each entity has determined it does not have a filing requirement for the Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Museum and MCM Holdings believe they have appropriate support for any tax positions taken affecting their annual filing requirements, and as such, do not have any uncertain tax positions that are material to the financial statements. The Museum and MCM Holdings would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

Management uses estimates and assumptions in preparing financial statements in conformity with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Employee Retention Credit

The Coronavirus Aid, Relief, and Economic Security Act provided an employee retention credit (the credit) which is a refundable tax credit against certain employment taxes of up to \$5,000 per employee for eligible employers. The credit is equal to 50% of qualified wages paid to employees, capped at \$10,000 of qualified wages through December 31, 2020. The Consolidated Appropriations Act of 2021 and the American Rescue Plan Act of 2021 expanded the availability of the credit, extended the credit through September 30, 2021, and increased the credit to 70% of qualified wages, capped at \$7,000 per quarter. During the year ended June 30, 2022, the Museum recorded a \$609,938 benefit related to the ERTC which is presented in the statement of activities.

Financial Instruments and Credit Risk

Deposit concentration risk is managed by placing cash, money market accounts, and securities with financial institutions believed by the Museum to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, no losses have been experienced in any of these accounts. Credit risk associated with accounts receivable, grants and promises to give is considered to be limited due to high historical collection rates, and because substantial portions of the outstanding amounts are due from Board members, governmental agencies, and foundations supportive of the Museum's mission. Investments are made by diversified investment managers whose performance is monitored by the Museum and the finance committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, the Museum and the finance committee believe that the investment policies and guidelines are prudent for the long-term welfare of the organizations.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Subsequent Events

The Museum has evaluated subsequent events through November 8, 2023, the date the consolidated financial statements were available to be issued.

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

| | 2023 | 2022 |
|----------------------------------------------------------|---------------------|---------------------|
| Cash and cash equivalents | \$ 4,341,754 | \$ 3,527,175 |
| Accounts and other receivables | 68,431 | 36,789 |
| Operating investments | 2,335,141 | 995,753 |
| Grants and promises to give, net | 1,204,107 | 1,590,249 |
| Endowment spending rate distributions and appropriations | 325,192 | 276,000 |
| | <u>\$ 8,274,625</u> | <u>\$ 6,425,966</u> |

As part of a liquidity management plan, cash in excess of daily requirements is invested in short-term investments, CDs, and money market funds.

The Board-designated endowment of \$3,625,396 may be subject to an annual spending rate as described in Note 11. Although the Museum does not intend to spend from this Board-designated endowment, these amounts could be made available if necessary.

The Board designated \$800,000 to the fixed asset reserve as of June 30, 2023, and could be made available if necessary.

Note 3 - Fair Value Measurement and Disclosures

Certain assets are reported at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, inputs are developed using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Museum's assessment of the quality, risk, or liquidity profile of the asset or liability.

A significant portion of investment assets are classified within Level 1 because they comprise mutual funds and exchange traded funds (ETFs) with readily determinable fair values based on daily redemption values. Fixed income investments are classified within Level 2 based on custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions.

Minnesota Children's Museum and Affiliate

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

| Fair Value Measurements at Report Date Using | | | | |
|----------------------------------------------|---------------|-------------------------------------------------------------------------|--------------------------------------------------------|-------------------------------------------------|
| June 30, 2023 | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments | | | | |
| Fixed income | \$ 2,260,877 | \$ - | \$ 2,260,877 | \$ - |
| Equities - mutual funds and ETFs | 5,283,392 | 5,283,392 | - | - |
| Cash and cash equivalents (at cost) | 2,534,125 | - | - | - |
| | \$ 10,078,394 | \$ 5,283,392 | \$ 2,260,877 | \$ - |
| Fair Value Measurements at Report Date Using | | | | |
| June 30, 2022 | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments | | | | |
| Fixed income | \$ 2,075,559 | \$ - | \$ 2,075,559 | \$ - |
| Equities - mutual funds and ETFs | 4,051,041 | 4,051,041 | - | - |
| Cash and cash equivalents (at cost) | 588,805 | - | - | - |
| | \$ 6,715,405 | \$ 4,051,041 | \$ 2,075,559 | \$ - |

Note 4 - Grants and Promises to Give

The grants and promises to give consist of the following as of June 30:

| | 2023 | 2022 |
|---------------------------------------------------|--------------|--------------|
| Programs | \$ 196,873 | \$ 637,548 |
| Employee Retention Credit | 609,938 | 609,938 |
| General operating | 469,555 | 831,745 |
| Total grants and promises to give | \$ 1,276,366 | \$ 2,079,231 |
| Amount due in | | |
| Less than one year | \$ 1,109,036 | \$ 1,641,474 |
| One to five years (discount calculated at 1.8%) | 167,330 | 437,757 |
| | 1,276,366 | 2,079,231 |
| Less allowance for uncollectible promises to give | (16,105) | (51,225) |
| Grant and promises to give, net | \$ 1,260,261 | \$ 2,028,006 |

At June 30, 2023, three donors accounted for 84% of total grants and promises to give. At June 30, 2022, four donors accounted for 75% of total grants and promises to give.

Note 5 - Land, Building and Improvements, Equipment, Furniture and Fixtures, and Exhibits

The Museum has the following fixed assets as of June 30:

| | <u>2023</u> | <u>2022</u> |
|------------------------------------------------|-----------------------------|-----------------------------|
| Land | \$ 1,600,000 | \$ 1,600,000 |
| Building and improvements | 29,024,947 | 28,776,148 |
| Equipment | 608,513 | 451,852 |
| Furniture and fixtures | 542,396 | 542,396 |
| Exhibits | <u>13,790,824</u> | <u>13,781,256</u> |
| | 45,566,680 | 45,151,652 |
| Less accumulated depreciation and amortization | <u>(20,061,736)</u> | <u>(18,295,975)</u> |
| | <u><u>\$ 25,504,944</u></u> | <u><u>\$ 26,855,677</u></u> |

In September 1995, the Museum opened its facility in downtown St. Paul. A portion of the construction financing was provided through public financing requiring that title to the property transfer to the City of St. Paul. The City of St. Paul and the Museum entered into a long-term lease agreement for the property to operate a children's museum. The lease was for 30 years beginning in December 1994 with the option to renew for five periods of ten years each. Rent was \$100 per year, plus minor additional amounts for insurance, assessments, and fees. The value assigned to the building was the construction costs of the facility. The portion of the lease attributed to the land had a fair market value of \$1,600,000 and was recorded as a contribution.

During the year ended June 30, 2017, the Museum substantially completed construction on the expansion and complete renovation of its facility in downtown St. Paul. A portion of the construction financing for the project was provided through public financing. In December 2015, in connection with the construction and related public financing, the Museum entered into an amended and restated lease agreement with the City of St. Paul. The new lease agreement terminated the existing lease with the Museum and established a new lease with MCM Holdings. The initial lease term is for 20 years from the completion date of the capital improvement project with options for two successive renewal terms, the first shall be for 20 years after the initial term and the second shall be the balance of the period through December 15, 2074. No rental payments are required, but the agreement is a "Net" lease and all costs and expenses attributed to the property are the responsibility of MCM Holdings. The lease contains various terms and conditions as defined in the agreement including continued operation of the facility as a museum. The additional value that was assigned to the building and improvements was the total construction costs of the expansion and renovation. The value assigned to the land is unchanged from the original lease agreement. With the dissolution of MCM Holdings in 2023, the Museum is working to update the lease agreement with the City of St. Paul.

Depreciation expense, which includes the amortization of the land lease, was approximately \$1,766,000 and \$1,636,000 for the years ended June 30, 2023 and 2022, respectively.

Note 6 - Line of Credit

During 2021, the Museum entered into a \$1,200,000 line of credit with a bank, secured by cash and investments. Borrowings under the line at June 30, 2022, bear interest at the LIBOR Daily Floating Rate, plus 2.375% (3.375% at June 30, 2022). Borrowings under the line bear interest at the Bloomberg Short-Term Bank Yield Index, plus 2.375% (7.747% at June 30, 2023). Accrued interest and principal are due upon demand by the bank. The borrowings on the line of credit as of June 30, 2023 and 2022, was \$0.

Note 7 - Revenue from Contracts with Customers

Deferred revenue consists of the following as of June 30:

| | 2023 | 2022 |
|-------------------------|---------------------|---------------------|
| Membership dues | \$ 684,959 | \$ 525,109 |
| Deferred exhibit income | 1,137,859 | 1,031,251 |
| Other deferred income | 135,404 | 147,011 |
| | <u>\$ 1,958,222</u> | <u>\$ 1,703,371</u> |

The following table provides information about significant changes in deferred revenue for the years ended June 30, 2023 and 2022:

| | 2023 | 2022 |
|---------------------------------------------------------------|---------------------|---------------------|
| Deferred revenue, beginning of year | \$ 1,703,371 | \$ 852,983 |
| Revenue earned from membership dues | 1,357,174 | 998,973 |
| Exhibit income earned | 1,303,836 | 666,948 |
| Other income earned | 157,235 | 78,238 |
| Collections of membership dues, exhibit and other income fees | <u>(2,563,394)</u> | <u>(893,771)</u> |
| Deferred revenue, end of year | <u>\$ 1,958,222</u> | <u>\$ 1,703,371</u> |

Note 8 - New Market Tax Credit Loans and Leveraged Loan Receivable

During 2016, the Museum, through its MCM Holdings affiliate, embarked on a series of transactions to effectuate a new market tax credit structure to assist with construction costs for the expansion and complete renovation of its downtown St. Paul facility. Under a transaction of this kind, the long-term benefits allow for larger net proceeds than would otherwise be available under classic financing, thereby producing a public benefit greater than would otherwise be achieved. The Museum loaned funds (leveraged loan) in concert with the capital contribution of an investor into a new entity set up for this purpose. The entity then invested in Community Development Enterprises (CDEs) who loaned the funds, net of transaction costs to MCM Holdings, for use with the renovation project; thus the effect of the Museum's leveraged loan of \$6,827,800 is to effectively avail itself to approximately \$8,900,000 in funds, net of fees and transaction costs. The following sets forth more detailed information on this transaction.

In conjunction with the leveraged loan, CNMC Sub-CDE 95, LLC (CNMC) and BH New Markets Sub-CDE V, LLC (BH), collectively known as the CDEs, each made new market tax credit enhanced mortgage loans (the NMTC Loans) to MCM Holdings to finance the project.

The CDEs received allocations of new market tax credits (NMTC) pursuant to Section 45D of the IRC in order to assist eligible businesses in making investments in certain low-income communities. The availability of NMTC allowed Chase NMTC MCM Investment Fund LLC (Chase NMTC) to invest \$3,112,200 in MCM Holdings Investment Fund (the Investment Fund). In addition, the Museum made a leveraged loan of \$6,827,800 from the proceeds of the BMO Harris Bank bridge loan and the Museum equity. The Investment Fund used the combined amount to make equity contributions of \$7,920,000 to BH and incurred interest at approximately 1.28%, and \$1,500,000 to CNMC. The CDEs, in turn, used the contributions to make the NMTC Loans to MCM Holdings. The NMTC Loans are secured by mortgages on the property of MCM Holdings, assignment of leases and rents, and a guarantee by the Museum. The NMTC loans incurred interest MCM Holdings must also comply with various loan covenants.

The NMTC Loans were to mature on December 1, 2045, and principal was to be payable in quarterly installments commencing March 1, 2023. Interest is payable quarterly and commenced March 1, 2016, incurring interest at approximately 1.28%.

Simultaneously with the NMTC transaction, MCM Holdings entered into a sublease agreement with the Museum pursuant to which the Museum will lease the Project for a period of 16 years from the lease commencement date. The lease commenced on April 1, 2017, and requires quarterly rental payments to MCM Holdings at an initial annual rate of \$155,100, increasing to an annual rate of \$568,800 throughout the lease term. The Museum had an option to renew for an additional 16-year period at a then determined fair market value lease rate. Rental payments will be used by MCM Holdings to pay the interest and principal payments on the NMTC Loans. Total rental income and expense of approximately \$321,000 and \$428,000 was recorded by MCM Holdings and the Museum, respectively, for the years ended June 30, 2023 and 2022, and is eliminated in the consolidated financial statements.

The Museum expected, in turn, to receive quarterly interest on the leveraged loan receivable at an annual interest rate of 1%. The leveraged loan receivable matured on December 31, 2045, and principal was payable in monthly installments that were to commence on March 10, 2023. Amounts received from the Investment Fund as payment on the leveraged loan receivable will be used by the Museum to fund rental payments on the lease with MCM Holdings.

On December 13, 2022, Chase Community Equity, LLC (100% owner of Chase NMTC) had a right and option, but not an obligation, for a period of 90 days, to require the Museum to purchase all of Chase Community Equity, LLC's interest in the Investment Fund for a put exercise price of \$1,000. If the put is not exercised, then the Museum has the right to purchase Chase Community Equity, LLC's interest in the Investment Fund at an amount equal to the fair market value of Chase Community Equity, LLC's interest in the Investment Fund.

Minnesota Children's Museum and Affiliate

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

The end of the seven-year compliance period for the NMTC financing was December 2022. At this time, a portion of the interest in the CDE loans which totaled \$9,420,000 (held by MCM Holding Company) were transferred to the Museum, acting as leverage lender. These notes were repaid utilizing the outstanding \$6,827,800 leverage loan note receivables. As anticipated, due to the federal tax incentives provided, the remaining principal balance on the NMTC notes payable totaling \$2,592,200 were forgiven and recognized as a gain on debt forgiveness for the year ended June 30, 2023.

Note 9 - Notes Payable

Notes payable consist of the following at June 30, 2023 and 2022:

| | 2023 | 2022 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|
| 2.00% Note Payable to Venn Foundation, interest is due in annual installments of \$2,319 starting in November 2020, with two equal principal payments at November 2024 and May 2025, unsecured. | \$ 115,955 | \$ 115,955 |
| | \$ 115,955 | \$ 115,955 |

The Museum was granted a \$992,900 loan under the Paycheck Protection Program administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Museum initially recorded a note payable and subsequently recorded the forgiveness when the loan was legally released by SBA. The Museum has recognized \$992,900 of loan forgiveness income for the year ended June 30, 2022.

Future maturities of long-term debt are as follows:

| Years Ending June 30, | Amount |
|-----------------------|------------|
| 2024 | \$ - |
| 2025 | 115,955 |
| | \$ 115,955 |

Interest for the years ended June 30, 2023 and 2022, consists of interest expense of approximately \$67,000 and \$150,000, respectively.

Note 10 - Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods:

| | 2023 | 2022 |
|-------------------------------------------------------------------------------------------------|--------------|--------------|
| Subject to the passage of time | \$ 608,583 | \$ 1,055,000 |
| Subject to satisfaction of purpose restriction | | |
| Future educational programs | 335,525 | 119,755 |
| | 944,108 | 1,174,755 |
| Endowments | | |
| Subject to appropriation and expenditure when a specified event occurs | | |
| Restricted by donors for | | |
| Available for general use | 205,610 | (55,949) |
| Perpetual in nature, earnings from which are subject to endowment spending policy appropriation | | |
| General use | 3,915,003 | 2,821,270 |
| Total endowments | 4,120,613 | 2,765,321 |
| | \$ 5,064,721 | \$ 3,940,076 |

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, by occurrence of the passage of time, or other events specified by donors as follows for the years ended June 30, 2023 and 2022:

| | 2023 | 2022 |
|-------------------------------------------------------------------|------------|------------|
| Expiration of time restrictions | \$ 527,117 | \$ 165,000 |
| Satisfaction of purpose restrictions | | |
| Educational programs | 95,230 | 259,712 |
| Restricted-purpose spending rate distributions and appropriations | | |
| General use | 135,673 | 96,286 |
| | \$ 758,020 | \$ 520,998 |

Note 11 - Endowments

The Museum's endowment consists of funds established by the donors to provide annual funding for general operations. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (the UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. As a result of this interpretation, the Museum retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts, including promises to give at fair value) donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by the UPMIFA. The following factors are considered in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Museum has interpreted the UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At June 30, 2023, there were no underwater endowments. At June 30, 2022, funds with original gift values of \$2,809,145, fair values of \$2,753,196, and deficiencies of \$55,949 were reported in net assets with donor restrictions.

Minnesota Children's Museum and Affiliate

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

As of June 30, 2023, endowment net asset composition by type of fund is as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|----------------------------------------------------------------------------------------------------|-------------------------------|----------------------------|--------------|
| Board-designated endowment fund | \$ 3,625,396 | \$ - | \$ 3,625,396 |
| Donor-restricted | | | |
| Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor | - | 3,915,003 | 3,915,003 |
| Accumulated investment gains | - | 205,610 | 205,610 |
| | \$ 3,625,396 | \$ 4,120,613 | \$ 7,746,009 |

As of June 30, 2022, endowment net asset composition by type of fund is as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|----------------------------------------------------------------------------------------------------|-------------------------------|----------------------------|--------------|
| Board-designated endowment fund | \$ 2,966,456 | \$ - | \$ 2,966,456 |
| Donor-restricted | | | |
| Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor | - | 2,821,270 | 2,821,270 |
| Accumulated investment loss | - | (55,949) | (55,949) |
| | \$ 2,966,456 | \$ 2,765,321 | \$ 5,731,777 |

Investment Objectives and Strategies

The Museum has adopted an investment policy to provide guidelines for investing endowment assets. Under this policy, the primary investment objective is achieving real growth in invested capital consistent with preservation of capital, maintenance of liquidity, and obtaining the best total return while minimizing market and investment risk. As of June 30, 2023 and 2022, these assets are invested in an endowment fund at Bank of America and are allocated to three major asset classes including cash and cash equivalents, fixed income securities, and mutual funds.

Spending Policy

The Museum has a policy of appropriating for distribution each year approximately 3.0% to 5.0% of its endowment fund's 12-quarter trailing average fair value.

Minnesota Children's Museum and Affiliate

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Changes in Endowment net assets for the years ended June 30, 2023 are as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|----------------------------------------------------------------------------------|-------------------------------|----------------------------|---------------------|
| Endowment net assets, June 30, 2022 | \$ 2,966,456 | \$ 2,765,321 | \$ 5,731,777 |
| Net investment return | 342,492 | 397,232 | 739,724 |
| Contributions | 454,775 | 1,093,733 | 1,548,508 |
| Appropriation of endowment assets pursuant to spending-rate policy | - | (135,673) | (135,673) |
| Distributions from board-designated endowment pursuant to distribution policy | (138,327) | - | (138,327) |
| | <u>\$ 3,625,396</u> | <u>\$ 4,120,613</u> | <u>\$ 7,746,009</u> |

Changes in Endowment net assets for the years ended June 30, 2022 are as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|----------------------------------------------------------------------------------|-------------------------------|----------------------------|---------------------|
| Endowment net assets, June 30, 2021 | \$ 3,151,925 | \$ 2,272,492 | \$ 5,424,417 |
| Net investment loss | (458,545) | (451,266) | (909,811) |
| Contributions | 406,790 | 1,040,381 | 1,447,171 |
| Appropriation of endowment assets pursuant to spending-rate policy | - | (96,286) | (96,286) |
| Distributions from board-designated endowment pursuant to distribution policy | (133,714) | - | (133,714) |
| | <u>\$ 2,966,456</u> | <u>\$ 2,765,321</u> | <u>\$ 5,731,777</u> |

Note 12 - In-Kind Contributions

The Museum records in-kind contributions at fair market value at the date of donation. In-kind contributions expended or capitalized are as follows for the year ended June 30, 2023:

| | Program Services | Administration | Fundraising | Total |
|----------|---------------------|----------------|-------------|------------------|
| Supplies | <u>\$ 42,286</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 42,286</u> |

In-kind contributions expended or capitalized are as follows for the year ended June 30, 2022:

| | Program Services | Administration | Fundraising | Total |
|----------|---------------------|----------------|-------------|----------|
| Services | \$ 8,477 | \$ - | \$ - | \$ 8,477 |

Note 13 - Leased Store and Food Court Revenue

The Museum leased space to an organization that is paying a royalty ranging from 10% to 20% based on gross revenues generated from gift store sales, food service, vending, and catering operated by the tenant. The term of the agreement is from June 2017 to June 2027, with options for two additional five-year terms. Either party may terminate the lease agreement upon 90 days written notice. Royalty revenue was approximately \$28,300 and \$18,600 for the years ended June 30, 2023 and 2022, respectively, and is included in other revenue in the consolidated statement of activities.

Note 14 - Retirement Plan

The Museum established a defined contribution retirement plan under Section 403(b) of the IRC. The plan covers all employees who meet eligibility requirements and elect to participate in the plan. The Museum will match 100% of the employee's contributions up to a maximum of 3% of the employee's compensation. The retirement plan expense was approximately \$65,900 and \$69,500 for the years ended June 30, 2023 and 2022, respectively.

Note 15 - Related Party Transactions

Promises to give commitments commonly span multiple years. Total contributions received from Board members for the years ended June 30, 2023 and 2022, was approximately \$100,000 and \$170,000, respectively.

Note 16 - Restatement

Cash collected on endowment funds at June 30, 2022, was previously excluded from the statement of cash flows financing activities and should have been included within cash flows from financing activities as collections of contributions restricted to endowment and a reduction of cash flows from operating activities as contributions restricted to endowment at June 30, 2022, resulting in a restatement of the statement of cash flows.

Minnesota Children's Museum and Affiliate

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

The following financial statement line items for the year ended June 30, 2022, were restated as a result of the correction:

| <u>Statement of Cash Flows</u> | <u>As Previously Reported</u> | <u>Adjustment</u> | <u>As Restated</u> |
|---------------------------------------------------------|-----------------------------------|-------------------|--------------------|
| Cash Flows from Operating Activities | | | |
| Contributions restricted to endowment | \$ - | \$ (1,040,381) | \$ (1,040,381) |
| Net Cash from Operating Activities | 3,160,850 | (1,040,381) | 2,120,469 |
| Cash Flows from Financing Activities | | | |
| Collections of contributions restricted to endowment | - | 1,040,381 | 1,040,381 |
| Net Cash from Financing Activities | - | 1,040,381 | 1,040,381 |