

THE CHILDREN'S MUSEUM

Financial Statements and Supplementary Information

June 30, 2021 and 2020

THE CHILDREN’S MUSEUM

June 30, 2021 and 2020

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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, 2021 and 2020, 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, 2021 and 2020, 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.

Emphasis of Matter

As discussed in Notes 2 and 23 to the financial statements, during the year ended June 30, 2021, the Museum adopted Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to this matter.

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 29, 2021

THE CHILDREN'S MUSEUM

Statements of Financial Position June 30,

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,766,517	\$ 8,190,188
Accounts receivable, net	115,315	153,386
Pledges receivable, net	692,543	394,424
Prepaid expenses	41,600	53,855
Total current assets	<u>10,615,975</u>	<u>8,791,853</u>
Pledges receivable, net	224,757	237,559
Marketable securities	19,758,883	16,240,927
Property, exhibits and equipment, net	28,346,145	29,665,745
Other assets	1,144,515	895,226
Total assets	<u>\$ 60,090,275</u>	<u>\$ 55,831,310</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 302,413	\$ 333,452
Accrued and other short-term liabilities	819,442	689,430
Paycheck Protection Program loan	940,500	940,500
Bonds payable, net	485,076	484,382
Total current liabilities	<u>2,547,431</u>	<u>2,447,764</u>
Long-term liabilities:		
Derivative instruments	580,355	913,428
Notes payable	352,557	339,650
Deferred revenue	220,000	260,000
Security deposits	236,507	257,087
Bonds payable, net	10,113,952	10,599,029
Total long-term liabilities	<u>11,503,371</u>	<u>12,369,194</u>
Net assets:		
Without donor restrictions:		
Undesignated	5,366,140	5,126,548
Quasi-endowment	2,611,644	2,147,715
Board designated	5,346,962	4,398,511
Property, exhibits and equipment	17,251,894	17,765,214
	<u>30,576,640</u>	<u>29,437,988</u>
With donor restrictions	<u>15,462,833</u>	<u>11,576,364</u>
Total net assets	<u>46,039,473</u>	<u>41,014,352</u>
Total liabilities and net assets	<u>\$ 60,090,275</u>	<u>\$ 55,831,310</u>

THE CHILDREN'S MUSEUM

Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2021 (with Comparative Totals for the Year Ended June 30, 2020)

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Summarized Total
Revenues and other support:				
Admissions	\$ 413,985	\$ -	\$ 413,985	\$ 2,385,585
Gifts, contributions and grants	1,905,245	3,388,761	5,294,006	2,685,767
Forgiveness of Paycheck Protection Program loan	940,500	-	940,500	-
Contracts	613,671	-	613,671	459,678
Membership	553,087	-	553,087	1,204,375
Other earned income	65,467	-	65,467	301,948
Museum store	-	-	-	62,952
Traveling exhibits	25,000	-	25,000	85,000
Other income	74,884	-	74,884	10,956
Special events, net	444,599	-	444,599	305,918
Rental income	2,434,295	-	2,434,295	2,294,550
Amounts appropriated for operations pursuant to endowment spending policy	741,504	-	741,504	729,030
Net assets released from restrictions	1,602,671	(1,602,671)	-	-
Total revenues and other support	9,814,908	1,786,090	11,600,998	10,525,759
Expenses:				
Program services:				
Visitor services	1,689,782	-	1,689,782	2,660,665
Museum programs	2,406,571	-	2,406,571	2,631,161
Exhibits	1,236,536	-	1,236,536	1,640,377
Membership services	193,848	-	193,848	210,645
Supporting services:				
Administration and general	1,002,969	-	1,002,969	1,149,847
Facilities costs	2,055,294	-	2,055,294	2,163,571
Fundraising	611,076	-	611,076	747,454
Marketing	445,026	-	445,026	679,889
Total expenses	9,641,102	-	9,641,102	11,883,609
Change in net assets from operations	173,806	1,786,090	1,959,896	(1,357,850)
Non-operating revenue, expenses, gains and losses:				
Net investment return	1,717,376	2,537,966	4,255,342	704,092
Less amounts appropriated for operations	(303,917)	(437,587)	(741,504)	(729,030)
Change in fair value of derivative financial instruments	333,073	-	333,073	(625,912)
Interest expense	(345,726)	-	(345,726)	(380,521)
Total non-operating revenue, expenses, gains and losses	1,400,806	2,100,379	3,501,185	(1,031,371)
Change in net assets	1,574,612	3,886,469	5,461,081	(2,389,221)
Net assets, beginning of year, as previously reported	29,437,988	11,576,364	41,014,352	43,403,573
Cumulative effect of adoption of new revenue standard	(435,960)	-	(435,960)	-
Net assets, beginning of year, as adjusted	29,002,028	11,576,364	40,578,392	43,403,573
Net assets, end of year	\$ 30,576,640	\$ 15,462,833	\$ 46,039,473	\$ 41,014,352

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, 2020

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support:			
Admissions	\$ 2,385,585	\$ -	\$ 2,385,585
Gifts, contributions and grants	1,473,208	1,212,559	2,685,767
Contracts	459,678	-	459,678
Membership	1,204,375	-	1,204,375
Other earned income	301,948	-	301,948
Museum store	62,952	-	62,952
Traveling exhibits	85,000	-	85,000
Other income	10,956	-	10,956
Special events, net	305,918	-	305,918
Rental income	2,294,550	-	2,294,550
Amounts appropriated for operations pursuant to endowment spending policy	729,030	-	729,030
Net assets released from restrictions	1,900,021	(1,900,021)	-
Total revenues and other support	<u>11,213,221</u>	<u>(687,462)</u>	<u>10,525,759</u>
Expenses:			
Program services:			
Visitor services	2,660,665	-	2,660,665
Museum programs	2,631,161	-	2,631,161
Exhibits	1,640,377	-	1,640,377
Membership services	210,645	-	210,645
Supporting services:			
Administration and general	1,149,847	-	1,149,847
Facilities costs	2,163,571	-	2,163,571
Fundraising	747,454	-	747,454
Marketing	679,889	-	679,889
Total expenses	<u>11,883,609</u>	<u>-</u>	<u>11,883,609</u>
Change in net assets from operations	<u>(670,388)</u>	<u>(687,462)</u>	<u>(1,357,850)</u>
Non-operating revenue, expenses, gains and losses:			
Net investment return	313,155	390,937	704,092
Less amounts appropriated for operations	(297,445)	(431,585)	(729,030)
Change in fair value of derivative financial instruments	(625,912)	-	(625,912)
Interest expense	(380,521)	-	(380,521)
Total non-operating revenue, expenses, gains and losses	<u>(990,723)</u>	<u>(40,648)</u>	<u>(1,031,371)</u>
Change in net assets	(1,661,111)	(728,110)	(2,389,221)
Net assets, beginning of year	<u>31,099,099</u>	<u>12,304,474</u>	<u>43,403,573</u>
Net assets, end of year	<u>\$ 29,437,988</u>	<u>\$ 11,576,364</u>	<u>\$ 41,014,352</u>

THE CHILDREN'S MUSEUM

Statements of Cash Flows

For the Years Ended June 30,

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 5,461,081	\$ (2,389,221)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Allowance for uncollectible pledges and accounts receivable	(6,714)	(2,443)
Depreciation and amortization	1,996,350	2,111,258
Amortization of bond issuance costs	15,617	16,312
Realized investment (gains) losses	(74,778)	216,559
Unrealized investment gains	(4,179,485)	(887,196)
Change in fair value of derivative financial instruments	(333,073)	625,912
Discount for contribution of below market interest debt	12,907	12,434
Contributions restricted for capital improvements	-	(430,000)
Forgiveness of Paycheck Protection Program loan	(940,500)	-
Changes in operating assets and liabilities:		
Accounts receivable	37,774	115,866
Pledges receivable, net	(278,306)	192,592
Other receivable	-	400,000
Prepaid expenses	12,255	(5,147)
Other assets	(309,384)	(484,611)
Accounts payable	(31,039)	(130,815)
Accrued and other short-term liabilities	(305,948)	39,624
Deferred revenue	(40,000)	(40,000)
Security deposits	(20,580)	52,426
Net cash provided by (used in) operating activities	<u>1,016,177</u>	<u>(586,450)</u>
Cash flows from investing activities:		
Proceeds from the sale of marketable securities	741,504	744,106
Purchase of marketable securities	(5,197)	(11,774)
Purchase of exhibits, property, equipment and construction in process	(616,655)	(1,379,500)
Net cash provided by (used in) investing activities	<u>119,652</u>	<u>(647,168)</u>
Cash flows from financing activities:		
Contributions restricted for capital improvements	-	430,000
Proceeds from Paycheck Protection Program loan	940,500	940,500
Repayment of bonds payable	(500,000)	(500,000)
Net cash provided by financing activities	<u>440,500</u>	<u>870,500</u>
Net increase (decrease) in cash and cash equivalents	1,576,329	(363,118)
Cash and cash equivalents, beginning of year	<u>8,190,188</u>	<u>8,553,306</u>
Cash and cash equivalents, end of year	<u>\$ 9,766,517</u>	<u>\$ 8,190,188</u>
Supplemental financial information:		
Cash paid during the year for interest	<u>\$ 316,473</u>	<u>\$ 355,794</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, 2021 (with Comparative Totals for the Year Ended June 30, 2020)

	2021										2020
	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	\$ 491,817	\$ 1,095,748	\$ 426,341	\$ 119,715	\$ 2,133,621	\$ 497,924	\$ 176,044	\$ 475,174	\$ 328,780	\$ 3,611,543	\$ 4,104,202
Employee benefits	45,473	127,844	55,329	15,982	244,628	88,318	28,560	33,078	43,316	437,900	459,960
Payroll taxes	38,117	83,268	32,674	8,843	162,902	35,106	12,544	31,594	24,157	266,303	292,837
Total compensation and related expenses	575,407	1,306,860	514,344	144,540	2,541,151	621,348	217,148	539,846	396,253	4,315,746	4,856,999
Depreciation and amortization	308,186	410,108	435,628	32,814	1,186,736	117,777	675,101	16,736	-	1,996,350	2,111,258
Building operating costs	456,331	91,863	122,787	-	670,981	220	671,251	10,149	-	1,352,601	2,135,047
Professional/contract services	134,251	450,292	81,518	-	666,061	181,827	248,646	24,245	25,367	1,146,146	1,414,530
Repairs and maintenance	70,540	13,757	17,670	-	101,967	-	103,834	1,570	-	207,371	281,825
Insurance	60,430	11,183	13,907	-	85,520	10,601	88,953	1,345	-	186,419	185,387
Computer software and hardware	25,728	15,025	1,345	-	42,098	43,277	12,474	4,836	9,948	112,633	98,542
Office expense	16,497	35,267	11,214	1,887	64,865	9,578	22,771	6,102	5,254	108,570	176,621
Materials and supplies	14,194	49,541	29,440	19	93,194	88	5,483	317	1,007	100,089	114,553
Other	24,412	2,861	292	14,588	42,153	16,684	6,350	4,581	996	70,764	217,357
Equipment and rentals	2,874	18,634	7,032	-	28,540	-	1,829	28	-	30,397	80,077
Advertising	100	270	-	-	370	-	-	10	6,201	6,581	141,792
Travel and meetings	794	292	919	-	2,005	65	1,109	1,218	-	4,397	61,393
Training and development	38	618	440	-	1,096	1,207	345	93	-	2,741	8,228
Bad debt expense	-	-	-	-	-	297	-	-	-	297	-
Total expenses presented on the statement of activities and changes in net assets	1,689,782	2,406,571	1,236,536	193,848	5,526,737	1,002,969	2,055,294	611,076	445,026	9,641,102	11,883,609
Items presented separately on the statement of activities and changes in net assets:											
Special event expenses	-	-	-	-	-	-	-	79,298	-	79,298	290,909
Interest expense	-	-	-	-	-	-	345,726	-	-	345,726	380,521
Total expenses	\$ 1,689,782	\$ 2,406,571	\$ 1,236,536	\$ 193,848	\$ 5,526,737	\$ 1,002,969	\$ 2,401,020	\$ 690,374	\$ 445,026	\$ 10,066,126	\$ 12,555,039

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, 2020

	2020									
	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	\$ 713,732	\$ 1,263,889	\$ 402,635	\$ 127,453	\$ 2,507,709	\$ 562,430	\$ 177,764	\$ 518,585	\$ 337,714	\$ 4,104,202
Employee benefits	52,275	156,249	52,211	18,390	279,125	73,093	22,119	39,450	46,173	459,960
Payroll taxes	55,663	91,240	28,888	9,184	184,975	36,557	11,702	35,208	24,395	292,837
Total compensation and related expenses	821,670	1,511,378	483,734	155,027	2,971,809	672,080	211,585	593,243	408,282	4,856,999
Depreciation and amortization	369,466	345,898	525,261	27,460	1,268,085	120,659	705,352	17,162	-	2,111,258
Building operating costs	893,142	120,345	297,050	-	1,310,537	30	800,170	24,034	276	2,135,047
Professional/contract services	183,265	452,758	222,373	-	858,396	210,841	200,636	42,274	102,383	1,414,530
Repairs and maintenance	121,096	21,948	30,726	-	173,770	873	104,495	2,687	-	281,825
Insurance	75,963	14,947	14,943	-	105,853	9,578	68,202	1,754	-	185,387
Computer software and hardware	7,695	1,876	568	-	10,139	55,902	16,667	3,846	11,988	98,542
Office expense	27,760	36,082	8,522	6,048	78,412	30,015	29,860	10,455	27,879	176,621
Materials and supplies	28,303	46,342	30,102	1,675	106,422	601	4,432	2,283	815	114,553
Other	103,565	12,326	3,039	20,435	139,365	28,531	10,305	38,722	434	217,357
Equipment and rentals	24,380	30,263	9,964	-	64,607	6,594	4,540	3,388	948	80,077
Advertising	-	15,000	-	-	15,000	-	-	-	126,792	141,792
Travel and meetings	3,660	18,776	13,938	-	36,374	11,031	6,402	7,494	92	61,393
Training and development	700	3,222	157	-	4,079	3,112	925	112	-	8,228
Total expenses presented on the statement of activities and changes in net assets	2,660,665	2,631,161	1,640,377	210,645	7,142,848	1,149,847	2,163,571	747,454	679,889	11,883,609
Items presented separately on the statement of activities and changes in net assets:										
Special event expenses	-	-	-	-	-	-	-	290,909	-	290,909
Interest expense	-	-	-	-	-	-	380,521	-	-	380,521
Total expenses	\$ 2,660,665	\$ 2,631,161	\$ 1,640,377	\$ 210,645	\$ 7,142,848	\$ 1,149,847	\$ 2,544,092	\$ 1,038,363	\$ 679,889	\$ 12,555,039

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

THE CHILDREN'S MUSEUM

Notes to Financial Statements

1. Organization Purpose

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

2. Summary of Significant Accounting Policies

Financial Statement Presentation

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

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

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

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

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

Recently Adopted Accounting Pronouncement

On July 1, 2020, the Museum adopted Financial Accounting Standards Board's ("FASB") Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and its subsequent amendments ("ASU 2014-09"), which creates a single, comprehensive revenue recognition model for recognizing revenue from contracts with customers. The core principle of this new revenue recognition standard is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Museum elected to adopt ASU 2014-09 on a modified retrospective method. The comparative information for the year ended June 30, 2020 has not been restated and continues to be reported under the accounting standards in effect in that reporting period. Refer to Note 23 for the effect of adoption on the financial statements.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Accounting Pronouncement Issued and Not Adopted

In February 2016, the FASB issued Accounting Standards Update 2016-02 – *Leases (Topic 842)*. This new lease standard requires most leases with terms over 12 months to be capitalized as a right-to-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either financing or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities and changes in net assets. This standard will be effective for the Museum during the year ended June 30, 2023. The Museum is currently in the process of evaluating the impact of adoption of this new standard on its financial statements.

Fair Value Measurements

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

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

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

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

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

Revenue Recognition

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

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

THE CHILDREN'S MUSEUM

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

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.

Museum store revenue represents fees paid to the Museum by an outsourced retail vendor as provided in the contract. The Museum store closed during the year ended June 30, 2020.

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

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

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

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

The Museum records interest and dividends on its marketable securities 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.

Gifts, Contributions and Grants

Gifts, contributions and grants 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. Gifts, contributions and grants 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.

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

THE CHILDREN'S MUSEUM

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Gifts, Contributions and Grants (continued)

The Museum receives various types of in-kind support in the form of contributed services and other 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 and inventory, 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.

Cash and Cash Equivalents

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

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

Marketable Securities

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

Property, Exhibits and Equipment

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

Equipment and furniture	Three to ten years
Exhibits	Three to ten years
Capital improvements and major renovations	Ten to thirty years
Building	Thirty years

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

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

THE CHILDREN'S MUSEUM

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Museum Collection

In conformity with the practice followed by many museums, the value of property donated for the Museum collection is not reflected on the statement 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.

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 ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Museum's management has evaluated the effect which subsequent events may have on these financial statements. Management's evaluation was completed on December 29, 2021, 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.

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, 2021 and 2020, the allowance for uncollectible amounts was \$1,346 and \$3,392, respectively.

4. Pledges Receivable

Pledges as of June 30, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Receivable in less than one year:		
Corporations	\$ 3,813	\$ 123,330
Foundations	17,680	150,000
Government	608,381	81,799
Individuals	<u>67,873</u>	<u>50,425</u>
	697,747	405,554
Less - allowance for uncollectible pledges	<u>(5,204)</u>	<u>(11,130)</u>
Net pledges receivable in less than one year	<u><u>\$ 692,543</u></u>	<u><u>\$ 394,424</u></u>
Receivable in one to five years:		
Foundations	\$ 17,680	\$ -
Individuals	<u>17,680</u>	<u>50,000</u>
	35,360	50,000
Less - discount to net present value	(88)	(841)
Less - allowance for uncollectible pledges	<u>(1,415)</u>	<u>(2,500)</u>
Net pledges receivable in one to five years	33,857	46,659
Interest in Charitable Remainder Trust	<u>190,900</u>	<u>190,900</u>
Net pledges receivable, non-current portion	<u><u>\$ 224,757</u></u>	<u><u>\$ 237,559</u></u>

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

The present value of estimated future cash flows was measured utilizing a discount rate of 0.25% and 1.71% for the years ended June 30, 2021 and 2020, respectively, an estimate of the risk free rate of return.

The Museum has been named the beneficiary of an irrevocable charitable remainder trust. Upon the death of the beneficiary, the Museum will receive a share of the remaining trust property. The Museum's interest in the remainder of the trust is adjusted annually based upon the trust's market value, actuarial tables and discounting at prevailing market rates. An adjustment to the charitable remainder trust was not recorded in 2021 or 2020 because it was not material.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

4. Pledges Receivable (continued)

At June 30, 2021, the Museum had conditional federal grants of \$613,261 which will not be recognized as assets in the statements of financial position until such time as the Museum meets the conditions of the promises to give.

5. Endowment

Activity in the Museum's endowment funds for the years ended June 30, 2021 and 2020 was:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Balance at beginning of year	\$ 6,546,226	\$ 9,694,701	\$ 16,240,927
Contributions	-	5,197	5,197
Net investment return	1,716,297	2,537,966	4,254,263
Amounts appropriated for operations per spending policy	(303,917)	(437,587)	(741,504)
Balance at end of year	<u>\$ 7,958,606</u>	<u>\$ 11,800,277</u>	<u>\$ 19,758,883</u>
	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Balance at beginning of year	\$ 6,572,456	\$ 9,730,166	\$ 16,302,622
Contributions	-	5,183	5,183
Net investment return	271,215	390,937	662,152
Amounts appropriated for operations per spending policy	(297,445)	(431,585)	(729,030)
Balance at end of year	<u>\$ 6,546,226</u>	<u>\$ 9,694,701</u>	<u>\$ 16,240,927</u>

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 CHILDREN'S MUSEUM

Notes to Financial Statements

5. Endowment (continued)

Endowment net asset composition by type of fund at June 30, 2021 and 2020, respectively, was:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Quasi-endowment Fund	\$ 2,611,644	\$ -	\$ 2,611,644
Board designated Fund	5,346,962	-	5,346,962
Donor-restricted endowment funds:			
Original donor-restricted gift amount required to be maintained in perpetuity by donor	-	4,397,505	4,397,505
Accumulated investment gains	-	7,402,772	7,402,772
Total	<u>\$ 7,958,606</u>	<u>\$ 11,800,277</u>	<u>\$ 19,758,883</u>
	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Quasi-endowment Fund	\$ 2,147,715	\$ -	\$ 2,147,715
Board designated Fund	4,398,511	-	4,398,511
Donor-restricted endowment funds:			
Original donor-restricted gift amount required to be maintained in perpetuity by donor	-	4,392,309	4,392,309
Accumulated investment gains	-	5,302,392	5,302,392
Total	<u>\$ 6,546,226</u>	<u>\$ 9,694,701</u>	<u>\$ 16,240,927</u>

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

THE CHILDREN'S MUSEUM

Notes to Financial Statements

5. Endowment (continued)

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.

Accordingly, 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, 2021 and 2020, the amounts drawn down from the endowment per the Museum's spending policy were \$741,504 and \$729,030, respectively. Amounts appropriated for current operations include the spending policy net of investment management and custody fees.

6. Marketable Securities

Marketable securities at June 30, 2021 and 2020 consisted of the following:

	2021		2020	
	Fair Value	Cost (Average)	Fair Value	Cost (Average)
TIFF Multi-Asset Fund	\$ 10,267,516	\$ 8,011,319	\$ 7,837,135	\$ 7,928,765
TIFF Short-Term Fund	-	-	2,395,620	2,400,411
The TIFF Centerstone Fund, L.P.	9,491,367	6,600,977	6,008,172	4,944,649
	<u>\$ 19,758,883</u>	<u>\$ 14,612,296</u>	<u>\$ 16,240,927</u>	<u>\$ 15,273,825</u>

The Multi-Asset Fund incurs annual management and other fees which were approximately 2.19% and 0.76% of the Fund's net asset value during the years ended June 30, 2021 and 2020, respectively. The Short-Term Fund incurs annual management and other fees which were approximately 0.26% of the Fund's net asset value during the years ended June 30, 2021 and 2020. The TIFF Centerstone Fund, L.P. ("TCF") charges annual management fees which are approximately 0.35% of the capital account of each limited partner. In conjunction with an agreement between the Museum and TIFF, on January 1, 2019 the Museum moved \$5 million in assets from the TIFF Multi-Asset Fund ("MAF") to the TIFF Centerstone Fund, L.P. ("TCF") and paid a 0.50% exit fee. As part of this agreement, TIFF agreed to amortize the total amount of the fee over 5 years against the 0.35% annual management fee paid to TCF. The management fee will be reduced each year by approximately \$5,025, provided that the management fee for any year will not be reduced by more than 25% of the management fee payable prior to such reduction. In the event that the 25% limit is reached, any excess reduction amount will be carried forward to future quarters.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

6. Marketable Securities (continued)

In addition, the Multi-Asset Fund charges entry fees on purchases and exit fees on redemptions at the rate of .35% with the exception of drawdowns for the spending policy up to 6% of the fund value. The Short-Term Fund and Centerstone Fund do not charge purchase or exit fees. The redemption frequency of the Multi-Asset and Short-Term Funds are daily and there is no redemption notice period. The Centerstone Fund allows redemptions at the end of each quarter with 75 days' prior written notice. As of June 30, 2021 and 2020, there were no unfunded commitments.

7. Property, Exhibits and Equipment

Property, exhibits and equipment consisted of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Property and land	\$ 49,401,353	\$ 49,733,094
Equipment and furniture	2,351,899	2,364,704
Exhibits	9,754,243	11,944,322
Construction in process:		
Building additions and renovations	369,796	9,545
Exhibits	<u>572,925</u>	<u>401,147</u>
	62,450,216	64,452,812
Less - accumulated depreciation	<u>(34,104,071)</u>	<u>(34,787,067)</u>
	<u><u>\$ 28,346,145</u></u>	<u><u>\$ 29,665,745</u></u>

Depreciation expense during the years ended June 30, 2021 and 2020 was \$1,936,255 and \$2,062,671, respectively. During the years ended June 30, 2021 and 2020, the Museum disposed of certain fully depreciated property, exhibits and equipment with an original cost of \$2,619,251 and \$358,141, respectively.

8. Other Assets

Other assets consisted of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Deferred leasing costs, net of accumulated amortization of \$387,910 and \$327,815 at June 30, 2021 and 2020, respectively	\$ 437,689	\$ 435,958
Rent receivable	<u>706,826</u>	<u>459,268</u>
	<u><u>\$ 1,144,515</u></u>	<u><u>\$ 895,226</u></u>

Amortization of the deferred leasing costs during the years ended June 30, 2021 and 2020 was \$60,095 and \$48,587, respectively.

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>
2022	\$ 66,064
2023	65,332
2024	58,262
2025	56,952
2026	52,619
Thereafter	138,460

9. Paycheck Protection Program Loans

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

On January 27, 2021, the Museum entered into a second PPP loan agreement for \$940,500, granted by the SBA under the Economic Aid Act. The funds from the loan were received on February 2, 2021. As with the first PPP loan, all or a portion of the loan and accrued interest at 1% may be forgivable based on the amount of qualifying expenses incurred and levels of employee headcount and salaries maintained during a measurement period. The Museum considers the PPP loan to be debt and, accordingly, will record the amount of forgiveness, if any, when legally released by the lender.

The Museum intends to use the loan proceeds from the second loan for purposes allowable under the loan agreement within the measurement period, and therefore, expects to meet the conditions for full forgiveness of the loan. The actual amount of forgiveness is not known at the date the financial statements were available to be issued. Any unforgiven portion of the loan would bear interest at a rate of 1% and would need to be repaid within five years from the date of disbursement.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

10. Bonds Payable

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

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

The bonds mature on April 1, 2036 as provided for in the original bond issuance through MDFA. Interest on the bonds is payable monthly and the principal is payable each April 1. During the years ended June 30, 2021 and 2020, the sum of the interest on the bonds and the amortization of the bond issuance costs was \$330,732 and \$366,335, respectively, of which \$15,617 and \$16,312 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, 2021.

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

<u>Years ending June 30,</u>	<u>Amount</u>
2022	\$ 500,000
2023	500,000
2024	500,000
2025	500,000
2026	500,000
Thereafter	8,250,000

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>
2022	\$ 14,924
2023	14,229
2024	13,535
2025	12,841
2026	12,147
Thereafter	83,296

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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for a specified purpose:		
Exhibits	\$ 883,980	\$ 199,753
Capital improvements	427,918	804,897
Community engagement	339,785	229,205
Discounted admissions and programming	162,855	260,974
Program development	1,136,373	34,548
Educational programs	106,105	100,136
Early childhood	414,640	11,250
	<u>3,471,656</u>	<u>1,640,763</u>
Subject to the passage of time:		
Time restrictions	-	50,000
Beneficial interest in charitable trust held by others	190,900	190,900
	<u>190,900</u>	<u>240,900</u>
Endowments:		
Accumulated investment gains subject to the Museum's endowment spending policy:		
Educational programs	2,773,659	1,899,186
Cultural programs	2,305,104	1,774,352
Early childhood education/programs	1,012,039	688,322
Collections	685,706	488,036
Discounted admissions and programming	323,974	230,894
General use	302,290	221,602
	<u>7,402,772</u>	<u>5,302,392</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	428,615	423,418
Discounted admissions and programming	200,000	200,000
General use	150,478	150,479
	<u>4,397,505</u>	<u>4,392,309</u>
	<u>\$ 15,462,833</u>	<u>\$ 11,576,364</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, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Satisfaction of purpose restrictions:		
Exhibits	\$ 129,587	\$ 827,458
Capital improvements	376,977	136,993
Community engagement	429,348	200,798
Discounted admissions and programming	242,585	325,987
Program Development	68,492	197,066
Educational programs	196,081	176,691
Early childhood	59,601	35,028
Operations	50,000	-
	<u>1,552,671</u>	<u>1,900,021</u>
Satisfaction of time restrictions	50,000	-
	<u>\$ 1,602,671</u>	<u>\$ 1,900,021</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 year end June 30, 2007. The associated interest expense is recorded over the term of the loan, and was \$12,907 and \$12,434 during the years ended June 30, 2021 and 2020, respectively. Amounts shown as notes payable on the statement of financial position were \$352,557 and \$339,650 at June 30, 2021 and 2020, respectively.

15. Line-of-Credit

The Museum has a line-of-credit with its bank permitting advances up to \$1,000,000. Advances bear interest at the LIBOR rate plus 2.75%. The line-of-credit agreement was extended through January 31, 2023. There were no outstanding balances on the line-of-credit at June 30, 2021 and 2020, or during the years then ended.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

16. Special Events

Special event revenue and expenses for the years ending June 30, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Ticket sales	\$ 22,449	\$ 103,252
Contributions	496,448	488,575
In-kind contributions	5,000	5,000
Total revenue	<u>523,897</u>	<u>596,827</u>
Less - special event expenses	<u>(79,298)</u>	<u>(290,909)</u>
	<u>\$ 444,599</u>	<u>\$ 305,918</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, 2021 and 2020, were comprised of the following:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 5,338,370	\$ 6,277,406
Accounts receivable	45,586	85,647
Pledges receivable	451,897	105,711
Endowment spending policy distributions	321,154	315,433
	<u>\$ 6,157,007</u>	<u>\$ 6,784,197</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 \$2,611,644 and \$2,147,715 at June 30, 2021 and 2020, 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 \$5,346,962 and \$4,398,511 at June 30, 2021 and 2020, respectively, is subject to an annual spending policy of four-and-a-half percent of the average fair value of each of the previous twelve quarters. Although the Museum does not intend to spend from this Board Designated Endowment (other than amounts appropriated for capital and other projects as part of the Board's annual budget approval), these amounts could be made available, if necessary.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

17. Availability and Liquidity (continued)

The Museum has a tenant cash account (not included in the above cash and cash equivalents total) with a balance of \$1,230,994 and \$557,392 at June 30, 2021 and 2020, respectively, which is used to fund expenses related to tenant activities and to make all debt service payments. Although the Museum does not intend to use these funds for operating activities, these funds (other than those required for debt service) could be made available, if necessary.

As part of the Museum's liquidity management plan, the Museum invests cash in excess of daily requirements in short-term investments. Additionally, the Museum maintains a \$1,000,000 line-of-credit, as discussed in more detail in Note 15. As of June 30, 2021 and 2020, \$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 \$96,319 and \$98,007 for the years ended June 30, 2021 and 2020, respectively.

19. Advertising Costs

The Museum expenses the costs of advertising when the advertisement takes place. Advertising expenses for the years ended June 30, 2021 and 2020 were \$6,581 and \$141,792, 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>
2022	\$ 2,323,957
2023	2,044,155
2024	1,375,794
2025	1,323,933
2026	1,272,430
Thereafter	3,314,055

21. Lease

In 2000, the Museum entered into a twenty-year non-cancellable lease for exhibit production and storage space, which expired during the year ended June 30, 2020 and was not renewed. The Museum continued to occupy the space for a period of time as a tenant-at-will during the year ended June 30, 2021 prior to vacating the space. The lease required the Museum to pay base rental payments, real estate taxes and insurance. Rent expense was \$52,262 and \$124,159 for the years ended June 30, 2021 and 2020, respectively, and is included in building operating costs on the statements of functional expenses.

THE CHILDREN'S MUSEUM

Notes to Financial Statements

22. In-Kind Contributions

The Museum received in-kind contributions of fundraising consulting services in the amount of \$5,000 during each of the years ending June 30, 2021 and 2020, which are included in gifts, contributions and grants on the statements of activities and changes in net assets.

23. Adoption of New Revenue Recognition Standard

The Museum adopted ASU 2014-09 using the modified retrospective method applied to contracts not completed as of July 1, 2020. Results for reporting periods beginning after July 1, 2020 are presented under ASU 2014-09 while prior period amounts continue to be reported in accordance with legacy GAAP. The Museum recorded an adjustment to reduce opening net assets without donor restrictions by \$435,960 as of July 1, 2020. The impact of the cumulative effect adjustment on the statement of financial position upon adoption was as follows:

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

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

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

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

THE CHILDREN'S MUSEUM

Notes to Financial Statements

23. Adoption of New Revenue Recognition Standard (continued)

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

Deferred revenue on exchange transactions included in accrued and other short-term liabilities at June 30, 2021 and 2020 was \$490,956 and \$272,479, respectively.

24. Park Agreements

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

25. COVID-19 Impact

The COVID-19 pandemic affected the Museum's activities and finances, beginning in March 2020. The Museum experienced a decline in attendance-driven revenues, including admissions, membership, and other earned income. Due to the publicly ordered closing of all arts and cultural facilities, the Museum was closed to the public from March 14, 2020 until July 21, 2020, opening on July 22, 2020, and then closed again from December 14, 2020 until April 30, 2021, opening on May 1, 2021. In response to the revenue decline, the Museum took actions to reduce costs, including significant cuts to operating expenses as well as salary reductions and decrease in staff count. Private and government support helped to offset the decline in attendance-driven revenues. As a result, management believes that the Museum will continue as a going concern. The Museum expects to stay open as long as it is safe to do so.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. Management is actively monitoring the global situation and its effects on the Museum's industry, financial condition, liquidity, and operations. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Museum is not able to estimate the effects of the COVID-19 outbreak on the results of operations, financial condition, or liquidity, and the specific impact is not readily determinable as of the date of these financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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, 2021 and 2020, and have issued our report thereon dated December 29, 2021, 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, 2021 with comparative totals for the year ended June 30, 2020, 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 29, 2021

THE CHILDREN'S MUSEUM

Schedule of Changes in Net Assets from Operations excluding Depreciation and Amortization For the Year Ended June 30, 2021 (with Comparative Totals for the Year Ended June 30, 2020)

	2021			2020 Summarized Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenues and other support:				
Admissions	\$ 413,985	\$ -	\$ 413,985	\$ 2,385,585
Gifts, contributions and grants	1,905,245	3,388,761	5,294,006	2,685,767
Forgiveness of Paycheck Protection Program loan	940,500	-	940,500	-
Contracts	613,671	-	613,671	459,678
Membership	553,087	-	553,087	1,204,375
Other earned income	65,467	-	65,467	301,948
Museum store	-	-	-	62,952
Traveling exhibits	25,000	-	25,000	85,000
Other income	74,884	-	74,884	10,956
Special events, net	444,599	-	444,599	305,918
Rental income	2,434,295	-	2,434,295	2,294,550
Amounts appropriated for operations pursuant to endowment spending policy	741,504	-	741,504	729,030
Net assets released from restrictions	1,602,671	(1,602,671)	-	-
Total revenues and other support	<u>9,814,908</u>	<u>1,786,090</u>	<u>11,600,998</u>	<u>10,525,759</u>
Expenses:				
Program Services:				
Visitor services	1,381,596	-	1,381,596	2,291,199
Museum programs	1,996,463	-	1,996,463	2,285,263
Exhibits	800,908	-	800,908	1,115,116
Membership services	161,034	-	161,034	183,185
Supporting Services:				
Administration and general	885,192	-	885,192	1,029,188
Facilities costs	1,380,193	-	1,380,193	1,458,219
Fundraising	594,340	-	594,340	730,292
Marketing	445,026	-	445,026	679,889
Total expenses	<u>7,644,752</u>	<u>-</u>	<u>7,644,752</u>	<u>9,772,351</u>
Change in net assets from operations excluding depreciation and amortization	<u>\$ 2,170,156</u>	<u>\$ 1,786,090</u>	<u>\$ 3,956,246</u>	<u>\$ 753,408</u>