



**The Children's Museum of Memphis, Inc.
Financial Statements
June 30, 2018 and 2017**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Children's Museum of Memphis, Inc.
Memphis, Tennessee

We have audited the accompanying financial statements of The Children's Museum of Memphis, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Children's Museum of Memphis, Inc. as of June 30, 2018 and 2017, 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.

Memphis, Tennessee
September 21, 2018

THE CHILDREN'S MUSEUM OF MEMPHIS, INC.

Statements of Financial Position

June 30, 2018 and 2017

ASSETS	2018	2017
Current assets		
Cash and cash equivalents	\$ 556,579	\$ 485,271
Accounts receivable	9,750	4,500
Contributions receivable - current portion	90,400	100,880
Prepaid expenses	13,014	-
Total current assets	669,743	590,651
Property and equipment - net	12,689,881	11,666,186
Other assets		
Contributions receivable - less current portion	3,350	36,500
Investments - endowment fund	1,035,271	1,015,024
Total other assets	1,038,621	1,051,524
Total assets	\$ 14,398,245	\$ 13,308,361
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 33,255	\$ 953,887
Accrued expenses	49,792	14,021
Deferred revenue	34,300	-
Current portion of capital lease obligation	3,420	-
Note payable, current portion	382,904	234,979
Total current liabilities	503,671	1,202,887
Long-term liabilities		
Capital lease obligation, net of current portion	14,148	-
Note payable, net of current portion	4,019,004	2,567,247
Total long-term liabilities	4,033,152	2,567,247
Total liabilities	4,536,823	3,770,134
Net assets		
Unrestricted	9,041,938	8,791,758
Temporarily restricted	219,484	146,469
Permanently restricted	600,000	600,000
Total net assets	9,861,422	9,538,227
Total liabilities and net assets	\$ 14,398,245	\$ 13,308,361

See independent auditor's report and notes to the financial statements

THE CHILDREN'S MUSEUM OF MEMPHIS, INC.

Statement of Activities

For the Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue				
Admissions	\$ 1,195,949	\$ -	\$ -	\$ 1,195,949
Membership	1,114,936	-	-	1,114,936
Carousel	84,589	-	-	84,589
Contributions	205,793	90,947	-	296,740
Birthday parties	34,141	-	-	34,141
Facilities rental	56,400	-	-	56,400
Parking fees	81,447	-	-	81,447
Special events	300,209	-	-	300,209
Programs	2,496	-	-	2,496
Investment return	20,247	-	-	20,247
In-kind contributions	476,304	-	-	476,304
Other income	30,082	-	-	30,082
	3,602,593	90,947	-	3,693,540
Net assets released from restrictions	17,932	(17,932)	-	-
Total support and revenue	3,620,525	73,015	-	3,693,540
Expenses				
Program services	2,348,771	-	-	2,348,771
Management and general	556,262	-	-	556,262
Fundraising	465,312	-	-	465,312
Total expense	3,370,345	-	-	3,370,345
Change in net assets	250,180	73,015	-	323,195
Net assets - beginning of the year	8,791,758	146,469	600,000	9,538,227
Net assets - end of the year	\$ 9,041,938	\$ 219,484	\$ 600,000	\$ 9,861,422

THE CHILDREN'S MUSEUM OF MEMPHIS, INC.

Statement of Activities

For the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue				
Admissions	\$ 1,101,789	\$ -	\$ -	\$ 1,101,789
Membership	942,197	-	-	942,197
Contributions	136,806	51,513	-	188,319
Birthday parties	18,940	-	-	18,940
Parking fees	96,494	-	-	96,494
Special events	302,697	-	-	302,697
Programs	7,472	-	-	7,472
Investment return	71,691	-	-	71,691
In-kind contributions	499,853	-	-	499,853
Other income	51,812	-	-	51,812
	3,229,751	51,513	-	3,281,264
Net assets released from restrictions	204,544	(204,544)	-	-
Total support and revenue	3,434,295	(153,031)	-	3,281,264
Expenses				
Program services	2,081,847	-	-	2,081,847
Management and general	484,344	-	-	484,344
Fundraising	557,558	-	-	557,558
Total expense	3,123,749	-	-	3,123,749
Change in net assets	310,546	(153,031)	-	157,515
Net assets - beginning of the year	8,481,212	299,500	600,000	9,380,712
Net assets - end of the year	\$ 8,791,758	\$ 146,469	\$ 600,000	\$ 9,538,227

THE CHILDREN'S MUSEUM OF MEMPHIS, INC.

Statement of Functional Expenses

For the Year Ended June 30, 2018

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 788,739	\$ 213,853	\$ 200,855	\$ 1,203,447
Other employee benefits	76,467	20,733	19,473	116,673
Payroll taxes	58,427	15,841	14,879	89,147
Legal and professional fees	-	123,338	-	123,338
Supplies	16,096	5,365	-	21,461
Telephone	9,073	3,025	-	12,098
Postage and shipping	421	140	-	561
Occupancy	440,556	88,111	58,741	587,408
Equipment rental and maintenance	45,309	15,103	-	60,412
Travel	82	28	-	110
Depreciation	433,194	18,434	9,217	460,845
Personnel	-	45,901	-	45,901
Exhibit maintenance	55,671	-	-	55,671
PR/advertising	71,158	-	-	71,158
Miscellaneous expense	22,583	6,390	4,834	33,807
Membership / development	31,095	-	31,096	62,191
Education and training	23,568	-	-	23,568
Bank service fees	58,228	-	-	58,228
Software expenses	6,640	-	6,640	13,280
Program expense	82,801	-	-	82,801
Fund raising event expense	-	-	119,577	119,577
Interest expense	128,663	-	-	128,663
Total functional expenses	\$ 2,348,771	\$ 556,262	\$ 465,312	\$ 3,370,345

THE CHILDREN'S MUSEUM OF MEMPHIS, INC.

Statement of Functional Expenses

For the Year Ended June 30, 2017

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 763,196	\$ 232,696	\$ 209,788	\$ 1,205,680
Other employee benefits	60,526	18,454	16,637	95,617
Payroll taxes	52,697	16,067	14,485	83,249
Legal and professional fees	-	71,624	-	71,624
Supplies	11,492	3,831	-	15,323
Telephone	7,942	2,647	-	10,589
Postage and shipping	568	190	-	758
Occupancy	476,953	89,429	29,810	596,192
Equipment rental and maintenance	40,790	13,597	-	54,387
Travel	291	97	-	388
Depreciation	314,669	27,362	-	342,031
Volunteer	2,018	-	-	2,018
Exhibit maintenance	96,928	-	-	96,928
PR/advertising	44,235	-	-	44,235
Miscellaneous expense	29,511	8,350	6,318	44,179
Membership / development	21,464	-	21,465	42,929
Education and training	11,852	-	-	11,852
Bank service fees	53,243	-	-	53,243
Software expenses	8,300	-	8,300	16,600
Program expenses	85,172	-	-	85,172
Fund raising events expense	-	-	250,755	250,755
Total functional expenses	\$ 2,081,847	\$ 484,344	\$ 557,558	\$ 3,123,749

THE CHILDREN'S MUSEUM OF MEMPHIS, INC.

Statements of Cash Flows

For the Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows provided by operating activities		
Change in net assets	\$ 323,195	\$ 157,515
Adjustment to reconcile change in net assets to net cash provided by operating activities		
Depreciation	460,845	342,031
Change in market value of investments	21,060	(50,291)
Changes in assets and liabilities		
Accounts receivable	(5,250)	(1,500)
Contributions receivable	43,630	20,356
Prepaid expenses	(13,014)	-
Accounts payable	(920,632)	865,622
Accrued expenses	35,771	14,021
Deferred revenue	34,300	(15,000)
Deferred compensation	-	(52,529)
Net cash provided (used) by operating activities	(20,095)	1,280,225
Cash flows from (used for) investing activities		
Purchases of property and equipment	(1,464,430)	(4,268,045)
Proceeds of life insurance policy	-	138,266
Purchases of investments	(41,307)	(91,527)
Proceeds from sale of investments	-	70,127
Net cash flows from (used for) investing activities	(1,505,737)	(4,151,179)
Cash flows from (used for) financing activities		
Principal payments on capital lease obligation	(2,542)	-
Proceeds from issuance of note payable	1,696,902	2,672,226
Principal payments on note payable	(97,220)	-
Net cash from (used for) financing activities	1,597,140	2,672,226
Net change in cash and cash equivalents	71,308	(198,728)
Cash and cash equivalents - beginning of the year	485,271	683,999
Cash and cash equivalents - end of the year	\$ 556,579	\$ 485,271
Supplemental Disclosure of Cash Flow Information		
Property and equipment acquired through issuance of capital lease	\$ 20,110	\$ -
Cash paid during the year for interest	\$ 147,630	\$ 39,876

Note 1 – Organization and business activity

The Children's Museum of Memphis, Inc. (the "Museum"), located in the former National Guard Armory that was built from 1941 to 1942, is a not-for-profit Tennessee corporation organized in April 1987, whose purpose is to create memorable learning experiences through the joy of play in hands-on exhibits and programs.

Note 2 – Summary of significant accounting policies*Basis of accounting and presentation*

The Museum prepares its financial statements in accordance with accounting principles generally accepted in the United States, which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred. Under generally accepted accounting principles, the Organization is required to report information regarding its financial position and activities according to three classes of net assets as follows:

Unrestricted Net Assets — Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Temporarily Restricted Net Assets — Net assets whose use by the Museum is subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time.

Permanently Restricted Net Assets — Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the investment return on these assets.

Revenues are reported as increases in unrestricted net assets unless they are restricted by donor-imposed stipulations. Contributions with donor-imposed restrictions that are met during the same year as the contribution is made are reported as increases in unrestricted net assets. Expenses are generally reported as decreases in unrestricted net assets. Satisfaction of donor-imposed stipulations that simultaneously increase unrestricted net assets and decrease temporarily restricted assets are reported as reclassifications.

Contributions Receivable

Contributions receivable are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending upon the form of the benefits received. Conditional contributions are recognized when the conditions on which they depend are substantially met.

The Museum uses the allowance method to determine uncollectible promises to give. The allowance, if any, is based on prior years' experience and management's analysis of specific promises made. No allowance was considered necessary at June 30, 2018 and 2017.

Property and Equipment

Property and equipment are recorded at cost, if purchased, or the estimated fair value on the date received, if donated. The Museum capitalizes property and equipment if it has a life of one year or more and an acquisition cost of \$1,000 or more. Expenditures for major renewals and betterments that extend the useful lives of assets are capitalized. Expenditures for normal repair and maintenance are expensed to operations as they occur. Depreciation is computed on a straight-line basis over the assets' estimated useful lives, which range from 3 to 39 years and 100 years for the carousel exhibit. Non-touring exhibits considered to be collections are not depreciated.

Use of Estimates

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

In-Kind Donations

In-kind donations of goods and materials and use of facilities, in addition to property and equipment, are recorded at their estimated fair value at date of contribution. Contributed professional services are recognized as in-kind contributions if the services received create or enhance long-lived assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contributions. In-kind donations totaled \$136,926 and \$175,475 during the years ended June 30, 2018 and 2017, respectively. These estimates are based on information obtained by management from donors and other sources and, it is at least reasonably possible that a change in the estimate will occur in the near term.

In addition, the Museum's buildings are leased from The City of Memphis for \$1 per year. However, the Museum recognizes the fair value of the use of the facilities by recording, as an in-kind donation, the estimated fair value of the rent, which for each of the years ended June 30, 2018 and 2017, was \$324,378. The Museum, likewise, records rent expense of a like amount.

Cash and Cash Equivalents

The Museum considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

Investments – Endowment Fund

The Museum's endowment fund was established to support the Museum and its mission over the long-term. Investments in mutual funds are carried at fair value based on quoted prices in active markets. Realized and unrealized gains and losses are reflected in the statement of activities.

Tax Exemption

The Internal Revenue Service has classified the Museum as other than a private foundation, which is exempt from federal income taxes on its related purpose income under Section 501(c)(3) of the United States Internal Revenue Code and is similarly exempt from state taxes. Consequently, no federal or state income taxes have been provided for in these financial statements.

The Museum's federal and state exempt organization returns for the years ended June 30, 2015, 2016 and 2017, are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

Advertising

The Museum expenses advertising cost as incurred. During the years ended June 30, 2018 and 2017, advertising costs totaled \$71,158 and \$44,235, respectively.

Concentrations

The primary source of the Museum's revenue comes from admissions, memberships and contributions from the Mid-South sector of the United States economy. Any downturn in this segment of the economy could have an adverse effect on the Museum.

Functional Expenses

Directly identifiable expenses are classified as program services, management and general, and fundraising. Expenses related to more than one function are allocated to program services, management and general, and fundraising on the basis of management estimates. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Museum. Indirect expenses of the Museum are allocated among its three primary functions based upon estimates of time incurred in performing such functions. These estimates are based upon management's review of current functions and past-experience in performing such functions.

Annual Leave and Sick Leave

Full-time permanent employees of the Museum accrue vacation after 12 months of continuous employment. Vacation time may not be carried forward or accumulated into a new fiscal year. Full-time permanent employees are granted one-day sick leave per month after six months of employment and are allowed to accumulate a maximum of 30 days. Sick leave is not payable upon termination or resignation.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue From Contracts With Customers (Topic 606)*, establishing a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This update provides a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services and will supersede most of the existing revenue recognition guidance, including industry-specific guidance.

In August 2015, the FASB issued ASU No. 2015-14, *Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date*, which deferred the effective date of ASU No. 2014-09 for all entities by one year. Therefore, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods beginning after December 15, 2019, for nonpublic entities. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016. The Museum is assessing the method of adoption and the impact this new accounting guidance will have on its financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. These amendments change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: net asset classes; investment return; expenses; liquidity and availability of resources; and presentation of operating cash flows. Effective for not-for-profit organizations for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. Early application of the amendments is permitted. The Museum is currently evaluating the effect that ASU No. 2016-14 will have on its financial statements and disclosures.

Events Occurring after Reporting Date

Management has evaluated events and transactions that have occurred through September 21, 2018, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements. No subsequent events have been recognized or disclosed.

Note 3 – Contributions receivable

At June 30, 2018 and 2017, contributions receivable are expected to be collected as follows:

	2018	2017
Less than one year	\$ 90,400	\$ 100,880
One year to five years	3,350	36,500
	<u>\$ 93,750</u>	<u>\$ 137,380</u>

At June 30, 2018, 48% of total contributions receivable was from two donors. At June 30, 2017, 100% of total contributions receivable was from four donors.

In January 2016, the Museum received a conditional promise to give from a donor for \$500,000 for the construction of the Memphis Grand Carousel building campaign. The payment of this contribution will not be made until the Museum has raised \$2,000,000, as defined, toward this campaign. This conditional promise to give will expire on January 29, 2019. This condition was not met in the years ended June 30, 2018 and 2017.

Notes to the Financial Statements

June 30, 2018 and 2017

In May 2018, the Museum received a conditional promise to give from a donor for \$1,000,000 to be used to pay down the note payable balance. Per the agreement, the Museum will not receive the contribution until the Museum has raised an additional \$1,000,000 towards this pledge. This conditional promise to give will expire on July 1, 2019. This condition was not met in the year ended June 30, 2018.

Note 4 – Property and equipment

Property and equipment consists of the following major classifications at June 30, 2018 and 2017:

	2018	2017
Construction in progress	\$ -	\$ 4,670,212
Exhibits - depreciable	3,685,188	2,387,258
Exhibits - non-depreciable	2,870,304	2,870,304
Buildings	10,337,952	5,524,235
Furniture and fixtures	467,154	424,049
Total capital assets	17,360,598	15,876,058
Less: accumulated depreciation	(4,670,717)	(4,209,872)
Property and equipment - net	\$ 12,689,881	\$ 11,666,186

Depreciation expense for the years ended June 30, 2018 and 2017, was \$460,845 and \$342,031, respectively.

Note 5 – Investments – endowment fund

Investments are summarized as follows as of June 30, 2018 and 2017:

	2018	2017
Mutual funds	\$ 973,918	\$ 975,455
Cash and cash equivalents	61,353	39,569
	\$ 1,035,271	\$ 1,015,024

Investment return is comprised of the following for the years ended June 30, 2018 and 2017:

	2018	2017
Dividends	\$ 48,417	\$ 28,171
Change in market value of investments	(21,060)	50,291
Investment fees	(7,110)	(6,771)
	\$ 20,247	\$ 71,691

Note 6 – Endowment funds

The Children's Museum of Memphis Endowment Fund was established as a permanent source of supplemental funding to enhance its development and growth through acceptance of contributions, honoraria, memorials, bequests and any other gifts or donations. The Fund's "Finance Committee" was established to have exclusive control and discretion over all investments, sales, exchanges, and reinvestments of funds comprising the Endowment. Investment decisions are to be made with a view, consistent with prudent investment standards, of optimizing income and annual cash flow while preserving the corpus of the Fund itself. Investments are to be limited to: 1) obligations of or guaranteed by the United States of America, 2) certificates of deposit issued by any national bank, 3) bonds or similar obligations of a domestic corporation having a rating not less than "A" by either Moody's or Standard and Poor's, 4) equity securities approved by at least a majority of the full Finance Committee, 5) cash equivalents of the highest quality, 6) investments received in the form of property in-kind, such investments to be held for such period as deemed prudent by the Finance Committee, 7) such other investments as approved by the Board or the Executive Committee.

A strategic allocation of fund assets has been specified as 30% equities, 10% alternatives, 10% cash equivalents, and 50% fixed income investments. A variance of plus or minus 5% in this percentage allocation is allowed dependent upon market conditions.

In general, the Finance Committee would like the portfolio to earn a targeted return of at least 6%. In the event inflation exceeds the return objective of 6%, the targeted return is 1% greater than inflation. The modeled risk level has been established at -2% for 1 year.

The Endowment Fund consists of Principal and Income Accounts. The Principal Account is to be held in perpetuity, subject to the conditions governing any contributions accepted on behalf of the Fund. The Income Account is to be used for the development and maintenance of the Museum. Withdrawals and disbursements from the Income Account are not to exceed the approved budget for any fiscal year in whatever amounts are needed to fulfill the request of the Executive Committee during the course of the fiscal year.

The composition of the Endowment Fund by net asset class as of June 30, 2017 and June 30, 2018, was as follows:

	Unrestricted -		
	Board Designated	Permanently Restricted	Total
Endowment net assets, June 30, 2016	\$ 343,333	\$ 600,000	\$ 943,333
Investment return:			
Investment income	28,171	-	28,171
Net appreciation (depreciation)	50,291	-	50,291
Investment fees	(6,771)	-	(6,771)
Total investment return	71,691	-	71,691
Endowment net assets, June 30, 2017	415,024	600,000	1,015,024
Investment return:			
Investment income	48,417	-	48,417
Net appreciation (depreciation)	(21,060)	-	(21,060)
Investment fees	(7,110)	-	(7,110)
Total investment return	20,247	-	20,247
Endowment net assets, June 30, 2018	\$ 435,271	\$ 600,000	\$ 1,035,271

Note 7 – Fair value measurements

The Museum utilizes fair value measurements to record certain assets and liabilities and to determine fair value disclosures. Fair value is 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. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

FASB Accounting Standards Codification (ASC) Topic 820 establishes a three-tier fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value, as follows:

Level 1—Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2—Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active and other inputs that are observable or can be corroborated by observable market data.

Level 3—Significant unobservable inputs that reflect an organization's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used to measure fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

Contributions receivable: Value is determined by calculating the future distributions expected to be received in a relatively short period of time. There is no market (quoted prices or observable inputs) for contributions receivable, and as such, the valuation includes significant inputs based on assumptions about market participant assumptions.

Mutual funds: Valued at the net asset value of shares held by the Organization at year-end based on quoted prices in active markets for identical securities.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Notes to the Financial Statements

June 30, 2018 and 2017

The following table sets forth by level, within the fair value hierarchy, the investments measured at fair value on a recurring basis as of June 30, 2018 and 2017:

	Level 1	Level 2	Level 3	Total
June 30, 2018				
Contributions receivable	\$ -	\$ -	\$ 93,750	\$ 93,750
Mutual funds	973,918	-	-	973,918
Total	\$ 973,918	\$ -	\$ 93,750	\$ 1,067,668
June 30, 2017				
Contributions receivable	\$ -	\$ -	\$ 137,380	\$ 137,380
Mutual funds	975,455	-	-	975,455
Total	\$ 975,455	\$ -	\$ 137,380	\$ 1,112,835

Analysis of level 3 transactions for the years ended June 30, 2018 and 2017, is as follows:

	2018	2017
Beginning balance	\$ 137,380	\$ 296,002
New promises to give	40,000	70,000
Payment of promises to give	(83,630)	(90,356)
Change in cash surrender value	-	(138,266)
Ending balance	\$ 93,750	\$ 137,380

Note 8 – Note payable

The Museum had a line of credit note payable with a bank for \$4,000,000. The note was payable in interest-only payments through November 2016 with monthly payments of \$39,539 starting December 2016 and one final balloon payment due November 2020.

In September 2017, the Museum amended and increased the line of credit note payable referred to above by \$500,000, making the principal amount \$4,500,000. The note was payable in interest-only payments through January 2018 with monthly payments of \$54,873 starting February 2018 and one final balloon payment due November 2020.

In March and May 2018, the Museum again amended the note to extend the interest-only payments through March 2018 with monthly principal and interest payments of \$44,204 starting April 2018 and one final balloon payment due November 2020.

The note bears interest at a fixed rate of 3.49% per annum and is secured by all business assets and pledges. Balances as of June 30, 2018 and 2017, totaled \$4,401,908 and \$2,802,226, respectively. The total amount of interest capitalized in the years ended June 30, 2018 and 2017, was \$18,967 and \$39,876, respectively.

Future principal payments for the years ending June 30 are as follows:

2019	\$	382,904
2020		396,483
2021		3,622,521
		\$ 4,401,908

Note 9 – Temporarily restricted net assets

Net assets that are temporarily restricted for timing or purpose restrictions at June 30, 2018 and 2017, are as follows:

	2018	2017
Annual maintenance of FedEx going places exhibit	\$ 127,753	\$ 102,938
Materials for the paper tree house exhibit	29,768	20,208
Exclusively for institutional planning	25,000	-
Operation of the AutoZone Garage exhibit	11,734	9,680
Maintenance for SunTrust Bank exhibit	9,293	10,383
Upgrades and maintenance of Delta Dental exhibit	9,214	1,427
Maintenance for Baptist Hospital exhibit	6,722	1,833
	\$ 219,484	\$ 146,469

Note 10 – Retirement plan

The Museum offers a simple IRA plan for employee retirement. All employees who earn \$8,000 in the previous year are eligible to participate in the plan. The Museum matches up to 5% of employee earnings. Retirement plan contribution expense for the years ended June 30, 2018 and 2017, were \$22,471 and \$32,903, respectively.

Note 11 – Commitments

Capital lease

The Museum has a capital lease for certain equipment with a total cost of \$20,110 and accumulated depreciation of \$3,687 at June 30, 2018. The lease requires total monthly payments of \$452 at an interest rate of 12.5% and matures in August 2022. Future minimum lease payments required under the capital lease are as follows:

Years ending June 30,	Amount
2019	\$ 5,424
2020	5,424
2021	5,424
2022	5,424
2023	940
Total	22,636
Less: amount representing interest	5,068
Present value of minimum lease payments	17,568
Less: current maturities	3,420
Capital lease obligation, net of current maturities	\$ 14,148

Operating leases

The Museum has various operating leases for equipment through 2023 with monthly payments ranging from \$90 to \$245. Future minimum lease payments required under these operating leases are as follows:

Years ending June 30,	Amount
2019	\$ 6,729
2020	6,929
2021	7,209
2022	7,209
2023	4,293
Total future minimum lease payments	\$ 32,369

Lease expense was \$3,314 and \$4,110 for the years ended June 30, 2018 and 2017, respectively.

The Museum's land and buildings are leased from the City of Memphis at \$1 per year for a thirty-seven year period ending December 31, 2037. The Museum is responsible for the maintenance cost of the facility during the lease term.

Note 12 – Related-party transactions

The Museum previously utilized a vendor who was a relative of the former Chief Executive Officer for various repairs, maintenance, and capital projects. For the year ended June 30, 2017, the vendor was paid a total of \$81,567, by the Museum.

One of the vendor's assistants was also a relative of the former Chief Executive Officer. For the year ended June 30, 2017, the vendor's assistant was paid \$19,739. The Museum had a payable due to one of the vendor's assistants as of June 30, 2017, of \$245; included in accounts payable.

A board member of the Museum is also an employee of a bank where the Museum has a note payable.

The Museum utilized a vendor who is a relative of the board president for fund raising consulting services. For the year ended June 30, 2018, the vendor was paid a total of \$30,000, by the Museum.

Note 13 – Concentration of credit risk

Cash

The Museum has concentrated its credit risk for cash by maintaining bank deposits which may periodically exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation. The Museum has not experienced any losses of such funds, and management believes the Museum is not exposed to significant credit risk to cash.