



**The Children's Museum of Memphis, Inc.
Financial Statements
June 30, 2020 and 2019**

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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, 2020 and 2019, 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, 2020 and 2019, 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
October 30, 2020

Statements of Financial Position

June 30, 2020 and 2019

ASSETS	2020	2019
Current assets		
Cash and cash equivalents	\$ 559,194	\$ 546,747
Accounts receivable	60,250	67,514
Contributions receivable - current portion	7,500	41,500
Prepaid expenses	14,749	19,925
Total current assets	641,693	675,686
Property and equipment - net	11,899,025	12,316,994
Other assets		
Contributions receivable - less current portion	-	2,500
Investments - endowment fund	965,762	1,033,190
Total other assets	965,762	1,035,690
Total assets	\$ 13,506,480	\$ 14,028,370
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 32,194	\$ 69,942
Accrued expenses	52,200	129,362
Deferred revenue	96,802	41,575
Line of credit	1,321,371	-
Current portion of capital lease obligation	4,385	3,872
Note payable, current portion	91,578	397,695
Total current liabilities	1,598,530	642,446
Long-term liabilities		
Capital lease obligation, net of current portion	5,891	10,276
Note payable, net of current portion	2,292,830	3,587,157
Total long-term liabilities	2,298,721	3,597,433
Total liabilities	3,897,251	4,239,879
Net assets		
Without donor restrictions		
Undesignated	8,494,933	8,520,401
Board-designated endowment	365,762	433,190
Total net assets without donor restrictions	8,860,695	8,953,591
With donor restrictions	748,534	834,900
Total net assets	9,609,229	9,788,491
Total liabilities and net assets	\$ 13,506,480	\$ 14,028,370

THE CHILDREN'S MUSEUM OF MEMPHIS, INC.

Statement of Activities

For the Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Admissions	\$ 789,651	\$ -	\$ 789,651
Membership	808,207	-	808,207
Carousel	65,724	-	65,724
Contributions	542,553	82,087	624,640
Grant	-	266,400	266,400
Birthday parties	40,119	-	40,119
Facilities rental	111,200	-	111,200
Parking fees	57,546	-	57,546
Special events	340,717	-	340,717
Programs	9,412	-	9,412
Investment return	(67,428)	-	(67,428)
In-kind contributions	358,184	-	358,184
Other income	26,091	-	26,091
	3,081,976	348,487	3,430,463
Net assets released from restrictions	434,853	(434,853)	-
Total support and revenue	3,516,829	(86,366)	3,430,463
Expenses			
Program services	2,645,112	-	2,645,112
Management and general	467,722	-	467,722
Fundraising	496,891	-	496,891
Total expense	3,609,725	-	3,609,725
Change in net assets	(92,896)	(86,366)	(179,262)
Net assets - beginning of the year	8,953,591	834,900	9,788,491
Net assets - end of the year	\$ 8,860,695	\$ 748,534	\$ 9,609,229

THE CHILDREN'S MUSEUM OF MEMPHIS, INC.

Statement of Activities

For the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Admissions	\$ 1,142,905	\$ -	\$ 1,142,905
Membership	1,036,662	-	1,036,662
Carousel	99,750	-	99,750
Contributions	108,014	65,779	173,793
Birthday parties	91,954	-	91,954
Facilities rental	186,406	-	186,406
Parking fees	74,111	-	74,111
Special events	286,964	-	286,964
Programs	4,712	-	4,712
Investment return	(2,081)	-	(2,081)
In-kind contributions	376,775	-	376,775
Other income	74,015	-	74,015
	3,480,187	65,779	3,545,966
Net assets released from restrictions	50,363	(50,363)	-
Total support and revenue	3,530,550	15,416	3,545,966
Expenses			
Program services	2,559,745	-	2,559,745
Management and general	559,658	-	559,658
Fundraising	499,494	-	499,494
Total expense	3,618,897	-	3,618,897
Change in net assets	(88,347)	15,416	(72,931)
Net assets - beginning of the year	9,041,938	819,484	9,861,422
Net assets - end of the year	\$ 8,953,591	\$ 834,900	\$ 9,788,491

THE CHILDREN'S MUSEUM OF MEMPHIS, INC.

Statement of Functional Expenses

For the Year Ended June 30, 2020

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 805,546	\$ 167,586	\$ 235,127	\$ 1,208,259
Other employee benefits	87,325	18,167	25,489	130,981
Payroll taxes	62,013	12,901	18,101	93,015
Legal and professional fees	-	110,122	-	110,122
Supplies	16,702	5,568	-	22,270
Telephone	7,556	2,519	-	10,075
Postage and shipping	2,133	711	-	2,844
Occupancy	452,992	90,598	60,399	603,989
Equipment rental and maintenance	71,291	23,764	-	95,055
Depreciation	475,284	20,225	10,112	505,621
Volunteer	-	503	-	503
Exhibit maintenance	239,831	-	-	239,831
PR/advertising	58,861	-	-	58,861
Miscellaneous expense	19,855	5,617	4,250	29,722
Membership / development	16,217	-	16,218	32,435
Education and training	9,839	-	-	9,839
Bank service fees	55,143	-	-	55,143
Software expenses	7,613	-	7,613	15,226
Bad debt expense	-	9,441	-	9,441
Program expense	93,571	-	-	93,571
Fund raising event expense	-	-	119,582	119,582
Interest expense	163,340	-	-	163,340
Total functional expenses	\$ 2,645,112	\$ 467,722	\$ 496,891	\$ 3,609,725

THE CHILDREN'S MUSEUM OF MEMPHIS, INC.

Statement of Functional Expenses

For the Year Ended June 30, 2019

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 840,602	\$ 173,029	\$ 213,525	\$ 1,227,156
Other employee benefits	100,941	20,777	25,640	147,358
Payroll taxes	63,072	12,983	16,021	92,076
Legal and professional fees	-	192,630	11,120	203,750
Supplies	15,067	5,023	-	20,090
Telephone	11,119	3,707	-	14,826
Postage and shipping	537	179	-	716
Occupancy	480,442	96,088	64,059	640,589
Equipment rental and maintenance	54,922	18,308	-	73,230
Travel	99	33	-	132
Depreciation	462,144	19,666	9,833	491,643
Volunteer	-	3,491	-	3,491
Exhibit maintenance	50,040	-	-	50,040
PR/advertising	73,889	-	-	73,889
Miscellaneous expense	31,788	8,994	6,805	47,587
Membership / development	25,123	-	25,123	50,246
Education and training	17,988	-	-	17,988
Bank service fees	58,274	-	-	58,274
Software expenses	6,640	-	6,640	13,280
Bad debt expense	-	4,750	-	4,750
Program expenses	118,269	-	-	118,269
Fund raising event expense	-	-	120,728	120,728
Interest expense	148,789	-	-	148,789
Total functional expenses	\$ 2,559,745	\$ 559,658	\$ 499,494	\$ 3,618,897

THE CHILDREN'S MUSEUM OF MEMPHIS, INC.

Statements of Cash Flows

For the Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows provided by operating activities		
Change in net assets	\$ (179,262)	\$ (72,931)
Adjustment to reconcile change in net assets to net cash provided by operating activities		
Depreciation	505,621	491,643
Change in market value of investments	93,418	69,000
Changes in assets and liabilities		
Accounts receivable	7,264	(57,764)
Contributions receivable	36,500	49,750
Prepaid expenses	5,176	(6,911)
Accounts payable	(37,748)	36,687
Accrued expenses	(77,162)	79,570
Deferred revenue	55,227	7,275
Net cash provided by operating activities	409,034	596,319
Cash flows from (used for) investing activities		
Purchases of property and equipment	(87,652)	(118,756)
Purchases of investments	(1,314,639)	(66,919)
Proceeds from sale of investments	1,288,649	-
Net cash flows from (used for) investing activities	(113,642)	(185,675)
Cash flows from (used for) financing activities		
Principal payments on capital lease obligation	(3,872)	(3,420)
Net proceeds from line of credit	1,321,371	-
Principal payments on note payable	(1,600,444)	(417,056)
Net cash from (used for) financing activities	(282,945)	(420,476)
Net change in cash and cash equivalents	12,447	(9,832)
Cash and cash equivalents - beginning of the year	546,747	556,579
Cash and cash equivalents - end of the year	\$ 559,194	\$ 546,747
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 150,836	\$ 148,789

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 two classes of net assets as follows:

Net Assets Without Donor Restrictions — Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Net Assets With Donor Restrictions — 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. Net assets with donor restrictions also includes 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 net assets without donor restrictions 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 net assets without donor restrictions. In addition, unconditional promises to give are recorded in the year the donor makes the promise. Expenses are generally reported as decreases in net assets without donor restrictions. Satisfaction of donor-imposed stipulations that simultaneously increase net assets without donor restrictions and decrease net assets with donor restrictions 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, 2020 and 2019.

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 \$33,806 and \$52,397 during the years ended June 30, 2020 and 2019, 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, 2020 and 2019, 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 Museum is exempt from federal taxes under Internal Revenue Code Section 501(c)(3) and is also exempt from all state income taxes. The Museum is generally no longer subject to examinations by tax authorities for years ended before June 30, 2017.

Advertising

The Museum expenses advertising cost as incurred. During the years ended June 30, 2020 and 2019, advertising costs totaled \$58,861 and \$73,889, 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

Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service. Expenses which apply to more than one functional category have been allocated based on estimates made by management. The expenses that are allocated are salaries and wages, other employee benefits, payroll taxes, supplies, telephone, postage and shipping, equipment rental and maintenance, membership and development, and software expenses, which are allocated on the basis of estimates of time and effort; and occupancy and depreciation, which are allocated on a square footage basis.

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. Although this pronouncement was applicable to nonpublic entities for years beginning after December 15, 2018, the Financial Accounting Standards Board (FASB) voted on May 20, 2020, to delay the requirements under the standard for one year. The Museum has elected to adopt the provisions of this new standard beginning after June 30, 2020.

Events Occurring after Reporting Date

Management has evaluated events and transactions that have occurred through October 30, 2020, 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, 2020 and 2019, contributions receivable are expected to be collected as follows:

	2020	2019
Less than one year	\$ 7,500	\$ 41,500
One year to five years	-	2,500
	<u>\$ 7,500</u>	<u>\$ 44,000</u>

At June 30, 2020, 100% of total contributions receivable was from two donors. At June 30, 2019, 74% of total contributions receivable was from three donors.

Note 4 – Property and equipment

Property and equipment consists of the following major classifications at June 30, 2020 and 2019:

	2020	2019
Exhibits - depreciable	\$ 3,804,269	\$ 3,772,427
Exhibits - non-depreciable	2,870,304	2,870,304
Leasehold improvements	10,372,484	10,349,647
Furniture and fixtures	519,949	486,976
Total capital assets	17,567,006	17,479,354
Less: accumulated depreciation	(5,667,981)	(5,162,360)
Property and equipment - net	\$ 11,899,025	\$ 12,316,994

Depreciation expense for the years ended June 30, 2020 and 2019, was \$505,621 and \$491,643, respectively.

Note 5 – Investments – endowment fund

Investments are summarized as follows as of June 30, 2020 and 2019:

	2020	2019
Mutual funds	\$ 767,015	\$ 928,013
Exchange traded funds	189,291	-
Cash and cash equivalents	9,456	105,177
	\$ 965,762	\$ 1,033,190

Investment return is comprised of the following for the years ended June 30, 2020 and 2019:

	2020	2019
Dividends	\$ 34,609	\$ 73,350
Change in market value of investments	(93,418)	(69,000)
Investment fees	(8,619)	(6,431)
	\$ (67,428)	\$ (2,081)

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, and 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.

Changes in Endowment net assets for the years ended June 30, 2019 and 2020, was as follows:

	Without Donor Restrictions - Board Designated	With Donor Restrictions	Total
Endowment net assets, June 30, 2018	\$ 435,271	\$ 600,000	\$ 1,035,271
Investment return:			
Investment return, net	66,919	-	66,919
Change in market value	(69,000)	-	(69,000)
Total investment return	(2,081)	-	(2,081)
Endowment net assets, June 30, 2019	433,190	600,000	1,033,190
Investment return:			
Investment return, net	25,990	-	25,990
Change in market value	(93,418)	-	(93,418)
Total investment return	(67,428)	-	(67,428)
Endowment net assets, June 30, 2020	\$ 365,762	\$ 600,000	\$ 965,762

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, 2020 and 2019.

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.

Exchange traded 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.

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, 2020 and 2019:

	Level 1	Level 2	Level 3	Total
June 30, 2020				
Mutual funds	\$ 767,015	\$ -	\$ -	\$ 767,015
Exchange traded funds	189,291	-	-	189,291
	\$ 956,306	\$ -	\$ -	\$ 956,306
June 30, 2019				
Mutual funds	\$ 928,013	\$ -	\$ -	\$ 928,013

Note 8 – Line of credit

The Museum has a \$1,500,000 line of credit with a financial institution that matures in October 2026. Accrued interest is due monthly at the floating rate of Wall Street Journal Prime, which was 3.25% at June 30, 2020 and will not be lower than 3%. The line of credit is secured by all assets of the Museum. Also, the bank must approve any additional indebtedness of the Museum in excess of \$150,000. The outstanding balance at June 30, 2020 and 2019, was \$1,321,371 and \$0, respectively.

Note 9 – Note payable

The Museum had a note payable to a bank bearing interest at a fixed rate of 3.49% per annum with monthly principal and interest payments of \$44,204, and one final balloon payment due November 2020. The note was secured by all assets of the Museum. This note was refinanced in 2020. The outstanding balance for the year ended June 30, 2019, was \$3,984,852.

The Museum has a note payable to a bank bearing interest at a fixed rate of 4.35% per annum with monthly principal and interest payments of \$18,672, and one final balloon payment due October 2026. The note is secured by all assets of the Museum. Also, the bank must approve any additional indebtedness of the Museum in excess of \$150,000. The outstanding balance for the year ended June 30, 2020, was \$2,384,408. Interest only payments were required for May through August 2020.

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

	2021	\$	91,578
	2022		126,836
	2023		132,465
	2024		138,344
	2025		144,483
	Thereafter		1,750,702
		\$	2,384,408

Note 10 – Net assets with donor restrictions

Net assets with donor restrictions as of June 30, 2020 and 2019, are available for the following purposes:

	2020		2019
Exclusively for endowment fund	\$ 600,000	\$	600,000
Materials for the paper tree house exhibit	58,546		29,580
Annual maintenance of FedEx going places exhibit	48,318		135,300
Exclusively to support Educator Focus Group initiative	16,663		-
Operation of the AutoZone Garage exhibit	9,632		10,722
Maintenance for SunTrust Bank exhibit	9,346		14,241
Maintenance for Baptist Hospital exhibit	5,029		11,768
Exclusively for institutional planning	1,000		25,000
Upgrades and maintenance of Delta Dental exhibit	-		8,289
	\$ 748,534	\$	834,900

Note 11 – Retirement plan

The Museum offered a simple IRA plan for employee retirement. All employees who earned \$8,000 in the previous year were eligible to participate in the plan. The Museum matched up to 5% of employee earnings. Retirement plan contribution expense for the year ended June 30, 2019, was \$13,074. This plan was terminated on December 31, 2018.

On January 1, 2019, the Museum started a 401(k) retirement plan for employees who meet certain eligibility requirements. Participants may contribute a portion of their compensation to the plan, up to the maximum amount permitted by the Internal Revenue Code. The Museum matches the employees' contributions up to the first four percent of compensation. Employees are fully vested in the match in 3 years. Employer contributions for the years ended June 30, 2020 and 2019, were \$17,759 and \$16,169, respectively.

Note 12 – Commitments

Capital lease

The Museum has a capital lease for certain equipment with a total cost of \$20,110 and accumulated depreciation of \$11,731 at June 30, 2020. 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
2021	\$ 5,424
2022	5,424
2023	940
Total	11,788
Less: amount representing interest	1,512
Present value of minimum lease payments	10,276
Less: current maturities	4,385
Capital lease obligation, net of current maturities	\$ 5,891

Operating leases

The Museum has various operating leases for equipment through 2023 with monthly payments ranging from \$130 to \$245. Future minimum lease payments required under these operating leases are as follows:

Years ending June 30,	Amount
2021	\$ 7,209
2022	7,209
2023	4,293
Total future minimum lease payments	\$ 18,711

Lease expense was \$7,596 and \$6,517 for the years ended June 30, 2020 and 2019, 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 13 – Related-party transactions

The Museum utilized a company that is owned by the board president for painting an exhibit. For the year ended June 30, 2019, the Museum paid the company \$5,497.

A board member of the Museum was an employee of the bank where the Museum has a note payable and line of credit at the time the notes were issued.

Note 14 – 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 Federal Deposit Insurance Corporation of \$250,000. The Museum has not experienced any losses of such funds, and management believes the Museum is not exposed to significant credit risk to cash.

Note 15 – Grant

On April 15, 2020, the Museum received loan proceeds in the amount of \$266,400 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), provides for loans to qualifying entities for amounts up to 2.5 times the average payroll expenses of the qualifying entity. The loan and accrued interest are forgivable after eight weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the eight-week period.

The Museum believes that the conditions for forgiveness were met over the eight-week period. As a result, grant revenue of \$266,400 has been recognized in the year ended June 30, 2020.

Note 16 – Liquidity and reserves

The Museum has a policy to manage its liquidity and reserves following three guiding principles: operating within a prudent range of financial stability, maintaining adequate liquidity to fund near-term operations, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The following table reflects the Museum’s financial assets as of June 30, 2020 and 2019, reduced by amounts not available for general expenditures within one year.

	2020	2019
Financial assets:		
Cash and cash equivalents	\$ 559,194	\$ 546,747
Accounts receivable	60,250	67,514
Contributions receivable - current portion	7,500	41,500
Investments - endowment fund	965,762	1,033,190
Total financial assets	1,592,706	1,688,951
Less those unavailable for general expenditure within one year due to:		
Purpose restrictions	(148,534)	(234,900)
Investments in perpetual endowments	(600,000)	(600,000)
Investments in board-designated endowments	(365,762)	(433,190)
Financial assets available to meet cash needs for general expenditures within one year	\$ 478,410	\$ 420,861