



**The Children's Museum of Memphis, Inc.
Financial Statements
June 30, 2021 and 2020**

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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, 2021 and 2020, 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, 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.

Memphis, Tennessee
December 27, 2021

THE CHILDREN'S MUSEUM OF MEMPHIS, INC.

Statements of Financial Position

June 30, 2021 and 2020

ASSETS	2021	2020
Current assets		
Cash and cash equivalents	\$ 835,558	\$ 559,194
Accounts receivable	179,620	60,250
Contributions receivable	2,500	7,500
Grants receivable - current portion	25,000	-
Inventory	5,692	-
Prepaid expenses	33,244	14,749
Total current assets	1,081,614	641,693
Property and equipment - net	11,402,163	11,899,025
Other assets		
Grants receivable - less current portion	50,000	-
Investments - endowment fund	1,186,559	965,762
Total other assets	1,236,559	965,762
Total assets	\$ 13,720,336	\$ 13,506,480
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 22,137	\$ 32,194
Accrued expenses	41,861	52,200
Deferred revenue	114,516	96,802
Line of credit	1,500,000	1,321,371
Current portion of capital lease obligation	4,966	4,385
Note payable, current portion	111,153	91,578
Total current liabilities	1,794,633	1,598,530
Long-term liabilities		
Capital lease obligation, net of current portion	925	5,891
Note payable, net of current portion	2,266,096	2,292,830
Total long-term liabilities	2,267,021	2,298,721
Total liabilities	4,061,654	3,897,251
Net assets		
Without donor restrictions		
Undesignated	8,278,401	8,494,933
Board-designated endowment	586,559	365,762
Total net assets without donor restrictions	8,864,960	8,860,695
With donor restrictions	793,722	748,534
Total net assets	9,658,682	9,609,229
Total liabilities and net assets	\$ 13,720,336	\$ 13,506,480

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, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Admissions	\$ 646,098	\$ -	\$ 646,098
Membership	543,304	-	543,304
Carousel	81,373	-	81,373
Contributions	151,463	139,910	291,373
Grant	-	266,427	266,427
Birthday parties	32,886	-	32,886
Facilities rental	56,290	-	56,290
Parking fees	49,319	-	49,319
Special events	103,624	-	103,624
Programs	3,294	-	3,294
Investment return	220,797	-	220,797
In-kind contributions	1,097,515	-	1,097,515
Employee retention tax credit	323,739	-	323,739
Other income	19,068	-	19,068
	3,328,770	406,337	3,735,107
Net assets released from restrictions	361,149	(361,149)	-
Total support and revenue	3,689,919	45,188	3,735,107
Expenses			
Program services	2,606,401	-	2,606,401
Management and general	631,708	-	631,708
Fundraising	447,545	-	447,545
Total expense	3,685,654	-	3,685,654
Change in net assets	4,265	45,188	49,453
Net assets - beginning of the year	8,860,695	748,534	9,609,229
Net assets - end of the year	\$ 8,864,960	\$ 793,722	\$ 9,658,682

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	2,645,111	-	2,645,111
Management and general	467,723	-	467,723
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 Functional Expenses

For the Year Ended June 30, 2021

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 513,231	\$ 218,230	\$ 235,441	\$ 966,902
Other employee benefits	61,759	26,261	28,332	116,352
Payroll taxes	39,642	16,856	18,186	74,684
Legal and professional fees	-	121,247	-	121,247
Supplies	7,175	2,563	513	10,251
Telephone	5,483	1,959	392	7,834
Postage and shipping	967	346	69	1,382
Occupancy	174,979	34,996	23,331	233,306
Occupancy - in-kind	811,755	162,351	108,234	1,082,340
Equipment rental and maintenance	63,668	21,223	-	84,891
Depreciation	477,308	20,311	10,156	507,775
Volunteer	-	632	-	632
Exhibit maintenance	182,896	-	-	182,896
PR/advertising	24,404	-	1,284	25,688
Miscellaneous expense	16,565	4,733	2,367	23,665
Membership / development	8,948	-	8,948	17,896
Education and training	2,593	-	-	2,593
Bank service fees	42,029	-	-	42,029
Software expenses	104	-	104	208
Program expense	16,599	-	-	16,599
Fund raising event expense - in-kind	-	-	10,188	10,188
Interest expense	156,296	-	-	156,296
Total functional expenses	\$ 2,606,401	\$ 631,708	\$ 447,545	\$ 3,685,654

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	209,708	41,942	27,961	279,611
Occupancy - in-kind	243,283	48,657	32,438	324,378
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 expenses	93,571	-	-	93,571
Fund raising event expense - in-kind	-	-	119,582	119,582
Interest expense	163,340	-	-	163,340
Total functional expenses	\$ 2,645,111	\$ 467,723	\$ 496,891	\$ 3,609,725

THE CHILDREN'S MUSEUM OF MEMPHIS, INC.

Statements of Cash Flows

For the Years Ended June 30, 2021 and 2020

	2021	2020
Cash flows provided by operating activities		
Change in net assets	\$ 49,453	\$ (179,262)
Adjustment to reconcile change in net assets to net cash provided by operating activities		
Depreciation	507,775	505,621
Conditional Paycheck Protection Program Loan Forgiveness	(266,427)	(266,400)
Realized and unrealized (gain) loss on investments, net	(196,617)	93,418
Changes in assets and liabilities		
Accounts receivable	(119,370)	7,264
Contributions receivable	5,000	36,500
Grants receivable	(75,000)	-
Inventory	(5,692)	-
Prepaid expenses	(18,495)	5,176
Accounts payable	(10,057)	(37,748)
Accrued expenses	(10,339)	(77,162)
Deferred revenue	17,714	55,227
Net cash provided by (used for) operating activities	(122,055)	142,634
Cash flows from (used for) investing activities		
Purchases of property and equipment	(10,913)	(87,652)
Purchases of investments	(333,527)	(1,314,639)
Proceeds from sale of investments	309,347	1,288,649
Net cash flows (used for) investing activities	(35,093)	(113,642)
Cash flows from (used for) financing activities		
Principal payments on capital lease obligation	(4,385)	(3,872)
Net proceeds from line of credit	178,629	1,321,371
Proceeds on unsecured promissory note under Paycheck Protection Program	266,427	266,400
Principal payments on note payable	(7,159)	(1,600,444)
Net cash from (used for) financing activities	433,512	(16,545)
Net change in cash and cash equivalents	276,364	12,447
Cash and cash equivalents - beginning of the year	559,194	546,747
Cash and cash equivalents - end of the year	\$ 835,558	\$ 559,194
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 164,152	\$ 150,836

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*Newly Adopted Accounting Pronouncement*

In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue Recognition (Topic 606): Revenue from Contracts with Customers. This ASU introduces a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of 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 Organization implemented ASU 2014-09 effective July 1, 2020. The adoption of this accounting standard did not have an impact on the Organization's financial position or changes in its net assets.

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.

Revenue Recognition

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers ("ASC 606"), the Museum recognizes revenue when control of the promised goods or services is transferred to the Museum's outside parties in an amount that reflects the consideration the Museum expects to be entitled to in exchange for those goods or services. The standard outlines a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied.

ASC 606 also requires new and expanded disclosures regarding revenue recognition to ensure an understanding as to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Museum recognizes revenue from contracts with customers as goods or services are transferred or provided when performance obligation is satisfied either over a period of time or at a given point in time in accordance with ASC 606.

The Museum has multiple revenue sources that are accounted for as exchange transactions in accordance with ASC 606 and are presented on the Statement of Activities as follows: admissions, membership, special events, carousel, birthday parties and parking fees.

Contributions

The Museum recognizes revenue from contributions in accordance with Accounting Standards Update ("ASU") 2018-08, Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made ("ASU 2018-08"). In accordance with ASU 2018-08, the Museum evaluates whether a transfer of assets is (1) an exchange transaction in which a resource provider is receiving

commensurate value in return for the resources transferred or (2) a contribution. If the transfer of assets is determined to be an exchange transaction, the Museum applies guidance under ASC 606. If the transfer of assets is determined to be a contribution, the Museum evaluates whether the contribution is conditional based upon whether the agreement includes both (1) one or more barriers that must be overcome before the Museum is entitled to the assets transferred and promised and (2) a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. The Museum records cash and unconditional promises to give as revenue in the period received. Unconditional contributions are recorded at the net present value of the amounts expected to be collected. Conditional contributions are recognized as revenue when the conditions (i.e., barriers) on which they depend have been met.

The Museum records unconditional contributions as restricted revenue (i.e., net assets with donor restrictions) if they are received with donor stipulations that limit their use either through purpose or time. When donor restrictions expire, that is, when a purpose restriction is fulfilled or a time restriction ends, restricted net assets are reclassified to net assets without donor restrictions, and reported in the statement of activities as net assets released from restrictions.

The Museum benefits from volunteers who provide administrative support to various Museum programs. Such contributed services do not meet the criteria for recognition of contributed services as defined by U.S. GAAP and, accordingly, are not reflected in the accompanying financial statements.

Admission Charges

The Museum sells tickets to guests for single-day access to exhibits and programs. The Museum recognizes revenue as the performance obligation is met, which occurs when the customer presents the ticket for entry. The majority of tickets are purchased on the date of entry. Some tickets are purchased in advance. The Museum recognizes the contract liabilities for payments received in advance of the day of the visit.

Membership Dues

The Museum sells memberships for one-year periods. Memberships provide unlimited entry for the membership term. The Museum recognizes the membership revenue at the time of the sale of the membership. Membership dues are non-refundable.

Special Events

External parties rent space at the Museum to hold events for specific dates. The performance obligation is met on the date of the event. A deposit of 50 percent of the rental fee is due on execution of the rental agreement, and the remainder is due two weeks before the event date. The Museum does not have an obligation to issue a refund in the event the room rental is canceled. The Museum recognizes contract liabilities for payments received prior to the rental date. Facility rental deposits and birthday deposits received in advance are recognized as deferred revenue. At June 30, 2021 and 2020, deferred revenue totaled \$114,516 and \$96,802, respectively.

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, 2021 and 2020.

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 \$15,175 and \$33,806 during the years ended June 30, 2021 and 2020, 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 may 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 the years ended June 30, 2021 and 2020, was \$1,082,340 and \$324,378, respectively. 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 – Endowments Valuation and Income Recognition

The Museum's endowment fund was established to support the Museum and its mission over the long-term. Investments are carried at fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Gains and losses on investments are reported as realized and unrealized gain (loss) on investments, net (See Note 7).

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, 2018.

Advertising

The Museum expenses advertising cost as incurred. During the years ended June 30, 2021 and 2020, advertising costs totaled \$25,688 and \$58,861, 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.

Reclassifications

Certain balances from the 2020 financial statements have been reclassified to conform to the 2021 financial statement presentation. Such reclassifications had no effect on the previously reported change in net assets for the year ended June 30, 2020.

Events Occurring after Reporting Date

Management has evaluated events and transactions that have occurred through December 27, 2021, 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 occurred except as disclosed in Note 13.

Note 3 – Contributions receivable

At June 30, 2021 and 2020, contributions receivable are expected to be collected as follows:

	2021	2020
Less than one year	\$ 2,500	\$ 7,500

At June 30, 2021, 100% of total contributions receivable was from one donor. At June 30, 2020, 100% of total contributions receivable was from two donors.

Note 4 – Grants receivable

At June 30, 2021 and 2020, grants receivable are expected to be collected a follows:

	2021	2020
Less than one year	\$ 25,000	\$ -
One year to five years	50,000	-
Total	\$ 75,000	\$ -

At June 30, 2021, 100% of total grants receivable was from one donor. The Museum has not discounted the grants receivable to be collected in future years as the related discount is not considered material to the financial statements.

Note 5 – Property and equipment

Property and equipment consists of the following major classifications at June 30, 2021 and 2020:

	2021	2020
Exhibits - depreciable	\$ 3,804,269	\$ 3,804,269
Exhibits - non-depreciable	2,870,304	2,870,304
Leasehold improvements	10,380,697	10,372,484
Furniture and fixtures	522,649	519,949
Total capital assets	17,577,919	17,567,006
Less: accumulated depreciation	(6,175,756)	(5,667,981)
Property and equipment - net	\$ 11,402,163	\$ 11,899,025

Depreciation expense for the years ended June 30, 2021 and 2020, was \$507,775 and \$505,621, respectively.

Note 6 – Investments – endowment fund

Investments are summarized as follows as of June 30, 2021 and 2020:

	2021	2020
Mutual funds	\$ 925,774	\$ 767,015
Exchange traded funds	251,817	189,291
Cash and cash equivalents	8,968	9,456
	\$ 1,186,559	\$ 965,762

Investment return is comprised of the following for the years ended June 30, 2021 and 2020:

	2021	2020
Dividends	\$ 33,156	\$ 34,609
Change in market value of investments	196,617	(93,418)
Investment fees	(8,976)	(8,619)
	\$ 220,797	\$ (67,428)

Note 7 – 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 Museum has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring a portion of a donor restricted endowment be classified as net assets with restrictions that are perpetual in nature. 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, 2020 and 2021, was as follows:

	Without Donor Restrictions - Board Designated	With Donor Restrictions	Total
Endowment net assets, June 30, 2019	\$ 433,190	\$ 600,000	\$ 1,033,190
Investment return:			
Investment return, net	25,990	-	25,990
Realized and unrealized loss on investments, net	(93,418)	-	(93,418)
Total investment return	(67,428)	-	(67,428)
Endowment net assets, June 30, 2020	365,762	600,000	965,762
Investment return:			
Investment return, net	24,180	-	24,180
Realized and unrealized gain on investments, net	196,617	-	196,617
Total investment return	220,797	-	220,797
Endowment net assets, June 30, 2021	\$ 586,559	\$ 600,000	\$ 1,186,559

Note 8 – 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, 2021 and 2020.

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, 2021 and 2020:

	Level 1	Level 2	Level 3	Total
June 30, 2021				
Mutual funds	\$ 925,774	\$ -	\$ -	\$ 925,774
Exchange traded funds	251,817	-	-	251,817
Cash and cash equivalents	8,968	-	-	8,968
	<u>\$ 1,186,559</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,186,559</u>
June 30, 2020				
Mutual funds	\$ 767,015	\$ -	\$ -	\$ 767,015
Exchange traded funds	189,291	-	-	189,291
Cash and cash equivalents	9,456	-	-	9,456
	<u>\$ 965,762</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 965,762</u>

Note 9 – 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, 2021 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, 2021 and 2020, was \$1,500,000 and \$1,321,371, respectively.

Note 10 – Note payable

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, 2021 and 2020, was \$2,377,249 and \$2,384,408.

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

2022	\$		111,153
2023			128,023
2024			133,704
2025			139,638
2026			145,835
Thereafter			1,718,896
			\$ 2,377,249

Note 11 – Net assets with donor restrictions

Net assets with donor restrictions as of June 30, 2021 and 2020, are available for the following purposes:

		2021		2020
Exclusively for endowment fund	\$	600,000	\$	600,000
Maintenance for First Horizon Bank exhibit		99,910		-
Operation of the AutoZone Garage exhibit		49,367		9,632
Annual maintenance of FedEx going places exhibit		44,445		48,318
Materials for the paper tree house exhibit		-		58,546
Exclusively to support Educator Focus Group initiative		-		16,663
Maintenance for SunTrust Bank exhibit		-		9,346
Maintenance for Baptist Hospital exhibit		-		5,029
Exclusively for institutional planning		-		1,000
		\$ 793,722	\$	748,534

Note 12 – Retirement plan

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, 2021 and 2020, were \$11,962 and \$17,759, respectively.

Note 13 – Commitments

Capital lease

The Museum has a capital lease for certain equipment with a total cost of \$20,110 and accumulated depreciation of \$15,753 at June 30, 2021. 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
2022	\$ 5,424
2023	940
Total	6,364
Less: amount representing interest	473
Present value of minimum lease payments	5,891
Less: current maturities	4,966
Capital lease obligation, net of current maturities	\$ 925

Operating leases

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.

Commitments

The Museum has committed to lease a traveling exhibit from the Miami Children's Museum for a total cost of \$80,000 for the period of January 10, 2022, until no later than May 13, 2022.

Subsequent to year-end, the Museum committed to reroof their primary building. This project has been completed and paid at a cost of \$165,000.

Note 14 – Related-party transactions

As of June 30, 2020, 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 15 – Concentration of credit risk

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. As of June 30, 2021, the uninsured balance is \$543,030. The Museum has not experienced any losses of such funds, and management believes the Museum is not exposed to significant credit risk on their cash balances.

Note 16 – Grant

On April 15, 2020, the Museum received loan proceeds in the amount of \$266,400 under the first Paycheck Protection Program ("PPP") loan program administered by the Small Business Administration ("SBA"). The conditions for forgiveness were met, as a result, grant revenue of \$266,400 was recognized for the year ended June 30, 2020. The Company received forgiveness of its first PPP loan from the SBA in June 2021.

The Museum applied for and received second loan proceeds of \$266,427 under the PPP. The second draw proceeds were received on April 13, 2021, in the amount of \$266,427. The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), provides loans to qualified entities for amounts up to 2.5 times the average monthly payroll expenses of the qualifying entity. The loan and accrued

interest are forgivable after twenty-four 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 twenty-four-week period. The PPP loan may be forgiven in part or in full after a period of time prescribed by law.

The Museum believes that the conditions for forgiveness will be met over the twenty-four-week period. As a result, grant revenue of \$266,427 has been recognized in the year ended June 30, 2021.

Note 17 – 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, 2021 and 2020, reduced by amounts not available for general expenditures within one year.

	2021	2020
Financial assets:		
Cash and cash equivalents	\$ 835,558	\$ 559,194
Accounts receivable	179,620	60,250
Contributions receivable	2,500	7,500
Investments - endowment fund	1,186,559	965,762
Total financial assets	2,204,237	1,592,706
Less those unavailable for general expenditure within one year due to:		
Purpose restrictions	(193,722)	(148,534)
Investments in perpetual endowments	(600,000)	(600,000)
Investments in board-designated endowments	(586,559)	(365,762)
Financial assets available to meet cash needs for general expenditures within one year	\$ 823,956	\$ 478,410