

THE CHILDREN'S MUSEUM
OF ATLANTA, INC.

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2020 AND 2019

THE CHILDREN'S MUSEUM OF ATLANTA, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of The Children's Museum of Atlanta, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of The Children's Museum of Atlanta, 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 Atlanta, 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.

Atlanta, Georgia
October 23, 2020

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THE CHILDREN'S MUSEUM OF ATLANTA, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

ASSETS	2020	2019
Cash and cash equivalents	\$ 835,359	\$ 869,075
Inventory	36,386	28,344
Prepaid expenses and other assets	128,928	133,928
Accounts receivable	3,119	10,630
Pledges receivable, net	91,422	228,285
Certificate of deposit	156,791	154,717
Investments	114,564	-
Property and equipment, net	4,918,516	5,390,628
Beneficial interest in assets held by Community Foundation for Greater Atlanta, Inc.	500,000	500,000
Total assets	\$ 6,785,085	\$ 7,315,607
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 136,891	\$ 147,173
Unearned revenue	224,080	338,256
Paycheck Protection Program loan	458,200	-
Line of credit	200,000	-
Note payable	604,287	622,717
Total liabilities	1,623,458	1,108,146
Commitments and contingencies		
Net assets:		
Without donor restrictions	4,921,270	5,914,946
With donor restrictions	240,357	292,515
Total net assets	5,161,627	6,207,461
Total liabilities and net assets	\$ 6,785,085	\$ 7,315,607

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

THE CHILDREN'S MUSEUM OF ATLANTA, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenues:						
Contributions	\$ 160,212	\$ 462,277	\$ 622,489	\$ 196,769	\$ 396,587	\$ 593,356
In-kind contributions	115,878	-	115,878	128,879	-	128,879
Grants	-	131,214	131,214	-	116,846	116,846
Investment income	-	9,564	9,564	-	-	-
Investment income from beneficial interest in assets held by Community Foundation for Greater Atlanta, Inc.	26,363	-	26,363	25,819	-	25,819
Special events (net of direct costs of \$106,551 and \$174,795)	262,255	-	262,255	233,379	-	233,379
Admissions	1,253,474	-	1,253,474	1,799,408	-	1,799,408
Memberships	556,084	-	556,084	572,077	-	572,077
Program fees	93,058	-	93,058	152,282	-	152,282
Facility rental and vending	11,572	-	11,572	18,041	-	18,041
Retail store (net of costs of goods sold of \$57,152 and \$83,791)	45,081	-	45,081	78,343	-	78,343
Other income	14,563	-	14,563	16,534	-	16,534
Total public support and revenues	<u>2,538,540</u>	<u>603,055</u>	<u>3,141,595</u>	<u>3,221,531</u>	<u>513,433</u>	<u>3,734,964</u>
Net assets released from restrictions	<u>655,213</u>	<u>(655,213)</u>	<u>-</u>	<u>424,190</u>	<u>(424,190)</u>	<u>-</u>
Total public support, revenues and net assets released from restrictions	<u>3,193,753</u>	<u>(52,158)</u>	<u>3,141,595</u>	<u>3,645,721</u>	<u>89,243</u>	<u>3,734,964</u>
Expenses:						
Program Services						
Museum, education and program services	3,652,480	-	3,652,480	3,910,881	-	3,910,881
Supporting Services:						
General and administrative	222,246	-	222,246	249,157	-	249,157
Development and fundraising	312,703	-	312,703	278,153	-	278,153
Total expenses	<u>4,187,429</u>	<u>-</u>	<u>4,187,429</u>	<u>4,438,191</u>	<u>-</u>	<u>4,438,191</u>
Increase (decrease) in net assets	(993,676)	(52,158)	(1,045,834)	(792,470)	89,243	(703,227)
Net assets, beginning of year	<u>5,914,946</u>	<u>292,515</u>	<u>6,207,461</u>	<u>6,707,416</u>	<u>203,272</u>	<u>6,910,688</u>
Net assets, end of year	<u>\$ 4,921,270</u>	<u>\$ 240,357</u>	<u>\$ 5,161,627</u>	<u>\$ 5,914,946</u>	<u>\$ 292,515</u>	<u>\$ 6,207,461</u>

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

THE CHILDREN'S MUSEUM OF ATLANTA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

	Program Services	General and Administrative	Development and Fundraising	Total Expenses
Salaries and wages	\$ 1,665,863	\$ 93,217	\$ 203,269	\$ 1,962,349
Benefits and payroll taxes	272,000	17,967	17,217	307,184
Total personnel	1,937,863	111,184	220,486	2,269,533
Marketing	312,309	23,082	8,595	343,986
Exhibits and education	186,638	475	136	187,249
Rent	30,135	2,318	662	33,115
Common area maintenance	46,525	3,579	1,023	51,127
Utilities	80,102	6,162	1,760	88,024
Security	7,247	555	159	7,961
Transaction processing and finance fees	80,752	6,210	1,774	88,736
Interest	31,474	2,421	692	34,587
Professional fees	36,927	4,162	52,360	93,449
Depreciation	491,926	37,840	10,812	540,578
Telecommunications	20,139	1,549	443	22,131
Travel and training	16,486	1,059	4,370	21,915
Repairs and maintenance	180,133	13,851	4,070	198,054
Insurance and licenses	47,183	3,546	1,002	51,731
Supplies	76,107	1,749	1,799	79,655
Postage and delivery	28,933	526	800	30,259
Printing and copying	6,047	389	425	6,861
Contract services and temporary help	23,785	-	-	23,785
Dues and subscriptions	4,621	1,058	908	6,587
Recruiting and volunteer appreciation	3,547	246	345	4,138
Bad debt	2,762	212	61	3,035
Sales tax and miscellaneous expenses	839	73	21	933
Total expenses	\$ 3,652,480	\$ 222,246	\$ 312,703	\$ 4,187,429
2020 Percentage of total expenses	87%	5%	7%	100%

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

THE CHILDREN'S MUSEUM OF ATLANTA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	General and Administrative	Development and Fundraising	Total Expenses
Salaries and wages	\$ 1,598,564	\$ 96,067	\$ 214,567	\$ 1,909,198
Benefits and payroll taxes	243,947	16,008	8,970	268,925
Total personnel	<u>1,842,511</u>	<u>112,075</u>	<u>223,537</u>	<u>2,178,123</u>
Marketing	318,670	24,513	7,504	350,687
Exhibits and education	207,040	-	-	207,040
Rent	30,530	2,348	671	33,549
Common area maintenance	44,565	3,428	979	48,972
Utilities	101,055	7,773	2,221	111,049
Security	8,625	642	183	9,450
Transaction processing and finance fees	97,974	7,533	2,152	107,659
Interest	30,334	2,333	667	33,334
Professional fees	62,980	6,348	14,507	83,835
Depreciation	654,885	50,376	14,393	719,654
Telecommunications	19,366	1,490	426	21,282
Travel and training	24,407	816	605	25,828
Repairs and maintenance	211,435	16,255	4,644	232,334
Insurance and licenses	41,813	3,177	891	45,881
Supplies	82,397	3,031	1,437	86,865
Postage and delivery	35,772	3,070	996	39,838
Printing and copying	34,265	1,985	567	36,817
Contract services and temporary help	46,294	70	520	46,884
Dues and subscriptions	8,174	1,403	1,112	10,689
Recruiting and volunteer appreciation	4,802	261	75	5,138
Bad debt	2,369	182	52	2,603
Sales tax and miscellaneous expenses	618	48	14	680
Total expenses	<u>\$ 3,910,881</u>	<u>\$ 249,157</u>	<u>\$ 278,153</u>	<u>\$ 4,438,191</u>
2019 Percentage of total expenses	88%	6%	6%	100%

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

THE CHILDREN'S MUSEUM OF ATLANTA, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Cash flows from operating activities:		
Decrease in net assets	\$ (1,045,834)	\$ (703,227)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	540,578	719,654
Amortization of debt issuance costs	-	5,378
Investment income	(9,564)	-
Cash proceeds collected on capital campaign	(62,000)	(61,000)
Changes in assets and liabilities:		
(Increase) decrease in:		
Inventory	(8,042)	895
Prepaid expenses and other assets	5,000	24,000
Accounts receivable	7,511	8,370
Pledges receivable	136,863	37,928
Increase (decrease) in:		
Accounts payable and accrued expenses	(10,282)	14,700
Unearned revenue	(114,176)	7,082
Net cash provided by (used in) operating activities	(559,946)	53,780
Cash flows from investing activities:		
Purchase of investments	(105,000)	-
Reinvestment of interest in certificate of deposit	(2,074)	(4,717)
Purchase of property and equipment	(68,466)	(75,862)
Net cash used in investing activities	(175,540)	(80,579)
Cash flows from financing activities:		
Proceeds on Paycheck Protection Program loan	458,200	-
Borrowings on line of credit	200,000	-
Principal payments on note payable	(18,430)	(28,330)
Borrowings on note payable	-	4,660
Cash proceeds collected on capital campaign	62,000	61,000
Net cash provided by financing activities	701,770	37,330
Net increase (decrease) in cash and cash equivalents	(33,716)	10,531
Cash and cash equivalents, beginning of year	869,075	858,544
Cash and cash equivalents, end of year	\$ 835,359	\$ 869,075
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	\$ 41,367	\$ 27,956
Refinance of note payable	\$ -	\$ 619,507

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

THE CHILDREN'S MUSEUM OF ATLANTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

1. Nature of Organization and Significant Accounting Policies

Organization

The Children's Museum of Atlanta, Inc. (the Museum) is a nonprofit corporation which was organized on February 17, 1988 under the laws of the State of Georgia. Its stated mission is to change the world by sparking every child's imagination, sense of discovery and learning through the power of play. To that end the Museum presents exhibits, programs, cultural activities, and educational workshops for young children and their parents and teachers. The Museum's exhibits and discovery zones are "hands-on" and promote a learning environment that addresses the many different ways that children learn.

Since opening, the Museum has welcomed over 3 million visitors and has expanded its outreach efforts to ensure that programs and exhibits are reaching all children in the Atlanta Metro area, no matter their circumstances. The outreach programs have been recognized nationally and are a testament to the vision that children's museums inspire and reach families, schools, and children in ways that other organizations do not.

The Museum continues to expand and deepen programs that introduce young children to science, technology, engineering, arts, math, social sciences, geography, and other important topics. Extensive community outreach programs have reached over 250,000 over the past decade. This year, prior to the forced shutdown necessitated by the pandemic, the Museum was focused on implementing its strategic and business plans to deepen the reach and experience for families, schools, and centers with the goal of reaching all young children and eliminating any and all barriers to participation. Two new outreach programs that had been launched last year: A Museum for All – working in partnership with area school systems, the Museum is piloting a program specifically reaching young children with special needs; and Mobile Learning – a program that brings pre-k programming to neighborhoods where the very young are not receiving foundational learning experiences that prepare them for kindergarten, were well underway towards achieving their goals. The Museum was working steadfastly towards increasing revenue while deepening the fulfillment of mission, including the reinvention and expansion of the annual fundraiser.

The COVID-19 pandemic required closure of the Museum in mid-March prompted an immediate pivot in operations. A combination of healthy reserve funds, allowed re-designation of donated funds by foundations and individuals, and the receipt of Paycheck Protection Program funding gave the Museum the financial flexibility and capacity to adjust operations. This was accomplished by transforming all programs to digital content, forming important partnerships with local education, arts, and culture organizations and collaborating with a group of nationally renowned Children's Museums. When it became clear that the length of closure would continue much longer than anyone had anticipated, and that reopening would require greatly restricted attendance for the foreseeable future, the Museum took difficult steps to eliminate programs, restructure operations to comply with health and safety requirements, and downsize staffing and expenses accordingly.

THE CHILDREN'S MUSEUM OF ATLANTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

1. Nature of Organization and Significant Accounting Policies – Continued

Organization – Continued

The Museum successfully reopened under these restrictions (July 1, 2020), and developed a menu of virtual field trips and workshops enabling new partnerships with area counties, home schools, childcare centers including the YMCA, and newly forming partnerships. The Museum has downsized its fiscal year 2021 budget and has launched a fundraising campaign – Bridge to the Future. This campaign is designed with a 2-year vision of recovery and new programs/exhibits, which will enable the Museum to emerge from this extraordinary time in a position of strength.

Financial Statement Presentation and Basis of Accounting

The Museum maintains its accounts on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Under GAAP, the Museum is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions based on stipulations made by the donor, as follows:

- Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions including the carrying value of all property and equipment. Items that affect (i.e., increase or decrease) this net assets category include program revenue and related expenses associated with the core activities of the Museum. In addition to these program revenues, changes to this category of net assets include investment income and contributions without donor restrictions.
- Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions that are satisfied by actions of the Museum or the passage of time. Items that affect this net assets category are contributions with donor restrictions including pledges for which restrictions have not been met. These amounts are reclassified to net assets without donor restrictions when such restrictions are met or have expired. Net assets with donor restrictions also include gifts wherein donors stipulate that the corpus be held in perpetuity (primarily gifts for endowment) and that only the income be made available for program operations. At June 30, 2020, the Museum had \$100,000 of net assets with donor restrictions to be held in perpetuity. The Museum had no net assets with donor restrictions to be held in perpetuity as of June 30, 2019.

Contributions and Promises to Give

GAAP requires the recognition of pledges as revenue when received and the use of discounting for recording long-term pledges. Contributions are recognized when the donor makes a promise to give to the Museum that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions. When a restriction terms are met or expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

THE CHILDREN'S MUSEUM OF ATLANTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

1. Nature of Organization and Significant Accounting Policies – Continued

Contributions and Promises to Give – Continued

The Museum uses the allowance method to determine uncollectible, unconditional promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

Donated Services, Materials and Facilities

All non-cash gifts (other than personal services) are recorded at their estimated fair value at the date of receipt. Contributed services are reflected in the financial statements at the fair value of the services received. Contributions of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Certain amounts have been recognized in the financial statements for donated services, as described in Note 9.

Long-Lived Assets

The Museum evaluates its long-lived assets held for use in operations, including real estate, for indicators of impairment and if impaired, records such assets at the lower of cost or fair value. There were no impairment losses recognized during the years ended June 30, 2020 or 2019.

Inventory

The Museum records its gift shop inventory at lower of cost or net realizable value under the first-in, first-out (FIFO) method. The FIFO method assumes that items flow through inventory in the order they were purchased. The FIFO method produces an inventory amount that more closely approximates replacement cost since inventory consists of the items that were purchased most recently.

Property and Equipment

The Museum follows the practice of capitalizing all expenditures for property and equipment in excess of \$1,000. Donated property and equipment are stated at cost or estimated fair value at time of donation. Depreciation is computed using the straight-line method over the assets' estimated useful lives as stated below. For the years ended June 30, 2020 and 2019, the estimated useful lives of property and equipment were as follows:

Building and improvements	39 years
Museum exhibits	5 years
Furniture, fixtures and equipment	5 years
Computer software	3 years

THE CHILDREN'S MUSEUM OF ATLANTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

1. Nature of Organization and Significant Accounting Policies – Continued

Property and Equipment – Continued

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as contributed revenue with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Museum reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

The Museum is a nonprofit organization exempt from federal income taxes under Internal Revenue Code Section 501(c)(3), as amended, and classified by the Internal Revenue Service as other than a private foundation. The Museum is subject to tax on unrelated business income, net of expenses, resulting from the sale of certain gift shop merchandise. There was no unrelated business income tax for the years ended June 30, 2020 and 2019. For the years ended June 30, 2020 and 2019, the Museum had federal and state income tax net operating loss (NOL) carryforwards of \$76,476 and \$23,475, respectively. Management believes that it has appropriate support for any tax positions taken by the Museum, and as such, does not have any uncertain tax positions that are material to the financial statements. The Museum's income tax returns are subject to examination by the appropriate regulatory authorities for all open years, which include the last three years filed.

Advertising Expense

Advertising costs are expensed as incurred. For the years ended June 30, 2020 and 2019, advertising expense totaled \$261,397 and \$280,100, respectively. Donated advertising expense for the year ended June 30, 2020 and 2019 was \$59,033 and \$41,547, respectively, and is included in advertising expense.

THE CHILDREN'S MUSEUM OF ATLANTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

1. Nature of Organization and Significant Accounting Policies – Continued

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. The Statement of Functional Expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the various programs and supporting services benefited. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses allocated on a square foot basis include rent, common area maintenance, utilities, marketing, professional fees, security, depreciation, telecommunications, repairs and maintenance, insurance and licenses, certain supplies, and printing and copying. Salaries and wages and benefits and payroll taxes are allocated based on estimates of time and effort.

Cash and Cash Equivalents and Concentration of Credit Risk

Cash and cash equivalents are comprised of demand deposit accounts. For purposes of the statements of cash flows, the Museum considers all short-term, interest-bearing deposits with maturities of three months or less to be cash equivalents. Cash and cash equivalents consist of deposits with one financial institution as of June 30, 2020 and 2019. The balances in the Museum's bank accounts, as reflected in the bank's records, are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2020 and 2019, the Museum's cash balances exceeded the FDIC's insured limits by \$606,305 and \$651,540, respectively. Management does not believe the credit risk associated with these uninsured balances is significant.

Unearned Revenue

For the years ended June 30, 2020 and 2019, unearned revenue consists of the unearned portion of membership revenue, as well as prepayments of museum admissions and program fees totaling \$179,280 and \$280,106, respectively. The revenues from Museum memberships are recognized pro-rata over the one-year membership period. In addition, unearned revenue as of June 30, 2020 and 2019 includes \$44,800 and \$58,150, respectively, related to special event ticket sales for the golf tournament.

New Accounting Policy

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This new standard clarifies and improves the scope and the accounting guidance for contributions received and contributions made. The guidance in this update should be applied on a modified prospective basis. Retrospective application is permitted. The Museum adopted this accounting policy for the year ended June 30, 2020. This new accounting policy did not affect total net assets for either the year ended June 30, 2020 or 2019.

THE CHILDREN'S MUSEUM OF ATLANTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

2. Liquidity and Availability of Financial Assets

The Museum is substantially supported by special event revenues, admission and membership revenue, program fees, and contributions without donor restrictions. However, a material amount of contributions with donor restrictions are received each year for various programs. As a donor's restrictions require funds to be used in a particular manner or in a future period, the Museum maintains those restricted funds so that they are available to meet those responsibilities as they are required to be met. Accordingly, related financial assets are not available to the Museum for its general expenditures. General expenditures may be incurred for program, fundraising, or administrative purposes.

The Museum's financial assets at June 30, 2020 and 2019 (reduced by amounts that are not available for general use because of contractual, donor-imposed, or internal restrictions) available within one year after this date to satisfy liabilities at this date and for future general expenditure are as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 835,359	\$ 869,075
Accounts receivable	3,119	10,630
Pledges receivable, net	91,422	228,285
Certificate of deposit	156,791	154,717
Investments	114,564	-
Beneficial interest in assets held by the Community Foundation of Atlanta, Inc.	<u>500,000</u>	<u>500,000</u>
Total financial assets	1,701,255	1,762,707
Less:		
Capital campaign pledges receivable, net	-	(62,000)
Internal designation of cash and certificate of deposit for capital reserve	(654,388)	(658,000)
Internal designation for long-term investment	(500,000)	(500,000)
Perpetual restriction on investments	<u>(100,000)</u>	<u>-</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u><u>446,867</u></u>	\$ <u><u>542,707</u></u>

The Museum structures its financial assets to be available as its general expenditure, liabilities, and other obligations become due. In addition to financial assets available to meet general expenditures over the next twelve months, the Museum operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

THE CHILDREN'S MUSEUM OF ATLANTA, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

2. Liquidity and Availability of Financial Assets – Continued

The Museum has designated a portion of its resources without donor restrictions for a capital reserve. These amounts are identified as internal designations in the above table. These funds remain available and may be spent at the discretion of the Board and if the Board elected to make them available, the financial assets available for general expenditures would be \$1,101,255 and \$1,200,707 at June 30, 2020 and 2019, respectively.

As shown in the accompanying financial statements, the Museum had a decrease in net assets of \$1,045,834 and \$703,327, respectively for the years ended June 30, 2020 and 2019. As a result, the Museum has implemented specific plans to continue to improve cash flows and increase profitability through specific measures including cost reductions, identification of new sources of revenues and increased marketing, fundraising and development efforts. Management and the Board of Directors believe these plans have made a significant impact and will continue to result in positive cash flows from operations for the fiscal year ended June 30, 2021 and significantly improve the financial performance of the Museum.

In July 2020, the Museum launched a \$2,200,000 “Bridge to the Future” fundraising campaign to bridge the operating funding gap resulting from the impact of the pandemic, rebuild programs, and update the Step-Up-to-Science mezzanine.

3. Accounts Receivable

The Museum reported accounts receivable of \$3,119 and \$10,630 as of June 30, 2020 and 2019, respectively. The Museum believes the full balances are collectible and therefore no allowance for doubtful accounts were recorded at June 30, 2020 and 2019.

4. Pledges Receivable, Net

In July 2011, the Museum began a capital fundraising campaign for renovation of the Museum and to reduce accumulated debt. Additionally, each year the Museum receives pledges for its programs and operating purposes. Pledges receivable are recorded at net realizable value upon receipt. Contributions to be received after one year are discounted at 3.7%, commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue and utilized in accordance with donor imposed restrictions on the contribution.

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4. Pledges Receivable, Net – Continued

Capital and operating pledges receivable consisted of the following at June 30:

	2020	2019
Amounts due in:		
Less than one year	\$ 67,999	\$ 193,339
One to five years	25,000	48,334
Less:		
Discount on pledges receivable	-	(3,388)
Allowance for uncollectible pledges	(1,577)	(10,000)
Pledges receivable, net	\$ 91,422	\$ 228,285

5. Investments

The Museum classifies its investment assets using a hierarchy of inputs to fair value measurements as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities that the Museum has the ability to access.

Level 2 – Inputs to the valuation methodology that are derived principally from or corroborated by observable market data:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the assets or liabilities;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs that are unobservable and significant to the overall fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

The Museum's investments consist exclusively of money market and mutual funds. Money market funds are carried at cost value, which approximates fair value. Accordingly, the Museum's direct investments in money market funds and mutual funds are Level 1 investments.

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5. Investments – Continued

There were no investments at June 30, 2019. The fair market value of investments is summarized below at June 30, 2020:

	Fair Value Hierarchy Level	2020
Money market and cash funds	1	\$ 5,874
Total fixed income mutual funds	1	108,690
Total investments		\$ 114,564

Spending Policy

The spending policy for a given year will equal 5% of the prior year's ending fiscal year corpus value.

Investment Policy and Strategy

The Finance Committee manages the fund and oversees the administration and distribution of the endowment fund. With a spending policy of 5% and assumed inflation of 2%, the overall return target is equivalent to at least 7% in total return. The investment target will be comprised of 80% weighting to the S&P 500 Index and a 20% weighting to the Bloomberg Barclays US Aggregate Fixed Income Index.

6. Endowed Net Assets

In 2020, the Museum received a gift from a private grantor for the purpose of establishing an Endowment Fund to generate investment return to be used to fund continuing professional education to at least one staff member per year. Accordingly, the Museum follows the requirements of Georgia's Uniform Prudent Management of Institutional Funds Act (the Act).

From time to time, the fair value of invested assets associated with individual endowment funds may fall below the level that the Finance Committee requires to retain as a fund of perpetual duration. There were no deficiencies of this nature at June 30, 2020.

In compliance with the Act, the Museum has adopted investment and spending policies for endowment assets as described in Note 5. The objective of these policies is to provide a predictable and sustainable stream of funding for professional development awards supported by its endowment while seeking to maintain the purchasing power of the endowment.

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6. Endowed Net Assets – Continued

Endowment assets by net asset category and related changes consisted of the following as of June 30, 2020:

	With Donor Restrictions for Purpose	With Donor Restrictions in Perpetuity	Total
Endowment net assets, June 30, 2019	\$ -	\$ -	\$ -
Contributions	5,000	100,000	105,000
Investment return	9,564	-	9,564
Endowment net assets, June 30, 2020	<u>\$ 14,564</u>	<u>\$ 100,000</u>	<u>\$ 114,564</u>

7. Property and Equipment, Net

Property and equipment are summarized as follows at June 30:

	2020	2019
Furniture, fixtures and other	\$ 283,415	\$ 264,198
Museum exhibits	2,979,714	2,941,630
Office equipment	274,092	190,337
Computer hardware	73,103	67,107
Computer software	32,237	95,478
Vehicles	26,187	26,187
Building and improvements	7,998,421	8,013,766
	<u>11,667,169</u>	<u>11,598,703</u>
Less accumulated depreciation	(6,748,653)	(6,208,075)
Total property and equipment, net	<u>\$ 4,918,516</u>	<u>\$ 5,390,628</u>

Depreciation expense for the years ended June 30, 2020 and 2019 was \$540,578 and \$719,654, respectively.

8. Notes Payable

The Museum previously had a term loan with a financial institution in the amount of \$800,000. This loan was refinanced in May 2019 with a new maturity date of May 14, 2024 and an interest rate of 5.04%. The term loan requires monthly installments of both principal and interest and is collateralized by substantially all real property owned by the Museum. The balance of the note payable as of June 30, 2020 and 2019 is \$604,287 and \$622,717, respectively.

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8. Notes Payable – Continued

The Museum incurred interest expense of \$34,587 and \$27,956 for the years ended June 30, 2020 and 2019, respectively. Loan closing costs on the Museum's previous loan totaling \$16,985 are amortized over the loan period of 60 months using the straight-line method, which approximates the effective interest method. The loan closing costs were written off upon refinance of the note payable in fiscal 2019. For the year ended June 30, 2019, amortization charged to expense was \$5,378 and is included in interest expense on the Schedule of Functional Expenses. There was no amortization expense for the year ended June 30, 2020.

Principal maturities of the note payable subsequent to June 30, 2020 are as follows:

<u>For the year ended June 30:</u>	
2021	\$ 19,481
2022	20,500
2023	21,572
2024	<u>542,734</u>
	<u>\$ 604,287</u>

The Museum has a line of credit in the amount of \$200,000 with the same financial institution. The interest rate at June 30, 2020 and 2019 is a variable rate based on the Wall Street Journal published Prime Rate of 3.25% and 5.50%, respectively. The balance on this line of credit at June 30, 2020 was \$200,000. There was no outstanding balance on this line of credit for the year ended June 30, 2019. The maturity date of the line of credit is May 14, 2024. The line of credit requires the Museum to maintain a debt service ratio of at least 1.25:1. The Museum obtained a waiver for this covenant for the year ended June 30, 2020.

At June 30, 2020, the global coronavirus pandemic threatened to deeply harm global growth. This has affected the U.S. and global equity markets, as well as consumer confidence, and the broad U.S. and global stock markets have experienced extreme volatility. It is uncertain how this downturn in the financial markets and consumer confidence may affect the operations, investments, funding and contribution income of nonprofit organizations in the near future. The Museum depends heavily on contributions to support its operations. The ability of contributors to continue giving may be dependent on current and future overall economic conditions. While the Museum believes it has the resources to continue its programs, its ability to do so, and the extent to which it continues, may be dependent on many interdependent factors.

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8. Notes Payable – Continued

To assist with operational cash flow during the pandemic, the Museum has been granted a forgivable loan from the United States Small Business Administration's Paycheck Protection Program (PPP). Management expects to spend the loan proceeds on eligible amounts qualifying for loan forgiveness, but any portion not forgiven would be payable over an eighteen (18) month period at an interest rate of 1%. The total received in 2020 was \$458,200 and has been recorded as a loan in the Statements of Financial Position. Management expects that the loan will be forgiven in fiscal 2021 and the related gain on extinguishment of debt will be recorded at that time.

9. Donated Services, Materials and Facilities

Donated services, materials, and facilities are included in contributions revenue and special event revenue in the accompanying statements of activities, and are summarized as follows for the years ended June 30:

	2020	2019
Advertising and marketing	\$ 59,033	\$ 41,547
Special events	-	19,055
Legal services	14,400	42,760
Parking	25,976	19,919
Other	16,469	24,654
Total donated services, materials, and facilities	\$ 115,878	\$ 147,935

10. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following at June 30:

	2020	2019
Purpose and time restrictions:		
Education and other programs	\$ 95,793	\$ 271,515
Museum exhibits	30,000	21,000
Staff professional development	14,564	-
Total net assets with purpose and time restrictions	140,357	292,515
Perpetual restrictions for staff professional development	100,000	-
Total net assets with donor restrictions	\$ 240,357	\$ 292,515

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11. Net Assets Released from Restrictions

Net assets with donor restrictions were released from restrictions by incurring expenditures satisfying the restricted purposes or by occurrence of other events specified by donors as follows for the years ended June 30:

	2020	2019
Museum exhibits	\$ 246,000	\$ 90,000
Education and other programs and activities	409,213	334,190
Total net assets released from restrictions	\$ 655,213	\$ 424,190

12. Retirement Plan

The Museum maintains a defined contribution 401(k) plan for all employees meeting minimum service and age requirements. Generally, employees can defer up to 15% of their compensation into the plan, not to exceed regulatory limits. Employee contributions to the plan are deducted from gross salaries before they are taxed. Benefit payments are available in the form of an annuity, specified payment option (SPO), or a single lump sum.

13. Lease Commitments

The Museum leases office equipment and parking spaces under non-cancelable operating leases. The future minimum payments required under these operating leases are as follows:

For the year ended June 30:	
2021	\$ 27,942
2022	27,180
2023	27,180
2024	24,000
2025	24,000
Thereafter	76,000
	\$ 206,302

Rent expense for the years ended June 30, 2020 and 2019 was \$28,193 and \$26,574, respectively .

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14. Commitments and Contingencies

The Museum has entered into various contracts related to exhibits. The total of these contracts is \$182,500 with \$75,000 outstanding at June 30, 2020. The Museum also signed various maintenance contracts for fiscal years 2017 through 2022. The total remaining balances on these contracts is \$96,604 at June 30, 2020. In addition, the Museum previously entered into a contract to obtain accounting and other software. The contract ends in fiscal 2022. The remaining balance on this contract is approximately \$18,500 at June 30, 2020. Finally, the Museum signed a contract for fundraising campaign consulting services totaling \$49,500 with \$11,300 outstanding at June 30, 2020.

15. Accounts at Community Foundation for Greater Atlanta and Board-Designated Funds

Board-designated net assets are funds that have been designated by the Museum for use in specific areas. Board-designated net assets at both June 30, 2020 and 2019 consist of \$500,000 for an endowment, as further discussed below. Additionally, board-designated net assets at June 30, 2020 and 2019 consist of \$654,388 and \$720,000, respectively, for capital reserve.

During the year ended June 30, 2004, a private foundation placed \$500,000 with The Community Foundation for Greater Atlanta, Inc. ("Community Foundation") as a permanent endowment for the benefit of the Museum. Provided that the Museum meets certain conditions, it is entitled to a perpetual income stream from this endowment in accordance with the Community Foundation's spending policy (currently 5% of the three-year rolling average value of the assets). However, the Community Foundation has variance power over the income stream, and thus, this beneficial interest is not recorded in these financial statements. The income distributions related to this investment that are recorded as contributions in the statements of activities, are \$26,363 and \$25,819 for the years ended June 30, 2020 and 2019, respectively.

As a condition of the donation by the private foundation, the Museum was required to raise and hold an additional \$500,000 for long-term purposes. The Museum has raised \$500,000 as of June 30, 2014 and has invested this amount with the Community Foundation. The Museum has named itself as the beneficiary of this investment and is entitled to a perpetual income stream in accordance with the Community Foundation's spending policy. The Museum's beneficial interest in this perpetual income stream was recorded in the amount of \$500,000, in accordance with GAAP, as the fair value of the invested assets approximates the net present value of the perpetual income stream. This amount is evaluated annually and adjusted if facts and circumstances are deemed to warrant an impairment or enhancement of the expected perpetual income stream. The beneficial interest is included in designated net assets on the Statements of Financial Position. The income distributions related to this investment are recorded as "investment income from beneficial interest in assets held by the Community Foundation for Greater Atlanta, Inc." in the Statements of Activities. Investment income from beneficial interest in assets held by the Community Foundation totaled \$26,363 and \$25,819, respectively, for the years ended June 30, 2020 and 2019.

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16. Related Party Transactions

Various members of the Board of Directors donated legal services to the Museum totaling \$14,400 and \$42,760 for the years ended June 30, 2020 and 2019, respectively. The value of these services are recorded as in-kind donations in the statement of activities. During fiscal 2020 and 2019, a member of the Board of Directors was employed by the bank in which the Museum held its cash and loan accounts. The bank also funded the Museum's Paycheck Protection Program loan as further discussed in Note 8. Various members of the Board of Directors work for broadcasting companies who the Museum paid a total of \$77,488 and \$103,605, respectively, for advertising during the years ended June 30, 2020 and 2019.

17. Subsequent Events

Management has evaluated events and transactions which occurred through October 23, 2020, which was the date the financial statements were available to be issued. There are no significant subsequent events requiring recognition or disclosure in the financial statements, other than the fundraising campaign that began in July 2020 as further discussed in Note 2.