

IMAGINE CHILDREN'S MUSEUM
FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2020

IMAGINE CHILDREN’S MUSEUM

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INDEPENDENT AUDITORS' REPORT

To The Finance Committee and Board of Directors
Imagine Children's Museum
Everett, WA

Report on the Financial Statements

We have audited the financial statements of Imagine Children's Museum (a nonprofit organization), which are comprised of the statement of financial position as of December 31, 2020 and the related statements of activities and changes in net assets, functional expenses and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 of 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 auditors' 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 Imagine Children's Museum as of December 31, 2020 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Padgett & Padgett, PLLC

June 18, 2021

Mount Vernon, Washington

IMAGINE CHILDREN'S MUSEUM
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2020

ASSETS

Current assets:	
Cash and cash equivalents	\$ 3,218,442
Accounts receivable	12,776
Pledges receivable	1,579,699
Inventory	21,901
Prepaid expenses and other assets	86,423
Total current assets	4,919,241
Noncurrent assets:	
Certificate of deposit	78,842
Pledges receivable, noncurrent and net of discount	6,082,610
Property and equipment, net	6,835,169
Investments - board designated reserves	8,872,290
Investments - endowment	1,433,026
Total noncurrent assets	23,301,937
TOTAL ASSETS	\$ 28,221,178

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 13,196
Accrued liabilities	59,548
Gift certificates outstanding	67,223
Deferred membership revenue	360,479
Deferred grant revenue	56,250
Total current liabilities	556,696
Long-term liabilities:	
Service award payable	75,000
Long-term debt	603,545
Total long-term liabilities	678,545
Total liabilities	1,235,241
Net assets:	
Without donor restrictions	
Investment in property and equipment	6,835,169
Board designated - reserves	4,556,878
Total net assets without donor restrictions	11,392,047
With donor restrictions	
Total net assets	15,593,890
TOTAL LIABILITIES AND NET ASSETS	\$ 28,221,178

See accompanying notes to financial statements and independent auditors' report.

IMAGINE CHILDREN'S MUSEUM
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Admissions and program fees	\$ 225,911	\$ -	\$ 225,911
Memberships	180,805	-	180,805
Contributions and grants	144,780	437,434	582,214
Capital campaign contributions	-	7,658,105	7,658,105
Special events, net of direct expenses of \$7,482	168,735	-	168,735
Gift shop sales, net of cost of sales \$15,672	17,570	-	17,570
Parking revenue, net of cost of revenue of \$0	17,489	-	17,489
Investment return (loss)	(58,201)	89,837	31,636
In-kind contributions	193,529	-	193,529
Interest	849	-	849
Net assets released from restrictions	(545,233)	545,233	-
TOTAL SUPPORT AND REVENUE	346,234	8,730,609	9,076,843
EXPENSES			
Program services	1,662,638	-	1,662,638
Management and general	171,692	-	171,692
Fundraising	167,170	-	167,170
TOTAL EXPENSES	2,001,500	-	2,001,500
CHANGE IN NET ASSETS	(1,655,266)	8,730,609	7,075,343
NET ASSETS, beginning of year	13,047,313	6,863,281	19,910,594
NET ASSETS, end of year	<u>\$ 11,392,047</u>	<u>\$ 15,593,890</u>	<u>\$ 26,985,937</u>

See accompanying notes to financial statements and independent auditors' report.

IMAGINE CHILDREN'S MUSEUM
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020

	Program Services	Management and General	Fundraising	2020 Total
Salaries and wages	\$ 833,083	\$ 93,722	\$ 114,549	\$ 1,041,354
Payroll taxes	76,597	8,617	10,532	95,746
Benefits	52,776	5,937	7,257	65,970
	<u>962,456</u>	<u>108,276</u>	<u>132,338</u>	<u>1,203,070</u>
Depreciation	267,646	-	-	267,646
In-kind	193,529	-	-	193,529
Communications	57,818	6,505	7,948	72,271
Investment and endowment management fees	-	36,979	-	36,979
Insurance	29,217	3,175	4,305	36,697
Repairs and maintenance	23,312	3,476	4,711	31,499
Janitorial	22,953	2,495	3,382	28,830
Utilities	21,683	2,357	3,195	27,235
Bank and credit card fees	20,290	2,205	2,990	25,485
Professional fees	15,752	1,713	2,321	19,786
Office	14,982	1,628	2,207	18,817
Advertising and community relations	10,311	1,121	1,519	12,951
Miscellaneous	9,498	740	867	11,105
Printing and postage	5,097	421	572	6,090
Professional development	3,864	421	571	4,856
Business tax	2,272	-	-	2,272
Contract services	1,658	180	244	2,082
Bad debt	300	-	-	300
Total expenses	<u>1,662,638</u>	<u>171,692</u>	<u>167,170</u>	<u>2,001,500</u>

See accompanying notes to financial statements and independent auditors' report.

IMAGINE CHILDREN'S MUSEUM
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES	
Changes in net assets	\$ 7,075,343
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	267,646
Investment (return) loss	(31,636)
Capital campaign contributions	(7,658,105)
Changes in discount on long-term pledges	(49,278)
(Increase) decrease in assets	
Accounts receivable	38,564
Inventory	4,167
Prepaid expenses	(8,146)
Increase (decrease) in liabilities	
Accounts payable	(63,818)
Accrued liabilities	(25,296)
Deferred membership revenue	(18,600)
Deferred grant revenue	18,750
Gift certificates outstanding	(3,545)
Net cash provided by operating activities	<u>(453,954)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(616,040)
Change in value of certificate of deposit	(784)
Purchase of investments	<u>(301,219)</u>
Net cash used by investing activities	<u>(918,043)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Cash received for capital campaign	2,415,170
Proceeds from long-term debt	<u>603,546</u>
Net cash provided by financing activities	<u>3,018,716</u>
NET INCREASE (DECREASE) IN CASH	<u>1,646,719</u>
CASH - beginning of year	1,571,723
CASH - end of year	<u>\$ 3,218,442</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Non-cash investment activity:	
Reinvestment of interest and dividends	<u>\$ 90,144</u>

See accompanying notes to financial statements and independent auditors' report.

IMAGINE CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of activities – Imagine Children's Museum (the Museum) was established November 27, 1991, as a nonprofit corporation in the State of Washington. The Museum is in Everett, WA. The Museum's mission is to utilize playful learning to enrich children's lives. The Museum is committed to:

- Celebrating creativity and imagination
- Helping young learners thrive
- Instilling a community connection
- Learning experiences powered by play
- Developing unique exhibits and programs
- Reaching out to all children
- Embracing diversity and inclusion
- Nurturing child/caring adult interaction

During 2017, the Museum started a \$25 million capital campaign. The Museum anticipates adding a 40,000 square foot addition to the existing building to provide additional exhibit space, educational classrooms, outdoor play space, office space, and a shop for exhibit fabrication and maintenance. Capital campaign contributions, including pledges, raised to date totaled approximately \$14.7 million as of December 31, 2020.

Basis of accounting – The Museum prepares its financial statements on the accrual basis of accounting and accordingly reflect all significant assets, payables, and other liabilities. Revenues are recognized when earned or contributed and expenditures are recognized when incurred.

Basis of presentation – The Museum reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions – Support received that is not subject to donor-imposed restrictions and over which the Board of Director has discretionary control.

IMAGINE CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net assets with donor restrictions – Support received subject to donor-imposed restrictions or time restrictions that will be met either through actions of the Museum or by passage of time, including contributions restricted by the donor to be invested in perpetuity. In accordance with purposes stipulated by donors, earnings from such assets may be classified as net assets without donor restrictions or net assets with donor restrictions.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. In the period donor restrictions are met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as satisfaction of restrictions. In addition, if a restriction is fulfilled in the same year in which the contribution is received, the Museum reports the support as without donor restrictions.

Cash and cash equivalents – Cash and cash equivalents consist of cash in banks and all highly liquid instruments purchased with an initial maturity of three months or less for statement of cash flow purposes. Cash equivalents excludes cash and cash equivalents balances included in the Museum's investment portfolio and subject to its investment policy. The Museum maintains its cash in bank accounts that may exceed federally insured limits at times during the year. The Museum has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

Certificates of deposit – Certificates of deposit are recorded at cost plus accrued interest.

Accounts receivable – Accounts receivable, including reimbursable grants receivable, are recorded at their net realizable value. Net realizable value is equal to the gross amount of accounts receivable less an estimated allowance for doubtful accounts. Management of the Museum bases its estimates of doubtful accounts on several factors. These factors included the Museum's prior experience collecting accounts receivable, the aging of the receivables at year-end, and management's appraisal of current economic conditions. Based on the above factors, management considers all accounts receivables to be fully collectible and therefore has not made any allowance for uncollectible accounts receivable. All accounts receivable are expected to be collected within one year.

IMAGINE CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges receivable – Unconditional promises to give (pledges) that are expected to be collected within one year are recorded at net realizable value. Pledges expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designated to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. Management determines the allowance for uncollectible pledges based on historical experience, and assessment of economic conditions, and a review of subsequent collections. Pledges are written off when deemed uncollectable. Based on the above factors, management considers all pledges to be fully collectible and therefore has not made any allowance for uncollectible pledges.

Inventory – Inventory consists of merchandise sold in the gift shop and is valued at the lower of cost or market using the first in, first out (FIFO) method.

Property and equipment – The Museum capitalizes all property and equipment acquisitions in excess of \$1,000. Property and equipment are recorded at cost or, if acquired as a donation, at the estimated fair market value on the date acquired. Property and equipment are depreciated using the straight-line method over estimated useful life of 3 to 30 years. Major expenditures for new property, and those which substantially increase useful lives of existing property, are capitalized. Maintenance, repairs and minor renewals are expenses as incurred.

Investments – Investment consist of marketable securities and are recorded at fair value. Realized and unrealized investment gains and losses, interest and dividends, and investment fees are included in investment return on the statement of activities. Investment return or loss is reported as an increase or decrease in net assets without donor restrictions unless the investment return on restricted assets also is restricted by the donor or law, resulting in such investment return being recorded as with donor restrictions until time or purpose restrictions are satisfied.

Revenue recognition – The transaction price is the amount of consideration to which the Museum expects to be entitled in exchange for transferring goods and services to the customer. Admissions and program fees and special events are recognized at the later of the point of sale or when the related program occurs. Memberships provided by the Museum are purchased for one-year terms. Membership revenue is the only revenue stream recognized over time and is recognized ratably over the course of the year, beginning in the month purchase. Deferred membership revenue is recorded as a contract liability when consideration is received prior to revenue being recognized. Deferred membership revenue totaled \$360,479 as of December 31, 2020. Gift shop sales and parking revenue are recognized at the point of sale, which is when the Museum's performance obligation is satisfied.

IMAGINE CHILDREN’S MUSEUM
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from these activities as a percentage of total support and revenue totaled:

Admission and program fees	2.49%
Memberships	1.99%
Gift shop (net of cost of sales)	0.19%
Parking (net of cost of revenue)	0.19%
Capital campaign contributions	84.37%

Results of activities are substantially impacted by economic conditions, which can vary significantly by market and can be impacted by consumer disposable income and spending habits. Due to the COVID-19 pandemic, the Museum closed from March 13, 2020 to December 31, 2020, which significantly impacted program revenues.

Contributions and grants – Contributions are recognized upon the earlier of receipt or when an unconditional promise to give is made. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Grant advances received by the Museum that are in excess of current year grant expenditures are recognized as deferred grant revenue. Such amounts are restricted funds and as such can only be maintained and used in accordance with the respective grant contracts.

Donated goods and services – Donations of goods and services are recorded at their estimated fair values at the date of donation. Donated services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased. In addition, many volunteers have donated significant amounts of time to the Museum’s activities. The services of these volunteers are not recorded in the accompanying financial statements as they do not meet the criteria for recognition.

Advertising – Advertising costs are expensed as incurred. Advertising expense is presented as advertising and community relations expense in the statements of functional expenses and totaled \$12,951 for the year ended December 31, 2020.

Sales taxes – Taxes collected from customers for amounts assessed by governmental authorities on revenue producing transactions are recorded on a net basis and are not included in the amounts on the accompanying statements of activities.

IMAGINE CHILDREN’S MUSEUM
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal income taxes – The Museum is a non-profit corporation exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Museum files IRS Form 990 which is open for IRS examination for three years after the filing due date.

Functional allocation of expenses – The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying statement of functional expenses. Accordingly, certain costs have been allocated among programs and supporting services benefited and have been allocated on a reasonable basis that is consistently applied. Salaries and wages, benefits, and payroll taxes are allocated based on time and effort. All other allocated expenses are allocated based on estimates of usage.

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. Such estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – PLEDGES RECEIVABLE

Pledges receivable are due according to the following Schedule:

	2020
Receivable in less than one year	\$ 1,579,699
Receivable in more than one year	6,091,140
Total pledges receivable, gross	7,670,839
Less discount to net present value at rates ranging from 1.13% to 4.5%	(8,530)
	\$ 7,662,309

Pledges receivable from four donors and grants from the Washington State Department of Commerce made up to 90% of total pledges for the year ended December 31, 2020.

IMAGINE CHILDREN’S MUSEUM
NOTES TO FINANCIAL STATEMENTS

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2020:

Land	\$	3,632,752
Buildings and improvements		3,972,260
Exhibits		2,517,266
Furniture and equipment		523,267
Capital campaign project pre-construction		870,808
Total property and equipment, at cost		11,516,353
Less accumulated depreciation		(4,681,184)
Total property and equipment, net	\$	6,835,169

NOTE 4 – FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The hierarchy gives the highest priority to unadjusted quoted price in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1: Observable inputs to the valuation methodology that are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Observable inputs to the valuation methodology other than quoted market prices (unadjusted) for identical assets or liabilities in active markets. Level 2 inputs include quoted prices for identical assets in markets that are not active, and inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology that are unobservable for the asset or liability and significant to the fair value measurement.

The asset 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 need to maximize the use of observable inputs and minimize the use of unobservable inputs.

IMAGINE CHILDREN’S MUSEUM
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – FAIR VALUE MEASUREMENTS (CONTINUED)

Following is a description of the valuation methodologies used for the investments measured at fair value:

Money market funds, mutual funds, and equities: investments are measured at fair value based on the actively traded daily closing price. These investments are registered with the Securities and Exchange Commission and are required to publish their daily net asset value and to transact at that price. These investments held by the Museum are deemed to be actively traded.

Fixed income securities: Bonds are valued using either the yields currently available on comparable securities of issuers with similar credit ratings or using a discounted cash flows approach that utilizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

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 the Museum 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. There have been no changes in methodologies used during the year ended December 31, 2020.

The following tables are set for the by level within the fair value hierarchy, the Museum’s investments at fair value as of December 31, 2020:

	2020			Total
	Level 1	Level 2	Level 3	
Cash and equivalents, money market funds	\$ 8,922,084	\$ -	\$ -	\$ 8,922,084
Fixed income securities	413,516	-	-	413,516
Equities	900,253	-	-	900,253
Mutual funds	69,463	-	-	69,463
	<u>\$ 10,305,316</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,305,316</u>

To assess the appropriate classification of investments within the fair value hierarchy, the availability of market data is monitored. Changes in economic conditions or valuation techniques may require the transfer of investments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

IMAGINE CHILDREN’S MUSEUM
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – FAIR VALUE MEASUREMENTS (CONTINUED)

The Museum evaluated the significance of transfers between levels based upon the nature of the investment and size of the transfer relative to total net assets. For the year ended December 31, 2020, there were no significant transfers between Levels 1 and 2 and no transfers out of Level 3.

NOTE 5 – SERVICE AWARD PAYABLE

Beginning November 1, 2007, Museum employees who work five years of full-time employment or 10,400 hours will receive a service award of \$5,000. As of December 31, 2020 the amount estimated was \$75,000.

NOTE 6 – BOARD DESIGNATED NET ASSETS

The Board of Directors of the Museum is committed to ensuring that the Museum is sustainable for generations to come. The board-designated reserves help to safeguard the Museum from financial events that could significantly impact its future. Accordingly, board-designated reserves have been created and maintained for the following purposes.

Operating Reserve – Funds are meant to sustain operation during an unexpected or uncontrollable event such as pandemic flu, terrorist attack, or a major street closure. It could also be used to support operations if one of the major fundraising events failed due to circumstances beyond the Museum’s control, such as weather, earthquake, etc. The Operating Reserve should approximate six months of the Museum’s operating budget.

Self-loan – In December 2019 the Board authorized Sustainability Funds to be used to bridge the potential gap between capital loans and funds needed for the expansion project in an amount not to exceed \$4,100,000 and with the understanding that the funds will be replaced.

Board-designated net assets consists of the following as of December 31, 2020:

Operating reserve	\$ 456,878
Self-loan	<u>4,100,000</u>
	<u><u>\$4,556,878</u></u>

IMAGINE CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following on December 31, 2020:

Capital campaign	\$14,046,974
Endowment principal	500,000
Endowment earnings not yet appropriated	933,025
Other programs	113,891
	<u>\$15,593,890</u>

NOTE 8 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure within one year consist of the following as of December 31, 2020:

Cash and cash equivalents	\$	3,218,442
Certificate of deposit		78,842
Accounts receivable		12,776
Pledges receivable		7,662,309
Investments		10,305,316
Less amounts not available for general expenditure within one year		
Certificate of deposit		78,842
Pledge receivable collectible in greater than one year		(6,082,610)
Donor - restricted		(15,593,890)
Board designated - reserves		(4,556,878)
	\$	<u>(4,876,851)</u>

The Museum has certain donor-restricted assets limited to use, which are not available for general expenditure within one year in the normal course of operations. Accordingly, these assets have not been included in the qualitative information above.

The Museum holds a three-year certificate of deposit to fund the service award payable in future years.

The Museum maintains board designated reserves and a donor restricted endowment for purposes other than general expenditure. The board designated reserves may be drawn upon, if necessary, to meet unexpected needs (see additional descriptions in Note 6). The non-principal balance of the donor restricted endowment represents accumulated earnings, which have not been appropriated by the Board as of December 31, 2020. These earnings could be appropriated for general expenditure, if necessary.

IMAGINE CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS

NOTE 8 – LIQUIDITY AND AVAILABILITY (CONTINUED)

The Museum is committed to the successful completion of the expansion project and ensuring sustainable operations for generations to come. The Board and Museum management executed a loan agreement with Wells Fargo Bank on May 21, 2020, and the amount available to be used for the Museum expansion construction is not to exceed \$8,000,000, to bridge the gap on capital fundraising and on current financial assets available to complete the expansion project (see additional descriptions in Note 13).

As part of the Museum's liquidity management process, cash in excess of daily requirements may be invested in short-term investments and money market funds.

NOTE 9 – ENDOWMENT

The Museum's endowment consists of one individual fund as of December 31, 2020.

Interpretation of relevant law – The State of Washington has passed a version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Board of Governors of the Museum has interpreted UPMIFA as requiring the preservation of the fair value of the original gift at the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as net assets with donor restrictions a) the original value of the gifts donated to the donor-restricted endowment plus b) the original value of subsequent gifts to the donor -restricted endowment. The remaining portion of the donor-restricted endowment fund that is time-or purpose-restricted is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Museum in a manner of consistent with the standards of UPMIFA.

In accordance with UPMIFA, the Museum considers the following factors in deciding to appropriate or accumulate donor-restricted endowment funds:

- Duration and preservation of the fund
- Purposes of the Museum and the donor restricted endowment fund
- General economic conditions
- Possible effects of inflation and deflation
- Expected total return from income and the appreciation of investments
- Other resources of the Museum
- Investment policies of the Museum

IMAGINE CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS

NOTE 9 – ENDOWMENT (CONTINUED)

The composition of net assets by type of endowment fund as of December 31, 2020 is as follows:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor -restricted principal	\$ -	\$ 500,000	\$ 500,000
Earnings not yet appropriated	-	933,025	933,025
Total endowment net assets	<u>\$ -</u>	<u>\$ 1,433,025</u>	<u>\$ 1,433,025</u>

Changes in endowment net assets for the year ended December 31, 2020:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 1,257,544	\$ 1,257,544
Endowment investment return	-	175,481	175,481
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 1,433,025</u>	<u>\$ 1,433,025</u>

Return objective and risk parameters – It is the policy of the Museum to invest its endowments to support operations in perpetuity. The Museum has developed investment guidelines which have been designed to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur, while at the same time setting forth reasonable risk control parameters to ensure prudence and care in the execution of the investment program.

The endowment investment objective is to ensure that the future growth of the fund is sufficient to offset normal inflation plus reasonable spending, thereby preserving the constant dollar value and purchasing power of the fund. This will be accomplished through carefully planned and executed long-term investment strategy. The objective of the investment strategy is to enhance the fund's long-term viability by maximizing the value of the fund within a prudent risk level.

Strategies employed for achieving objectives – To satisfy its long-term rate-of-return objectives, the Museum seeks an investment return, over a full market cycle, which exceeds the amount distributed for use plus the average rate of inflation over that market cycle. The target asset allocation for endowment investments is 50-70% equity, 25-45% fixed income investments, with the balance in cash equivalents and other investments. Within these broad categories, the Museum seeks investments that provide diversification and enhance fund returns.

IMAGINE CHILDREN'S MUSEUM
NOTES TO FINANCIAL STATEMENTS

NOTE 9 – ENDOWMENT (CONTINUED)

Spending policy and how the investment objectives relate to spending policy – The Board of Directors has approved an endowment spending policy that allows for continuing support of Museum operations. The policy allows for annual distributions from the endowment of 4% of the assets based on a three-year rolling average. The Museum did not take any distributions from the endowment during 2020.

Funds with deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Museum is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA (underwater endowments). The Museum has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. In accordance with GAAP, deficiencies of this nature are reported in net assets with donor restrictions. There were no deficiencies of this nature for the year ended December 31, 2020.

NOTE 10 - RETIREMENT PLAN

The Museum sponsors a Simple IRA plan (the Plan). Employees that received \$5,000 in gross wages in the prior year and the current year are eligible for the Plan. The employer contribution for eligible employees is 3% of gross wages and totaled \$12,260 for the year ended December 31, 2020.

NOTE 11 – RELATED PARTY

The Museum received in-kind donations of architectural services from one board members firm in the amount of \$65,418 and paid the same firm \$109,631.

NOTE 12 – MUSEUM CONDITIONS

The Board and leadership staff of the Museum have carefully evaluated the current financial conditions, including the impact of the COVID-19 pandemic on the organization.

The COVID-19 pandemic mandated the public closure of the Museum facility, but the Museum pivoted to carry out its mission in innovative ways, utilizing standalone STEM activity bags and the internet to reach the community. As a result of continuing to carry out its mission, 2020 grant funding remained in place.

The Board and leadership staff believe the Museum's present operating reserve funds and cash flow will enable it to meet its obligations from the date these financial statements are available to be issued through the next twelve months.

IMAGINE CHILDREN'S MUSEUM
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NOTE 13 – LONG-TERM DEBT

The following is a summary of all long-term debt:

Paycheck Protection Program (PPP) note payable to Mountain Pacific Bank, payable in monthly payments equal to an amount necessary to fully amortize the then-outstanding principal balance of the loan not forgiven by the Small Business Administration (SBA) at 1% annual interest, maturing April 19, 2025. \$ 296,112

Economic Injury Disaster Loan (EIDL) payable to the SBA in monthly payments of \$641 beginning 12 months from the note date of June 19, 2020. The note bears 2.75% annual interest and matures 30 years from inception. 150,000

Loan payable to Wells Fargo Bank pursuant to a loan agreement executed May 21, 2020. The amount available to be used for Museum expansion construction is not to exceed \$8,000,000. The loan(s) will be funded by proceeds of the Series 2020A Bond and Series 2020B Bond, pursuant to terms of loan documents yet to be executed. 157,433
\$ 603,545

The Museum received a loan from Mountain Pacific Bank in the amount of \$296,112 under the Paycheck Protection Program (PPP loan) established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The loan is subject to a note dated April 20, 2020 and may be forgiven to the extent proceeds of the loan are used for eligible expenditures such as payroll and other expenses described in the CARES Act. On April 30, 2021 The Museum received full loan forgiveness from Mountain Pacific Bank in the amount of \$296,112 for this loan.

IMAGINE CHILDREN’S MUSEUM
NOTES TO FINANCIAL STATEMENTS

NOTE 14 – IN-KIND CONTRIBUTIONS

Donated professional fees are recorded at their estimated fair market value when received. The in-kind contributions are separately stated in the statement of activities and are comprised of the following:

Goods and services donated for fundraisers	\$ 26,925
Architectual services	65,418
Permit fees	48,530
Construction services	49,921
Mural, art sculptures, and face masks	<u>2,735</u>
	<u>\$ 193,529</u>

NOTE 15 – SUBSEQUENT EVENTS

Management of the Museum has evaluated events and transactions occurring after December 31, 2020 through June 18, 2021, the date the financial statements were available for issuance, for recognition or disclosure in the financial statements.

In early 2020, the Museum was directly impacted by the coronavirus outbreak (COVID-19). On January 31, 2020, U.S. Health and Human Services Secretary declared a public health emergency for the United States. In March 2020, the Governor of Washington announced that all nonessential business were required to shut down operations indefinitely.

In response to the Governor’s order related to the coronavirus (COVID-19), the Museum was required to close its business and released most of its employees on a short-term basis. The Museum was closed from March 13, 2020 on and is reopening beginning in June of 2021.