

THE NATIONAL MUSEUM OF TOYS/MINIATURES

FINANCIAL STATEMENTS
with
INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED DECEMBER 31, 2017

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CUDNEY, ECORD, McENROE & MULLANE L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The National Museum of Toys/Miniatures
Kansas City, Missouri

We have audited the accompanying financial statements of The National Museum of Toys/Miniatures (a nonprofit, private foundation), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, 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.

Auditor's 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 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 National Museum of Toys/Miniatures as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Cudney, Ecord, McEnroe & Mullane LLC

August 17, 2018

THE NATIONAL MUSEUM OF TOYS/MINIATURES

STATEMENT OF FINANCIAL POSITION

December 31, 2017

ASSETS

Cash and cash equivalents	\$ 264,117
Investments (Note 2)	2,023,856
Inventories	26,330
Restricted for endowment (Note 5):	
Unconditional promises to give (Note 4)	6,000,000
Investments (Note 2)	17,547,254
Property and equipment, less accumulated depreciation (Notes 1 and 3)	9,179,464
Collection of artifacts (Note 1)	-
Other assets	2,500
	<hr/>
Total assets	<u>\$ 35,043,521</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 71,405
	<hr/>
Total liabilities	71,405
	<hr/>
Net assets:	
Unrestricted	9,424,862
Temporarily restricted	4,893,625
Permanently restricted	20,653,629
	<hr/>
Total net assets	34,972,116
	<hr/>
Total liabilities and net assets	<u>\$ 35,043,521</u>

See the accompanying notes.

THE NATIONAL MUSEUM OF TOYS/MINIATURES

STATEMENT OF ACTIVITIES

For the year ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support, revenue and reclassifications:				
Contributions (Note 1)	\$ 456,773	\$ 2,000,000	\$ -	\$ 2,456,773
Grant	8,000	-	-	8,000
Memberships	9,042	-	-	9,042
Total support	<u>473,815</u>	<u>2,000,000</u>	<u>-</u>	<u>2,473,815</u>
Admissions	136,717	-	-	136,717
Merchandise sales	53,636	-	-	53,636
Investment return (Note 2)	15,924	2,220,662	-	2,236,586
Total revenues	<u>206,277</u>	<u>2,220,662</u>	<u>-</u>	<u>2,426,939</u>
Net assets released from restrictions	549,501	(549,501)	-	-
Total support, revenues, and reclassifications	<u>1,229,593</u>	<u>3,671,161</u>	<u>-</u>	<u>4,900,754</u>
Expenses:				
Program services:				
Exhibits and collections management	360,179	-	-	360,179
Educational programs	138,598	-	-	138,598
Retail services	73,607	-	-	73,607
Total program services	<u>572,384</u>	<u>-</u>	<u>-</u>	<u>572,384</u>
Supporting services:				
Management and general	486,829	-	-	486,829
Fundraising and development	46,025	-	-	46,025
Marketing and public relations	405,811	-	-	405,811
Total supporting services	<u>938,665</u>	<u>-</u>	<u>-</u>	<u>938,665</u>
Total expenses	<u>1,511,049</u>	<u>-</u>	<u>-</u>	<u>1,511,049</u>
Change in net assets before collection items and other adjustments	(281,456)	3,671,161	-	3,389,705
Disposal of capital assets	(372)	-	-	(372)
Collection purchases (Note 1)	(29,444)	-	-	(29,444)
Change in net assets	(311,272)	3,671,161	-	3,359,889
Net assets, beginning of year	<u>9,736,134</u>	<u>1,222,464</u>	<u>20,653,629</u>	<u>31,612,227</u>
Net assets, end of year	<u>\$ 9,424,862</u>	<u>\$ 4,893,625</u>	<u>\$ 20,653,629</u>	<u>\$ 34,972,116</u>

See the accompanying notes.

THE NATIONAL MUSEUM OF TOYS/MINIATURES

STATEMENT OF CASH FLOWS

For the year ended December 31, 2017

Cash flows from operating activities:	
Change in net assets	\$ 3,359,889
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	411,390
Acquisition of artifacts	29,444
Investment income restricted for long-term purposes	(378,063)
Net realized and unrealized gains on investments	(1,851,212)
Disposal of fixed assets	372
Decrease in operating assets:	
Inventories	(10,546)
Increase in operating liabilities:	
Accounts payable	20,329
Net cash provided by operating activities	<u>1,581,603</u>
Cash flows from investing activities:	
Purchases of property and equipment	(27,275)
Acquisition of artifacts	(29,444)
Purchase of investments	(4,351,034)
Proceeds from the sale of investments	<u>2,510,679</u>
Net cash used by investing activities	<u>(1,897,074)</u>
Cash flows from financing activities:	
Proceeds from contributions restricted for long-term purposes	41,000
Restricted investment income	<u>378,063</u>
Net cash provided by financing activities	<u>419,063</u>
Increase in cash and cash equivalents	103,592
Cash and cash equivalents, beginning of year	<u>160,525</u>
Cash and cash equivalents, end of year	<u><u>\$ 264,117</u></u>

See the accompanying notes.

THE NATIONAL MUSEUM OF TOYS/MINIATURES

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

1. **Organization and Summary of Significant Accounting Policies**

Nature of activities

The National Museum of Toys/Miniatures (the Museum), a Missouri not-for-profit corporation and a private foundation, opened its doors on October 20, 1982. Operating in the former Truman Mansion, leased from the University of Missouri - Kansas City (UMKC), the 7,000 square foot museum had two full-time staff members who assisted Museum founders Mary Harris Francis and Barbara Marshall.

The Museum was built from and fueled by the passion of the two friends who loved collecting and sharing the wonder of their collections with others. With prompting from family and friends, Mary Harris and Barbara formed the Toy and Miniature Museum Foundation to begin seeding the long-term sustainability of the Museum. They donated their personal collections along with their own funds and then began a major fundraising effort. Over the next thirty years with expansions in 1989 and 2004, the Museum grew to 33,000 square feet. During the same period, the collection increased to over 72,000 objects. In 2012, the Museum embarked on its first public capital campaign to support building and exhibit improvements. The Museum reopened on August 1, 2015 with new exhibits and interactives featuring the world's largest collection of fine-scale miniatures and one of the nation's largest antique toy collections on public display. The Museum welcomes approximately 33,000 visitors annually.

Since the beginning, the Museum's mission has been to educate, inspire, and delight adults and children through the collection and preservation of toys and miniatures. Over its thirty year history, the Museum has provided a portal to the past, a chronicle of the ways in which our imaginations have both reflected and inspired our rich history, the evolution of our material culture, and the creativity of our artistic expression.

The Museum has also agreed to follow the American Alliance for Museum's *National Standards & Best Practices for U.S. Museums*, which calls for commitment to public accountability and transparency as well as compliance with applicable local, state and federal laws, codes and regulations.

The Museum and its programs are supported by donor contributions, an agreement with the University of Missouri - Kansas City for the lease and maintenance of the Museum, an endowment, and revenues from admissions, memberships, and the sale of merchandise. For financial statement purposes, the Museum's current programs are as follows:

Exhibits and collections management - includes the curator, collections coordinator, and a temporary cataloging staff who are involved with cataloging, preserving, storing, researching, and exhibiting the collection.

1. **Organization and Summary of Significant Accounting Policies (continued)**

Educational programs - includes personnel and other costs associated with the Museum's public and educational programs.

Retail services - includes personnel and other costs associated with the Museum's gift shop.

Financial statement presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Museum and related changes are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Museum or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. However, donor-imposed stipulations that are met in the same reporting period are shown as unrestricted support.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Museum.

Collections

Pursuant to the guidelines of the American Alliance for Museums (AAM) and the American Association for State and Local History (AASLH), the collection has not been capitalized because it is not a financial asset. Rather it constitutes a separate category of resource directly fulfilling the institutional missions, legal responsibilities, and fiduciary obligations. The Museum has agreed to follow the AASLH's *Statement of Professional Standards and Ethics*, which specifically concludes that collections shall not be capitalized nor treated as financial assets.

Contributions

Contributions, including unconditional promises to give, are recorded as made. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using an appropriate discount rate applicable to the years in which the promises are to be received.

Merchandise inventory

Inventory consists of merchandise for resale and is carried at the lower of average cost or market value.

1. Organization and Summary of Significant Accounting Policies (continued)

Investments

Investments are reported at estimated fair value in accordance with generally accepted accounting principles which establish the following three-tier hierarchy to classify fair value measurements for disclosure purposes:

Level 1 – Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical investments.

Level 2 – Quoted prices for similar investments in active markets, quoted prices for identical or similar investments in markets that are not active, or from inputs which are observable for the investment or derived from observable market data.

Level 3 – Investments are valued using prices or valuations that require inputs that are unobservable, including internal assumptions.

Investments consist of money market, equity, fixed income and commodity mutual funds and other investments held by The Commerce Trust Company.

Property and equipment

The Museum facility is owned by UMKC. Facility improvements by the Museum of approximately \$11.2 million are reflected at cost in the financial statements and are being depreciated over the shorter of their estimated useful lives or the term of the UMKC agreement, including renewals. Capital assets are defined as assets with an initial individual cost of \$500 or more and an estimated useful life greater than one year.

Donations of property and equipment are recorded as unrestricted support at their estimated fair value unless the donor has restricted the donated asset to 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 temporarily restricted support. 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 by reclassifying temporarily restricted net assets to unrestricted net assets. Depreciation is calculated using straight-line and accelerated methods over the following estimated useful lives:

	<u>Years</u>
Exhibition space and facility improvements	5-50
Equipment and furnishings	3-7

Income taxes and accounting for tax positions

The Museum is a private operating foundation under Internal Revenue Code Section 501(c)(3). As a result, contributions to the Museum may qualify as charitable contributions deductible under the Internal Revenue Code.

1. **Organization and Summary of Significant Accounting Policies (continued)**

Generally accepted accounting principles prescribe standards for the recognition, measurement and disclosure of tax positions. For not-for-profit organizations, tax positions include an entity's status as tax exempt, and whether it is subject to tax on unrelated business income. Management does not believe there are any uncertain tax positions that would affect its exempt status or result in any tax on unrelated business income. The Museum is subject to a 2% excise tax on net investment income which resulted in a tax for 2017 of \$11,405.

Related party activity

In 1987, the Museum entered into an agreement with the UMKC to lease certain premises to be used as a museum, educational center and exhibition area for antique toys and miniatures at \$1 per year. The original five year term commenced on January 1, 1987 with options to extend the lease for three successive periods of twenty-five years each. If the Museum exercises all three options, the lease is set to expire on December 31, 2067. Utilities, other than telephone services, are paid by UMKC, who is responsible for external and structural maintenance and repair of the premises including year-round maintenance. Employees of the Museum are treated as UMKC employees and the Museum reimburses UMKC for all compensation. Museum employees are covered under UMKC's pension plan. The Museum reimbursed UMKC \$569,862 for payroll and benefits in 2017. The payable due from the Museum to UMKC for payroll and related benefits was \$51,505 as of December 31, 2017.

Functional expenses

The Museum presents its expenses on a functional basis by its various programs and supporting services. These expenses are those that can be identified with a specific program or supporting service.

Advertising

The costs of advertising are expensed when incurred, and were \$58,498 in 2017.

Cash and cash equivalents

The Museum considers all highly liquid investments with an initial maturity of three months or less, other than those restricted for long-term purposes, to be cash equivalents.

Donated services

Generally accepted accounting principles provide for the recording of contributions of donated services at their fair values in the period received if they create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Although a substantial number of volunteers have donated a significant amount of their time to the Museum's programs, no amount has been recorded.

1. Organization and Summary of Significant Accounting Policies (continued)

Estimates

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

2. Investments

The Commerce Trust Company investments at December 31, 2017 consist of the following:

	<u>Cost</u>	<u>Fair value</u>
Cash and cash equivalents	\$ 933,931	\$ 933,931
Domestic equity mutual funds	4,723,882	8,385,096
International equity mutual funds	2,972,958	3,528,658
Fixed income mutual funds	6,302,363	6,257,945
Commodities mutual funds	230,740	176,362
MLP Index ETN	311,402	281,155
	<u>\$ 15,475,276</u>	<u>\$ 19,563,147</u>

\$17,547,254 of the Commerce Trust Company investments are reported as restricted for the endowment and \$2,015,893 for the acquisition of miniatures and Masterworks convention are included in investments. Investments also include \$7,963, which consists of the Museum's participation in the Community Foundation's Money Market investment pool. The fair value measurement of the Commerce Trust Company investments are classified as Level 1.

The investment return for 2017 is summarized as follows:

Interest and dividends	\$ 422,508
Net realized gains	185,232
Unrealized gains	1,665,980
Investment fees	(37,134)
	<u>\$ 2,236,586</u>

3. Property and Equipment

Property and equipment at December 31, 2017 consists of the following:

Building improvements	\$11,219,651
Equipment and other	<u>175,903</u>
	11,395,554
Less accumulated depreciation	<u>(2,216,090)</u>
	<u>\$ 9,179,464</u>

Depreciation expense in 2017 totaled \$411,390.

4. Promises to Give

Unconditional promises to give in the amount of \$6,000,000 at December 31, 2017 are for the Museum's endowment.

5. Restricted Net Assets

Temporarily restricted

It is the Museum's policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Temporarily restricted net assets are available for the following purposes:

Operations support and toy conservation	\$2,893,625
Miniatures acquisition/Masterworks convention	<u>2,000,000</u>
	<u>\$4,893,625</u>

Net assets released from donor restrictions by incurring expenses satisfying the purpose or time restrictions were as follows:

Operations support	\$511,703
Toy conservation	<u>37,798</u>
	<u>\$549,501</u>

Permanently restricted

The Museum's endowment consists of donor-restricted funds to support operations and toy conservation, which in accordance with generally accepted accounting principles, are classified based on the existence or absence of donor imposed restrictions. Investment returns not required to be treated as permanently restricted by the donor are reflected in temporarily restricted net assets until appropriated for spending in accordance with the investment policy adopted by the Board of Directors.

The State of Missouri has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) which supersedes the previously adopted Uniform Management of Institutional Funds Act. This state law provides guidance and authority concerning the management and investment of donor funds and provides the Museum's governing board certain guidelines to use when determining what is prudent in terms of retaining and spending permanently restricted donor funds. Under the provisions of UPMIFA, organizations are required to maintain and report endowment funds based upon donor intent, whether explicit or implied. Based on its interpretation of the provisions of UPMIFA and a review of underlying endowment agreements, management has determined that maintaining permanent endowments at their historic dollar value is appropriate and consistent with the intent of the Museum's donors.

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the fund's original value, generally due to unfavorable market fluctuations. Deficiencies of this nature are reported in unrestricted net assets. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level are classified as an increase in unrestricted net assets. There were no deficiencies at December 31, 2017.

5. Restricted Net Assets (continued)

The changes and composition of the endowment net assets for the year are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Beginning of year	\$ 1,222,464	\$ 20,653,629	\$ 21,876,093
Investment income	378,060	-	378,060
Realized gains	183,024	-	183,024
Unrealized gains	1,659,578	-	1,659,578
Appropriated for spending	<u>(549,501)</u>	<u>-</u>	<u>(549,501)</u>
End of year	<u>\$ 2,893,625</u>	<u>\$ 20,653,629</u>	<u>\$ 23,547,254</u>

The Museum has adopted investment and spending policies for endowment assets that attempt to provide a reasonable rate of return as a source of funding to programs supported by its endowments. Under the investment policy, endowment assets are to be invested in various asset classes while assuming a reasonable level of investment risk.

To satisfy its long-term objectives of equity preservation and growth, the Museum has adopted a total return strategy for investment returns through both capital appreciation and current income using an asset allocation policy that allows for investing in equity-related securities to achieve its return objectives.

The Museum's spending policy allows for the use of up to 4% of the prior three year-end average market values.

6. Concentration of Credit Risk

The Museum maintains their cash in bank deposit accounts at a high credit quality financial institution. The balances at times may exceed federally insured limits. At December 31, 2017, the bank balances exceeded the FDIC limit by \$77,331.

7. Operating Lease

The Museum entered into a 36-month operating lease agreement through November 30, 2020, with an option to renew for two years through November 30, 2022, for storage space at \$1,607 per month, excluding common area expense and real estate taxes. Rent expense in 2017 was \$19,459. Future minimum rental under the lease is as follows:

2018	\$19,284
2019	19,284
2020	<u>17,677</u>
	<u>\$56,245</u>

8. Subsequent Events

The Museum has evaluated subsequent events through August 17, 2018, the date that the financial statements were authorized to be issued.