

THE NATIONAL MUSEUM OF TOYS/MINIATURES

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**

DECEMBER 31, 2021

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of The National Museum of Toys/Miniatures (the "Museum") (a nonprofit private foundation), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2021, 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 (GAAP).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Museum and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of a Matter

As discussed in Note 12 to the financial statements, the 2020 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Museum's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Museum's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Museum's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Marr and Company, P.C.
Certified Public Accountants

Kansas City, Missouri
September 27, 2022

THE NATIONAL MUSEUM OF TOYS/MINIATURES

STATEMENT OF FINANCIAL POSITION
December 31, 2021

ASSETS

Cash	\$ 1,487,970
Unrestricted investments	1,082,548
Unconditional promises to give receivable, net	361,250
Merchandise inventory	22,597
Cash restricted for long-term purposes	968,657
Unconditional promises to give restricted for long-term purposes	218,750
Donor restricted investments	2,000,000
Assets restricted for endowment:	
Cash	183,484
Accrued income	48,028
Investments	<u>29,050,109</u>
Assets restricted for endowment	29,281,621
Property and equipment, net of accumulated depreciation	7,815,336
Collections (Note 2)	0
Security deposit	<u>2,500</u>
Total Assets	\$ <u>43,241,229</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ <u>52,426</u>
Total Liabilities	52,426
Net assets:	
Without donor restrictions	10,824,057
With donor restrictions	<u>32,364,746</u>
Total Net assets	<u>43,188,803</u>
Total Liabilities and Net assets	\$ <u>43,241,229</u>

See accompanying Independent Auditor's Report & notes to these financial statements.

THE NATIONAL MUSEUM OF TOYS/MINIATURES

STATEMENT OF ACTIVITIES For the Year Ended December 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>SUPPORT, REVENUE, AND OTHER INCOME</u>			
Contributions	\$ 878,929	\$ 853,125	\$ 1,732,054
Noncash contributions	389,819	0	389,819
Grants	9,953	0	9,953
Memberships	<u>11,769</u>	<u>0</u>	<u>11,769</u>
Total Support	1,290,470	853,125	2,143,595
Admission sales	109,464	0	109,464
Merchandise sales	32,133	0	32,133
Investment return	333,187	3,430,083	3,763,270
Gain on forgiveness of PPP loans	<u>237,949</u>	<u>0</u>	<u>237,949</u>
Total Support, revenue, and other income	2,003,203	4,283,208	6,286,411
<u>EXPENSES:</u>			
Program services:			
Exhibits and collections management	955,776	0	955,776
Educational programs	151,487	0	151,487
Retail services	<u>78,510</u>	<u>0</u>	<u>78,510</u>
Total Program related services	1,185,773	0	1,185,773
Supporting activities:			
General and administrative	295,910	0	295,910
Marketing and public relations	153,492	0	153,492
Development and fundraising	<u>155,562</u>	<u>0</u>	<u>155,562</u>
Total Supporting activities	<u>604,964</u>	<u>0</u>	<u>604,964</u>
Total Expenses	1,790,737	0	1,790,737
Net assets released from restrictions	<u>874,740</u>	<u>(874,740)</u>	<u>0</u>
Change in net assets before changes related to collection items not capitalized	1,087,206	3,408,468	4,495,674
Change in net assets related to collection items not capitalized:			
Collection items purchased	<u>(2,535)</u>	<u>0</u>	<u>(2,535)</u>
Change in Net assets	1,084,671	3,408,468	4,493,139
Net assets, beginning of year	10,226,560	28,469,104	38,695,664
Restatement (Note 12)	<u>(487,174)</u>	<u>487,174</u>	<u>0</u>
Net assets, beginning of year (restated)	<u>9,739,386</u>	<u>28,956,278</u>	<u>38,695,664</u>
Net assets, ending of year	\$ <u>10,824,057</u>	\$ <u>32,364,746</u>	\$ <u>43,188,803</u>

See accompanying Independent Auditor's Report & notes to these financial statements.

THE NATIONAL MUSEUM OF TOYS/MINIATURES

STATEMENT OF FUNCTIONAL EXPENSES For the Year Ended December 31, 2021

	Program Services			Total Program Services	Supporting Activities			Total Supporting Activities	Total Expenses
	Exhibits & Collections Management	Educational Programs	Retail Services		General & Administrative	Marketing and Public Relations	Development & Fundraising		
Payroll and benefits	\$ 238,519	\$ 103,404	\$ 33,077	\$ 375,000	\$ 198,994	\$ 77,230	\$ 107,425	\$ 383,649	\$ 758,649
Facility repairs and maintenance	21,970	1,484	891	24,345	2,375	1,484	1,484	5,343	29,688
In-kind facility usage	288,466	19,491	11,695	319,652	31,185	19,491	19,491	70,167	389,819
Utilities	17,090	1,155	693	18,938	1,848	1,155	1,155	4,158	23,096
Property insurance and security	22,998	1,554	932	25,484	2,486	1,554	1,554	5,594	31,078
Depreciation	303,247	20,489	12,294	336,030	32,784	20,490	20,490	73,764	409,794
Offsite storage and maintenance	35,102	0	0	35,102	0	0	0	0	35,102
Exhibit development and fees	9,653	0	0	9,653	0	0	0	0	9,653
Program and events	0	3,093	0	3,093	0	0	0	0	3,093
Costs of goods sold and freight	0	0	15,861	15,861	0	0	0	0	15,861
Professional services	16,146	0	0	16,146	15,160	0	0	15,160	31,306
Software and website	0	0	0	0	4,460	4,290	3,963	12,713	12,713
Office supplies and maintenance	2,373	0	162	2,535	3,352	0	0	3,352	5,887
Advertising	0	0	0	0	0	13,731	0	13,731	13,731
Printing and postage	0	0	0	0	0	10,281	0	10,281	10,281
Banking and merchant charges	0	0	2,905	2,905	2,784	0	0	2,784	5,689
Dues and memberships	0	0	0	0	0	3,786	0	3,786	3,786
Travel and training	0	817	0	817	0	0	0	0	817
Miscellaneous	<u>212</u>	<u>0</u>	<u>0</u>	<u>212</u>	<u>482</u>	<u>0</u>	<u>0</u>	<u>482</u>	<u>694</u>
Total Expenses	<u>\$ 955,776</u>	<u>\$ 151,487</u>	<u>\$ 78,510</u>	<u>\$ 1,185,773</u>	<u>\$ 295,910</u>	<u>\$ 153,492</u>	<u>\$ 155,562</u>	<u>\$ 604,964</u>	<u>\$ 1,790,737</u>

See accompanying Independent Auditor's Report & notes to these financial statements.

THE NATIONAL MUSEUM OF TOYS/MINIATURES

STATEMENT OF CASH FLOWS For the Year Ended December 31, 2021

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 4,493,139
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:	
Collection purchases	2,535
Proceeds from contributions restricted for long-term purposes	(721,875)
Investment income for long-term purposes	(601,205)
Change in accrued income	(48,028)
Realized (gain) on investments	(1,227,825)
Unrealized (gain) on investments	(1,885,629)
Depreciation	409,794
Gain on forgiveness of debt	(237,949)
Changes in assets and liabilities:	
(Increase) Decrease in:	
Promises to give receivable	(18,625)
Merchandise inventory	1,836
Increase (Decrease) in:	
Accounts payable	<u>(18,552)</u>
Net cash provided by operating activities	147,616

CASH FLOWS FROM INVESTING ACTIVITIES

Sale of investments	10,630,347
Purchase of investments	(10,680,824)
Collection purchases	(2,535)
Purchase of property and equipment	<u>(5,570)</u>
Net cash used from investing activities	(58,582)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from contributions restricted for long-term purposes	503,125
Investment income for long-term purposes	601,205
Proceeds from PPP loan funding	<u>98,449</u>
Net cash provided by financing activities	<u>1,202,779</u>

Net increase in cash 1,291,813

Cash, beginning of year 1,348,298

Cash, end of year \$ 2,640,111

Supplemental disclosures of reconciliation of cash:

Unrestricted operating cash	\$ 1,487,970
Cash restricted for long-term purposes	968,657
Cash restricted for endowment	<u>183,484</u>
	\$ <u>2,640,111</u>

See accompanying Independent Auditor's Report & notes to these financial statements.

THE NATIONAL MUSEUM OF TOYS/MINIATURES

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

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THE NATIONAL MUSEUM OF TOYS/MINIATURES

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 1: ORGANIZATION AND NATURE OF ACTIVITIES

The National Museum of Toys/Miniatures (the Museum), a Missouri not-for-profit corporation and a private operating foundation, opened its doors on October 20, 1982. Operating in the former Tureman 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 forty-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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The financial statements of the Museum are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP).

B. Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

THE NATIONAL MUSEUM OF TOYS/MINIATURES

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. 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.

D. Cash and cash equivalents

For purposes of the statement of cash flows, the Museum defines its cash and equivalents to include cash in demand deposits and considers all highly liquid investments with an initial maturity when purchased of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash equivalents. Cash and cash equivalents held temporarily in the long-term investment portfolio until suitable investments are identified are excluded from cash and cash equivalents available for current use in operations.

E. Financial Instruments and Credit Risk

The Museum manages deposit concentration risk by placing cash in accounts with financial institutions believed by management to be creditworthy. Accounts at each depository institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times, amounts on deposit may exceed insured limits. The Museum had \$517,876 of bank balances in excess of federally insured limits as of December 31, 2021. To date, the Museum has not experienced any losses on such deposit accounts at the financial institution and believes it is not exposed to any significant credit risk on cash.

Investments are made by diversified investment managers whose performance is monitored by the Museum and the Board of Directors. Investment securities are exposed to various risks, such as interest rate, market fluctuation and credit risk. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in risks in the near term would materially affect investments and the amounts reported in the statements of financial position. Although the fair values of investments are subject to fluctuation on a year-to-year basis, the Museum believes that the investment policies and guidelines are prudent for the long-term welfare of the Museum.

F. Promises to Give Receivable

Promises to give receivables are reported at the amount management expects to collect on balances outstanding at year-end. Based on an assessment of the collection history with those having outstanding balances and current relationships with the donors, management has concluded that any uncollectible promise to give will be immaterial.

Unconditional promises to give receivables that are expected to be received within one year are recorded at their net realizable value. Unconditional promises to give receivables that are expected to be collected in future years are recorded at the present value of the estimated future cash flows, using a risk-free interest rate applicable to the year in which the contribution is made. Amortization of the discount is included in contribution revenue. However, the risk-free rate for contribution promises received in the prior and current year did not exceed 1.0% and therefore discounting future cash flows was not performed.

THE NATIONAL MUSEUM OF TOYS/MINIATURES

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Investments

The Museum records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

H. Merchandise Inventory

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

I. Collections

The collection is made up of toys and miniatures that is held for educational, research, and curatorial purposes. The collections, which were acquired through purchases and contributions since the organization's inception, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired, or as decreases in net assets with donor restrictions if the assets used to purchase the items were restricted by donors. Contributed collection items are not reflected on the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

J. Property and Equipment

All property and equipment are recorded at historical cost if purchased and fair value if donated. It is the policy of the Museum to capitalize expenditures for buildings and improvements, equipment, and furniture and fixtures in excess of \$500 per item and a useful life greater than one year. When assets are sold or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any resulting gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Facility improvements by the Museum to the UMKC-owned building are reflected at cost in the financial statements and are depreciated over the shorter of their estimated useful lives or the term of the UMKC agreement, including renewals. Depreciation is calculated over the estimated useful lives of the respective assets on a straight-line basis.

<u>Category</u>	<u>Years</u>
Facility leasehold improvements	5-50
Furniture and fixtures	5-10
Website and technology equipment	3-5
Other equipment	5-7

THE NATIONAL MUSEUM OF TOYS/MINIATURES

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor- (or certain grantor-) imposed restrictions or law. These net assets may be used at the discretion of the Museum's management and the Museum's Board of Directors.

Net Assets With Donor Restrictions - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that the resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and released from restrictions when the assets are placed in service, absent donor stipulations regarding how long the donated assets must be maintained.

The Museum reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. See Note 9 for detailed balance.

It is the Museum's policy to first use net assets with donor restrictions prior to the use of net assets without donor restrictions when an expense is incurred for purposes for which both net assets with donor restrictions and net assets without donor restrictions are available.

L. Revenue and Revenue Recognition

Museum admission and merchandise sales revenue from customers requires payment due at the point of sale. The nature of these sales does not give rise to contract costs or any variable consideration or warranties. Revenue is recognized when the services and products are provided, in an amount that reflects the consideration that the Museum expects to be entitled to in exchange for those services. All revenue from customers is recognized at a point-in-time.

The Museum recognizes contributions when cash, securities or other assets, an unconditional promise to give commitment, or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met and becomes unconditional.

THE NATIONAL MUSEUM OF TOYS/MINIATURES

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Noncash Contributions and Contributed Services

Noncash Contributions

Noncash contributions are recorded as in-kind contributions at their estimated fair value at the time of donation. Such donations are reported as support without restrictions 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 long-lived assets are reported as restricted support.

Contributed Services

Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Many individuals volunteer their time and talents assisting the Museum in accomplishing its mission. However, no amounts for these services are recognized in the financial statements since they did not meet the criteria.

N. Donated Facility

Agreement with UMKC and Related-Party Activity

In 1987, the Museum entered into an agreement with UMKC for the use of certain facilities to be used as a museum, educational center, and exhibition area for antique toys and miniatures at no cost to the Museum. The original five-year term commenced on January 1, 1987 with options to extend the agreement for three successive periods of twenty-five years each. If the Museum exercises all three options, the agreement 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 facilities including year-round maintenance. The Museum has recognized the fair value of the donated facilities, maintenance services and supplies in the amount of \$389,819 for the year ended December 31, 2021.

In addition, 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 \$755,366 for payroll wages and benefits in 2021. The payable due from the Museum to UMKC for payroll and related benefits was \$53,026 as of December 31, 2021.

O. Program Services

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.

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.

THE NATIONAL MUSEUM OF TOYS/MINIATURES

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. Functional Allocation of Expenses

The costs of providing 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. The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Museum. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Payroll, taxes and benefits	Time and effort
Building repairs and maintenance	Square footage
Insurance and security	Square footage
Utilities	Square footage
Depreciation	Square footage

Q. Advertising

The costs of advertising are expensed when incurred and were \$13,731 in 2021.

R. Income Taxes

The Museum was organized as a private operating foundation under Internal Revenue Code (IRC) Section 509 and qualified to be exempt from federal income taxes under Section 501(c)(3) of the IRC.

The Museum filed the necessary forms in December 2019 with the Internal Revenue Service stating its intent to voluntarily terminate its private foundation status under Section 507(b)(1)B) of the IRC by operating as a public charity for a period of 60 continuous months commencing January 1, 2020. As a result of this election, the Museum will not be subject to the excise tax. However, if they do not meet the requirements for public charity status during that period, they will be liable for any excise taxes that would have been due. In addition, contributions to the Museum qualify as tax-deductible charitable contributions.

GAAP 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.

S. Subsequent Events

Management has evaluated subsequent events through September 27, 2022, the date the financial statements were available to be issued.

THE NATIONAL MUSEUM OF TOYS/MINIATURES

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 3: LIQUIDITY AND AVAILABILITY

The Museum regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Museum's goal is generally to maintain financial assets to meet 90 days of operating expenses. As part of its liquidity management, excess cash is invested in short-term investments, including money market accounts. The Museum considers all expenditures related to its ongoing program activities as well as the conduct of services undertaken to support those activities to be general expenditures.

As of December 31, 2021, the Museum's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

Cash	\$ 2,640,111
Contribution receivables	580,000
Investments and accrued income	<u>32,180,685</u>
Total financial assets	35,400,796
Less amounts not available to be used within one year:	
Contribution receivables due in greater than one year	(280,000)
Cash restricted for long-term purposes and endowment	(1,152,141)
Investments and accrued income restricted for long-term purposes	<u>(31,922,059)</u>
Financial assets available	\$ <u>2,046,596</u>

NOTE 4: INVESTMENTS

Investments are stated at fair value and consisted of the following as of December 31, 2021:

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>
Temporary brokerage cash	\$ 1,838,898	\$ 1,838,922
Treasury inflation-protected securities	966,257	959,956
ETF and equity mutual funds	10,102,445	20,269,297
Fixed income funds	7,563,743	7,667,587
Other alternative types	<u>1,583,543</u>	<u>1,444,657</u>
Totals	\$ <u>22,054,886</u>	\$ <u>32,180,419</u>

NOTE 5: FAIR VALUE MEASUREMENT AND DISCLOSURES

The Museum reports certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset based on the best information available.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 5: FAIR VALUE MEASUREMENT AND DISCLOSURES (continued)

A three-tier hierarchy categorizes the inputs as follows:

- Level 1 Quoted prices (unadjusted inputs) in active, independent markets for identical assets or liabilities that can be accessed at the measurement date.
- Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.
- Level 3 Unobservable inputs that are supported by little or no market activity and that is significant to the fair value of the assets or liabilities. In certain cases where Level 1 or 2 criteria are not applicable, then securities are designated as Level 3.

Inputs may include market price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. The classification of a financial asset within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. However, the determination of what constitutes “observable” requires significant judgment by management. Management considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by multiple, independent sources that are actively involved in the relevant market. The categorization of a fund within the hierarchy is based upon the pricing transparency of that fund and does not necessarily correspond to management’s assessment of the quality, risk, or liquidity profile of the asset.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used during the year ended December 31, 2021.

Common Stocks - Valued at the closing price reported on the active market on which the individual securities are traded. These investments are classified as Level 1.

Exchange Traded Funds (ETFs) - Investments in exchange traded funds are valued at the net asset value (NAV) of shares or units held on the measurement date. These funds are traded on an active exchange and market prices are readily observable and as such, they are classified within Level 1 of the fair value hierarchy.

Mutual Funds - Valued at the daily closing price as reported by the fund. Mutual funds held by the Museum are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Museum are deemed to be actively traded and classified within Level 1.

Alternative Investments - Investments in exchange-traded notes (ETN) are structured products issued as senior debt notes exchange traded and comprised of a commodity index that holds future contracts on commodities. Investments in publicly-traded master limited partnership (MLP) primarily engaged in the exploration, marketing, mining, processing, production, refining, storage, or transportation of any mineral or natural resource. Both are listed on the NYSE Arca, Inc. exchange.

THE NATIONAL MUSEUM OF TOYS/MINIATURES

NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 5: FAIR VALUE MEASUREMENT AND DISCLOSURES (continued)

The preceding methods 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.

The following sets forth information about the level within the fair value hierarchy at which the Museum's financial assets are measured on a recurring basis at December 31, 2021:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Brokerage cash	\$ 1,838,922	\$ 1,838,922	\$ 0	\$ 0
Equity investments:				
Domestic ETFs	14,378,430	14,378,430	0	0
International ETFs	3,938,190	3,938,190	0	0
International equity mutual funds	<u>1,952,677</u>	<u>1,952,677</u>	<u>0</u>	<u>0</u>
Total equity investments	20,269,297	20,269,297	0	0
Fixed income investments	8,627,543	8,627,543		
Alternative investments:				
Master limited partnerships	148,001	148,001	0	0
Commodities	123,915	123,915	0	0
Multistrategy fund	<u>1,172,741</u>	<u>1,172,741</u>	<u>0</u>	<u>0</u>
Total alternative investments	1,444,657	1,444,657	0	0
Pooled accounts at GKCCF	<u>266</u>	<u>0</u>	<u>266</u>	<u>0</u>
Total Investments	\$ <u>32,180,685</u>	\$ <u>32,180,419</u>	\$ <u>266</u>	\$ <u>0</u>

NOTE 6: PROMISES TO GIVE RECEIVABLE

Unconditional promises to give receivable are estimated to be collected as follows as of December 31, 2021:

Receivable due within one year	\$ 300,000
Receivable due in one to five years:	
2023	220,000
2024	20,000
2025	20,000
2026	20,000
Receivable due in more than five years	0
Allowance for uncollectible promises receivable	<u>0</u>
Total contribution receivable, net	\$ <u>580,000</u>

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NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 7: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2021:

Facility leasehold improvements	\$ 11,427,681
Furniture and fixtures	139,034
Website and technology equipment	104,340
Other equipment	<u>4,657</u>
Capital assets at cost	11,675,712
Accumulated depreciation	<u>(3,860,376)</u>
Capital assets, net	\$ <u>7,815,336</u>

Depreciation expense totaled \$409,794 for the year ended December 31, 2021.

NOTE 8: PPP LOAN PAYABLE

Payroll Protection Program Loan

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The Museum signed a note payable on April 21, 2020 with a local financial institution through the U.S. Small Business Administration (“SBA”) for \$139,500 with a maturity date of April 21, 2022, the first payment deferred for six months, and annual interest rate of 1.0%. This note was available through the Paycheck Protection Program (the “PPP”) as a part of the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) that offered cash-flow assistance to nonprofit and small business employers through guaranteed loans for certain expenses incurred from the disbursement date through the covered period. The PPP loan did not require collateral and offers the ability to have a substantial portion forgiven when the organization uses the proceeds on eligible costs.

The Museum filed for forgiveness from the SBA and received notification on May 7, 2021 that the loan was fully forgiven. The Museum reported the loan as a note payable in the financial statements during 2020 and recognized as income in 2021 as gain on forgiveness of debt when the loan was officially forgiven.

During the year ended December 31, 2021, the Museum signed a second note payable in the amount of \$98,449 with 1% stated interest rate with a bank through the SBA on March 23, 2021, and with a maturity date of March 23, 2026. The PPP loan did not require collateral and offered the ability to have a substantial portion of the amount forgiven when the proceeds are used for eligible costs. The Museum filed for forgiveness from the SBA and received notification on August 26, 2021 that the second loan was fully forgiven. The Museum reported the loan proceeds as a note payable in the financial statements during 2021 and recognized as income in 2021 as gain on forgiveness of debt when the loan was officially forgiven.

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NOTES TO FINANCIAL STATEMENTS

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NOTE 9: NET ASSETS WITH DONOR RESTRICTIONS

The Museum's net assets with donor restrictions are restricted for the following purposes or periods as of December 31, 2021:

Net assets with donor restrictions:	
Subject to the passage of time	\$ 361,250
Subject to expenditures for specified purpose:	
Operations support	23,786,676
Toy conservation	1,492,116
Capital improvements, repairs, and maintenance	2,682,124
Campaign funds restricted for capital improvements	721,875
Museum collection acquisition	1,320,705
Miniature Masterworks showcase (approximately every 4 years)	<u>2,000,000</u>
Total subject to expenditures for specified purpose	<u>32,003,496</u>
Total Net assets with donor restrictions	\$ <u>32,364,746</u>

The Museum's net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows as of December 31, 2021:

Restrictions satisfied:	
Promises to give received	\$ 112,625
Operations support	681,071
Toy conservation	47,233
Capital improvements	28,571
Repairs and maintenance	<u>5,240</u>
Total net assets released from restrictions	\$ <u>874,740</u>

NOTE 10: ENDOWMENT FUND

The Museum's endowment consists of donor-restricted endowment funds and the earnings on those funds to support operations, toy conservation, capital improvements and maintenance needs, and acquire objects for the collection. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Investment returns are reflected in net assets with donor restrictions 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 to charitable organizations regarding the management and investment of donor endowed funds and provides the Museum's governing board certain guidelines to use when determining what is prudent in terms of retaining and spending donor restricted endowment funds.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 10: ENDOWMENT FUND (continued)

Under the provisions of UPMIFA, organizations are required to maintain and report endowment funds based upon donor intent, whether explicit or implied. The Museum's Board of Directors has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date absent explicit donor stipulations to the contrary. As a result of the interpretation, the Museum classifies as net assets with donor restrictions the original value of gifts donated to the permanent endowment and the original value of subsequent restricted gifts to the endowment. Accumulated investment returns on the endowment funds are classified as with donor restriction until those amounts are appropriated for expenditure by the Museum.

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the level that the donor or UPMIFA requires the Museum to retain as a fund of perpetual duration, generally due to unfavorable market fluctuations. There were no deficiencies as of December 31, 2021.

Endowment net assets subject to spending policy and appropriation are available for the following purposes:

Operations support	\$ 23,786,676
Toy conservation	1,492,116
Capital improvements, repairs, and maintenance	2,682,124
Museum collection acquisition	<u>1,320,705</u>
Total endowment net assets	<u>\$ 29,281,621</u>
Original donor contributions held in perpetuity	\$ 20,653,629
Accumulated earnings over time restricted for specific purposes	<u>8,627,992</u>
Total endowment net assets	<u>\$ 29,281,621</u>

Composition of and changes in endowment net assets for the year ended December 31, 2021 were as follows:

	Purpose <u>Restrictions</u>	Held in <u>Perpetuity</u>	<u>Total</u>
Endowment net assets, December 31, 2020	\$ 5,960,024	\$ 20,653,629	\$ 26,613,653
Contributions	0	0	0
Investment return:			
Investment income, net of fees	591,700	0	591,700
Net appreciation	2,838,383	0	2,838,383
Amounts appropriated for expenditure	<u>(762,115)</u>	<u>0</u>	<u>(762,115)</u>
Endowment net assets, December 31, 2021	<u>\$ 8,627,992</u>	<u>\$ 20,653,629</u>	<u>\$ 29,281,621</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.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 10: ENDOWMENT FUND (continued)

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.

NOTE 11: OPERATING LEASE

The Museum entered into a 36-month operating lease agreement for storage space at \$1,607 per month through November 30, 2020, with an option to renew for two years through November 30, 2022 at \$1,643 per month, excluding common area expense and applicable real estate taxes. Rent expense for the year ended December 31, 2021 was \$27,224. Future minimum rentals under the lease are as follows for the year ending December 31:

2022	\$ <u>18,073</u>
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NOTE 12: RESTATEMENT

During the current year, the Museum discovered the outstanding promises to give receivable balance of \$342,625 as of December 31, 2020 was not properly reflected within the net assets with donor restrictions due to the implicit passage of time restriction. In addition, the Museum discovered the endowment fund included \$144,549 of cash held in a money market checking account not yet expended for one of the endowment's restricted purposes as of December 31, 2020 and was not properly reflected within the net assets with donor restrictions.

As a result, net assets without donor restrictions were overstated by \$487,174 and its net assets with donor restrictions were understated by \$487,174 in report classification. The total net assets for the Museum remained unchanged as of December 31, 2020.