

THE NATIONAL MUSEUM OF TOYS/MINIATURES

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

DECEMBER 31, 2022

TABLE OF CONTENTS

Page

INDEPENDENT AUDITOR’S REPORT 1-2

STATEMENT OF FINANCIAL POSITION 3

STATEMENT OF ACTIVITIES..... 4

STATEMENT FUNCTIONAL EXPENSES 5

STATEMENT OF CASH FLOWS..... 6

NOTES TO FINANCIAL STATEMENTS..... 7-22



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, 2022, 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, 2022, 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.

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

Marr and Company, P.C.
Certified Public Accountants

Kansas City, Missouri
June 6, 2023

THE NATIONAL MUSEUM OF TOYS/MINIATURES

STATEMENT OF FINANCIAL POSITION

December 31, 2022

ASSETS

Cash	\$ 1,468,721
Unrestricted investments	646,870
Unconditional promises to give receivable, net	169,687
Merchandise inventory	10,091
Cash restricted for long-term purposes	1,247,865
Unconditional promises to give restricted for long-term purposes	182,813
Donor restricted investments	2,000,000
Assets restricted for endowment:	
Cash	99,361
Accrued income	50,514
Investments	<u>24,717,362</u>
Assets restricted for endowment	24,867,237
Property and equipment, net of accumulated depreciation	7,605,912
Other assets	4,667
Collections (Note 2)	0
Operating lease right-of-use assets	<u>708,783</u>
Total Assets	\$ <u>38,912,646</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 99,118
Operating lease liability	<u>710,711</u>
Total Liabilities	809,829
Net Assets:	
Without donor restrictions	9,788,029
With donor restrictions	<u>28,314,788</u>
Total Net Assets	<u>38,102,817</u>
Total Liabilities and Net Assets	\$ <u>38,912,646</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, 2022

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
<u>SUPPORT, REVENUE, AND OTHER INCOME</u>			
Support:			
Contributions	\$ 27,031	\$ 759,006	\$ 786,037
Noncash contributions	463,623	0	463,623
Grants	5,000	0	5,000
Memberships	<u>7,473</u>	<u>0</u>	<u>7,473</u>
Total Support	503,127	759,006	1,262,133
Admission sales	172,018	0	172,018
Merchandise sales	89,256	0	89,256
Investment return	(434,153)	(4,096,650)	(4,530,803)
Miscellaneous income	<u>1,611</u>	<u>0</u>	<u>1,611</u>
Total Support, Revenue, and Other Income	331,859	(3,337,644)	(3,005,785)
<u>EXPENSES:</u>			
Program Services:			
Exhibits and collections management	1,066,438	0	1,066,438
Educational programs	170,027	0	170,027
Retail services	<u>124,892</u>	<u>0</u>	<u>124,892</u>
Total Program Services	1,361,357	0	1,361,357
Supporting Activities:			
General and administrative	299,087	0	299,087
Marketing and public relations	161,837	0	161,837
Development and fundraising	<u>183,753</u>	<u>0</u>	<u>183,753</u>
Total Supporting Activities	<u>644,677</u>	<u>0</u>	<u>644,677</u>
Total Expenses	2,006,034	0	2,006,034
Net assets released from restrictions	<u>712,314</u>	<u>(712,314)</u>	<u>0</u>
Change in net assets before changes related to collection items not capitalized	(961,861)	(4,049,958)	(5,011,819)
Change in net assets related to collection items not capitalized:			
Collection items purchased	<u>(74,167)</u>	<u>0</u>	<u>(74,167)</u>
Change in Net assets	<u>(1,036,028)</u>	<u>(4,049,958)</u>	<u>(5,085,986)</u>
Net assets, beginning of year	<u>10,824,057</u>	<u>32,364,746</u>	<u>43,188,803</u>
Net assets, ending of year	\$ <u>9,788,029</u>	\$ <u>28,314,788</u>	\$ <u>38,102,817</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, 2022

	Program Services			Total Program Services	Supporting Activities			Total Supporting Activities	Total Expenses
	Exhibits & Collections Management	Educational Programs	Retail Services		General & Administrative	Marketing & Public Relations	Development & Fundraising		
Payroll and benefits	\$ 233,284	\$ 101,134	\$ 32,351	\$ 366,769	\$ 194,626	\$ 75,535	\$ 105,067	\$ 375,228	\$ 741,997
Facility repairs and maintenance	25,000	1,690	1,014	27,704	2,703	1,691	1,689	6,083	33,787
In-kind facility usage, maintenance	343,081	23,181	13,909	380,171	37,090	23,181	23,181	83,452	463,623
Utilities	20,972	1,417	850	23,239	2,267	1,417	1,417	5,101	28,340
Property insurance and security	19,365	1,308	785	21,458	2,094	1,308	1,308	4,710	26,168
Depreciation	305,306	20,629	12,376	338,311	33,006	20,629	20,629	74,264	412,575
Offsite storage and maintenance	60,894	0	0	60,894	0	0	0	0	60,894
Exhibit development and fees	49,477	0	0	49,477	0	0	0	0	49,477
Program and events	0	18,202	0	18,202	0	3,182	230	3,412	21,614
Costs of goods sold and freight	0	0	56,512	56,512	0	0	0	0	56,512
Professional services	7,009	0	0	7,009	18,818	0	0	18,818	25,827
Campaign activity and supplies	0	0	0	0	0	0	16,111	16,111	16,111
Software and website	0	0	0	0	0	10,400	14,121	24,521	24,521
Office supplies and maintenance	1,774	0	1,353	3,127	3,635	0	0	3,635	6,762
Advertising	0	0	0	0	0	10,430	0	10,430	10,430
Printing and postage	0	0	0	0	0	6,488	0	6,488	6,488
Banking and merchant charges	0	0	5,742	5,742	1,122	0	0	1,122	6,864
Dues and memberships	0	0	0	0	0	7,576	0	7,576	7,576
Travel and training	0	2,466	0	2,466	0	0	0	0	2,466
Miscellaneous	276	0	0	276	3,726	0	0	3,726	4,002
Total Expenses	\$ 1,066,438	\$ 170,027	\$ 124,892	\$ 1,361,357	\$ 299,087	\$ 161,837	\$ 183,753	\$ 644,677	\$ 2,006,034

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, 2022

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$(5,085,986)
Adjustments to reconcile change in net assets to net cash flows from operating activities:	
Collection purchases	74,167
Proceeds from contributions restricted for long-term purposes	(202,668)
Investment income for long-term purposes	(624,771)
Change in accrued income	(2,486)
Realized (gain) on investments	(316,453)
Unrealized loss on investments	5,481,460
Depreciation	412,575
Changes in operating assets and liabilities:	
Promises to give receivable	47,812
Merchandise inventory	12,506
Other assets and deposits	(2,167)
Operating lease asset and liability	1,928
Accounts payable	<u>46,692</u>
Net cash flows from operating activities	(157,391)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(5,226,854)
Sale of investments	4,830,272
Collection purchases	(74,167)
Purchase of property and equipment	<u>(203,151)</u>
Net cash flows from investing activities	(673,900)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from contributions restricted for long-term purposes	382,356
Investment income for long-term purposes	<u>624,771</u>
Net cash flows from financing activities	<u>1,007,127</u>

Net increase in cash	175,836
Cash, beginning of year	<u>2,640,111</u>
Cash, end of year	<u>\$ 2,815,947</u>

Supplemental disclosures of reconciliation of cash:

Unrestricted operating cash	1,468,721
Cash restricted for long-term purposes	1,247,865
Cash restricted for endowment	<u>99,361</u>
	<u>\$ 2,815,947</u>

NON-CASH INVESTING AND FINANCING ACTIVITIES

Right-of-use assets obtained in exchange for operating lease liability	<u>\$ 728,395</u>
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See accompanying Independent Auditor's Report & notes to these financial statements.

THE NATIONAL MUSEUM OF TOYS/MINIATURES

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

INDEX

- NOTE 1: ORGANIZATION AND NATURE OF ACTIVITIES
- NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- A. Basis of Accounting
 - B. Reclassifications
 - C. Estimates
 - D. Cash and Cash Equivalents
 - E. Financial Instruments and Credit Risk
 - F. Promises to Give Receivable
 - G. Investments
 - H. Merchandise Inventory
 - I. Collections
 - J. Property and Equipment
 - K. Net Assets
 - L. Revenue and Revenue Recognition
 - M. Noncash Contributions and Contributed Services
 - N. Donated Facility
 - O. Leases
 - P. Program Services
 - Q. Functional Allocation of Expenses
 - R. Advertising
 - S. Income Taxes
 - T. Subsequent Events
- NOTE 3: LIQUIDITY AND AVAILABILITY
- NOTE 4: INVESTMENTS
- NOTE 5: FAIR VALUE MEASUREMENT AND DISCLOSURES
- NOTE 6: PROMISES TO GIVE RECEIVABLE
- NOTE 7: PROPERTY AND EQUIPMENT
- NOTE 8: NET ASSETS WITH DONOR RESTRICTIONS
- NOTE 9: ENDOWMENT FUND
- NOTE 10: LEASE AGREEMENTS

THE NATIONAL MUSEUM OF TOYS/MINIATURES

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

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. The Museum operated 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 on the passion of the two founders that 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, 2022

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 \$916,599 of bank balances in excess of federally insured limits as of December 31, 2022. 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 considered immaterial and not performed.

THE NATIONAL MUSEUM OF TOYS/MINIATURES

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Investments

The Museum records investment purchases at cost at the time of purchase 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 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 collections are made up of toys and miniatures that are 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, 2022

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 8 for detailed balance.

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, 2022

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 \$463,623 for the year ended December 31, 2022.

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 \$730,118 for payroll wages and benefits in 2022. The payable due from the Museum to UMKC for payroll and related benefits was \$74,878 as of December 31, 2022.

THE NATIONAL MUSEUM OF TOYS/MINIATURES

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Leases

The Museum has adopted FASB ASC 842, *Leases*, with a date of initial application of January 1, 2022. For leases with a lease term greater than one year, the Museum recognizes a lease asset for its right to use the underlying leased asset and a lease liability for the corresponding lease obligation. The Museum determines whether an arrangement is or contains a lease at contract inception. The Museum includes in the determination of the right-of-use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised. The weighted-average discount rate is based on the discount rate implicit in the lease. The Museum has elected the option to use the risk-free rate determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable. The Museum has applied the risk-free rate option to all class of assets.

The Museum has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on straight-line basis. Operating leases with a duration greater than one year are included in operating lease right-of-use (“ROU”) assets and operating lease liabilities in the Museum’s statement of financial position at December 31, 2022. Operating lease right-of-use assets and operating lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. In determining the present value of lease payments, the Museum used the elected risk-free rate. The Museum considers the lease term to be the noncancelable period that it has the right to use the underlying asset, including all periods covered by an option to (1) extend the lease if the Museum is reasonably certain to exercise the option, (2) terminate the lease if the Museum is reasonably certain not to exercise that option, and (3) extend, or not to terminate, the lease in which exercise of the option is controlled by the lessor.

The operating lease right-of-use assets also include any lease payments made and exclude lease incentives received or receivable. Lease expense is recognized on a straight-line basis over the expected lease term. Variable lease expenses are recorded when incurred.

P. 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, 2022

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. 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

R. Advertising

The costs of advertising are expensed when incurred and were \$10,430 in 2022.

S. 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.

T. Subsequent Events

Management has evaluated subsequent events through June 6, 2023, the date the financial statements were available to be issued.

THE NATIONAL MUSEUM OF TOYS/MINIATURES

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

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, 2022, the Museum's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

Cash	\$ 2,815,947
Contribution receivables	352,500
Investments and accrued income	<u>27,414,746</u>
Total financial assets	30,583,193
Less amounts not available to be used within one year:	
Cash restricted for long-term purposes	(1,247,865)
Cash restricted for endowment	(99,361)
Contribution receivables restricted for long-term purposes	(182,813)
Contribution receivables due in greater than one year	(90,000)
Investments restricted for long-term purposes	(2,000,000)
Investments and accrued income restricted for endowment	<u>(24,767,876)</u>
Financial assets available	\$ <u>2,195,278</u>

NOTE 4: INVESTMENTS

Investments are stated at fair value and consisted of the following as of December 31, 2022:

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>
Temporary brokerage cash	\$ 868,338	\$ 872,343
Treasury inflation-protected securities	995,054	819,588
ETF and equity mutual funds	9,646,033	15,734,783
Fixed income funds	9,822,596	8,728,959
Other alternative types	1,435,899	1,258,806
Pooled accounts	<u>267</u>	<u>267</u>
Total investments	\$ <u>22,768,187</u>	\$ <u>27,414,746</u>

THE NATIONAL MUSEUM OF TOYS/MINIATURES

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

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. 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, 2022.

THE NATIONAL MUSEUM OF TOYS/MINIATURES

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 5: FAIR VALUE MEASUREMENT AND DISCLOSURES (continued)

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 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 as of December 31, 2022:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Brokerage cash	\$ 872,343	\$ 872,343	\$ 0	\$ 0
Equity investments:				
Domestic ETFs	10,909,709	10,909,709	0	0
International ETFs	3,194,998	3,194,998	0	0
International equity mutual funds	<u>1,630,076</u>	<u>1,630,076</u>	<u>0</u>	<u>0</u>
Total equity investments	15,734,783	15,734,783	0	0
Fixed income investments	9,548,547	9,548,547		
Alternative investments:				
Master limited partnerships	180,743	180,743	0	0
Commodities	128,631	128,631	0	0
Multistrategy fund	<u>949,432</u>	<u>949,432</u>	<u>0</u>	<u>0</u>
Total alternative investments	1,258,806	1,258,806	0	0
Pooled accounts at GKCCF	<u>267</u>	<u>0</u>	<u>267</u>	<u>0</u>
Total Investments	<u>\$ 27,414,746</u>	<u>\$ 27,414,479</u>	<u>\$ 267</u>	<u>\$ 0</u>

THE NATIONAL MUSEUM OF TOYS/MINIATURES

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 6: PROMISES TO GIVE RECEIVABLE

Unconditional promises to give receivable are estimated to be collected as follows as of December 31, 2022:

Receivable due within one year	\$ 262,500
Receivable due in one to five years:	
2024	50,000
2025	20,000
2026	20,000
2027	0
Receivable due in more than five years	0
Allowance for uncollectible promises receivable	<u>0</u>
Total contribution receivable, net	\$ <u>352,500</u>

NOTE 7: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2022:

Facility leasehold improvements	\$ 11,473,163
Furniture and fixtures	176,977
Website and technology equipment	105,814
Other equipment	<u>4,657</u>
Capital assets at cost	11,760,611
Accumulated depreciation	(4,266,918)
Construction in process	<u>112,219</u>
Capital assets, net	\$ <u>7,605,912</u>

Depreciation expense totaled \$412,575 for the year ended December 31, 2022.

THE NATIONAL MUSEUM OF TOYS/MINIATURES

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 8: 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, 2022:

Net assets with donor restrictions:	
Subject to the passage of time	\$ 109,687
Subject to expenditures for specified purpose:	
Operations support	20,230,227
Antique toy conservation and preservation	1,224,546
Capital improvements, repairs, and maintenance	2,308,941
Museum collection acquisition	1,103,522
Miniature Masterworks showcase (approximately every 4 years)	2,000,000
Campaign funds restricted for capital improvements	1,247,865
Antique toy acquisition	<u>90,000</u>
Total subject to expenditures for specified purpose	<u>28,205,101</u>
Total Net assets with donor restrictions	\$ <u>28,314,788</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, 2022:

Restrictions satisfied:	
Promises to give received	\$ 251,563
Operations support	304,994
Capital improvements	<u>155,757</u>
Total net assets released from restrictions	\$ <u>712,314</u>

NOTE 9: 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.

THE NATIONAL MUSEUM OF TOYS/MINIATURES

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 9: 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 a 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, 2022.

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

Operations support	\$ 20,230,227
Toy conservation	1,224,546
Capital improvements, repairs, and maintenance	2,308,941
Museum collection acquisition	<u>1,103,522</u>
Total endowment net assets	<u>\$ 24,867,236</u>
Original donor contributions held in perpetuity	\$ 20,653,629
Accumulated earnings over time restricted for specific purposes	<u>4,213,607</u>
Total endowment net assets	<u>\$ 24,867,236</u>

Composition of and changes in endowment net assets for the year ended December 31, 2022 were as follows:

	<u>Purpose</u> <u>Restrictions</u>	<u>Held in</u> <u>Perpetuity</u>	<u>Total</u>
Endowment net assets, December 31, 2021	\$ 8,621,391	\$ 20,653,629	\$ 29,275,020
Contributions	0	0	0
Investment return:			
Investment income, net of fees	571,441	0	571,441
Net appreciation (depreciation)	(4,668,092)	0	(4,668,092)
Amounts appropriated for expenditure	<u>(311,133)</u>	<u>0</u>	<u>(311,133)</u>
Endowment net assets, December 31, 2022	<u>\$ 4,213,607</u>	<u>\$ 20,653,629</u>	<u>\$ 24,867,236</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.

THE NATIONAL MUSEUM OF TOYS/MINIATURES

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 9: 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 10: LEASE AGREEMENTS

Finance Leases and Short-Term Leases

The Museum did not have financed lease arrangements or short-term lease arrangements as of December 31, 2022.

Operating Lease Agreements

As stated in Note 2.N., 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. If the Museum exercises all available options, the agreement is set to expire on December 31, 2067.

The Museum signed an addendum for a 24-month extension on a lease agreement for 4,290 square feet of offsite storage space through November 30, 2022 at \$1,643 per month, excluding common area expenses and applicable real estate taxes. Rent payments for this agreement totaled \$24,687 for the year ended December 31, 2022.

In April 2022, the Museum signed a non-cancellable lease agreement for 8,000 square feet of offsite storage space with an initial monthly lease payment of \$4,667 for 60 months beginning in July 2022 and an end term date of June 30, 2027. The annual rent amount includes common area operating expenses and electric utility expenses. Lease payments have an escalating fee schedule of 2% increase each year to the base rent.

The lease signed in April 2022 is the only significant lease required to be included on the statement of financial position under FASB ASC 842. The lease asset and lease liability were calculated utilizing the risk-free discount rate (2.88%), according to the Museum's elected policy. There are two different five-year options for the Museum to renew the storage space lease, which was considered when assessing the value of the ROU asset because the Museum is reasonably certain that it will continue as a tenant and exercise its options to renew the lease. The exercise of the lease renewal option is at the Museum's sole discretion. The annual lease rate for the two optional 60-month terms beginning in July 2027 and ending June 30, 2037 will be based on the market rate at the time of renewal but no less than the rate charged in June 2027, which is \$60,640 annually. Termination of the lease is generally prohibited unless there is a violation under the lease agreement.

THE NATIONAL MUSEUM OF TOYS/MINIATURES

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 10: LEASE AGREEMENTS (continued)

Quantitative Disclosures

The operating lease cost and other required information for the year ended December 31, 2022 are as follows:

Lease cost for this operating lease	\$ 29,928
Other Information:	
Cash paid for amounts included in the measurement of operating lease liability:	
Operating cash flows from the operating lease	\$ 28,000
Weighted-average remaining lease term – operating lease	14.5 years
Weighted-average discount rate – operating lease	2.88%

The maturities of the lease liability and reconciliation to the statement of financial position as of December 31, 2022, are as follows for the fiscal years ending December 31:

	<u>Operating Leases</u>
2023	\$ 56,560
2024	57,680
2025	58,840
2026	60,040
2027	60,640
2028-2032	303,200
2033-2037	<u>272,880</u>
Total future undiscounted lease payments	869,840
Less interest	<u>(159,129)</u>
Present value of lease liability	<u>\$ 710,711</u>